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Page 1 of * 87

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
Form 19b-4

File No.* SR - 2021 - * 009
Amendment No. (req. for Amendments *)

Filing by Financial Industry Regulatory Authority

Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial *	Amendment *	Withdrawal	Section 19(b)(2) *	Section 19(b)(3)(A) *	Section 19(b)(3)(B) *
☑	☐	☐	☑	☐	☐

Pilot ☐

Extension of Time Period for Commission Action * ☐

Date Expires *

Rule

- ☐ 19b-4(f)(1)
- ☐ 19b-4(f)(2)
- ☐ 19b-4(f)(3)
- ☐ 19b-4(f)(4)
- ☐ 19b-4(f)(5)
- ☐ 19b-4(f)(6)

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010

Section 806(e)(1) * ☐

Section 806(e)(2) * ☐

Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934

Section 3C(b)(2) * ☐

Exhibit 2 Sent As Paper Document ☐

Exhibit 3 Sent As Paper Document ☐

Description

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

Proposed Rule Change to Adopt a Supplemental Liquidity Schedule, and Instructions Thereto, 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 * Adam Last Name * Arkel

Title * Associate General Counsel

E-mail * adam.arkel@finra.org

Telephone * (202) 728-6961 Fax (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.

Date 04/30/2021

By Patrice Gliniecki

(Name *)

(Title *)

Senior Vice President and Deputy General Counsel

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.

Patrice Gliniecki,

Required fields are shown with yellow backgrounds and asterisks.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

Form 19b-4 Information *

Add Remove View

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 *

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, 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

Add Remove View

Exhibit Sent As Paper Document

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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

Add Remove View

Exhibit Sent As Paper Document

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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

Add Remove View

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

Add Remove View

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

Add Remove View

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"),[1] the Financial Industry Regulatory Authority, Inc. ("FINRA") is filing with the Securities and Exchange Commission ("SEC" or "Commission") a proposed rule change to adopt a Supplemental Liquidity Schedule, and Instructions thereto, pursuant to FINRA Rule 4524 (Supplemental FOCUS Information).

The proposed rule change does not make any changes to the text of FINRA rules. The proposed SLS and the proposed Instructions are attached as Exhibit 3.

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

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 effective date of the proposed rule change in a Regulatory Notice to be published no later than 30 days following Commission approval. The effective date will be no later than 180 days following publication of the Regulatory Notice announcing Commission approval.

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[1] 15 U.S.C. 78s(b)(1).

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

(a) Purpose

FINRA Rule 4524 provides in part that, as a supplement to filing FOCUS Reports required pursuant to SEA Rule 17a-5[2] and FINRA Rule 2010, each member, as FINRA shall designate, 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. Pursuant to FINRA Rule 4524, FINRA is proposing to adopt a Supplemental Liquidity Schedule ("SLS"), and Instructions thereto (the "Instructions").[3] The proposed SLS, which would be filed as a supplement to the FOCUS Report, is tailored to apply only to members with the largest customer and counterparty exposures, as discussed further below. The SLS is designed to improve FINRA's ability to monitor for events that signal an adverse change in the liquidity risk of the members that would be subject to the requirement.

Effective monitoring of liquidity and funding risks is an essential element of members' financial responsibility and an ongoing focus for FINRA's financial supervision programs. Liquidity and funding stress was a significant factor in the

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2 17 CFR 240.17a-5 (hereinafter cited as SEA "Rule 17a-5"). SEA Rule 17a-5 governs financial and operational reporting by brokers and dealers. Members are required to file with FINRA, through the eFOCUS System, reports concerning their financial and operational status using SEC Form X-17A-5 (the "FOCUS Report"). See, e.g., Information Notice, November 23, 2020 (2021 and First Quarter of 2022 Report Filing Due Dates); Regulatory Notice 18-38 (November 2018) (Amendments to the SEC's Financial Reporting Requirements – eFOCUS System Updates and Annual Audit Requirements). "FOCUS" stands for Financial and Operational Combined Uniform Single.

3 The proposed SLS and Instructions are included as Exhibit 3 to this rule filing.

financial crisis of 2008.[4] Since that time, FINRA has looked closely at members' liquidity and funding risk management practices.[5] Regulatory Notice 10-57 expressed FINRA's expectation that members develop and maintain robust funding and liquidity risk management practices and discussed results of examinations that FINRA had conducted of the practices of selected members. In addition, Regulatory Notice 15-33 provided guidance on liquidity risk management practices and described FINRA's review of policies and practices at selected members related to managing liquidity needs in a stressed environment. FINRA believes that the proposed SLS is a logical complement to these ongoing priorities and guidance that FINRA has communicated to members and would provide essential information about members' sources and uses of liquidity to enable FINRA to better understand their liquidity profile. FINRA notes that events in connection with market volatility and other stress stemming from the COVID-19 pandemic,[6] and events such as the extreme price volatility of certain stocks in January

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4 See, e.g., Final Report of the National Commission on the Causes of the Financial and Economic Crisis in the United States (January 2011), available at: <https://fraser.stlouisfed.org/title/financial-crisis-inquiry-report-5034>.

5 See Regulatory Notice 10-57 (November 2010) (Risk Management) and Regulatory Notice 15-33 (September 2015) (Liquidity Risk). However, even prior to the financial crisis, FINRA noted the importance of risk management practices. See, e.g., Notice to Members 99-92 (November 1999) (Risk Management Practices) (setting forth a joint statement by the SEC, NASD and NYSE on broker-dealer risk management practices). FINRA has also discussed liquidity risk in its Annual Regulatory and Examination Priorities Letters. See, e.g., 2019 Annual Risk Monitoring and Examination Priorities Letter, available at: <finra.org>.

6 See, e.g., S.P. Kothari et al., U.S. Credit Markets: Interconnectedness and the Effects of the COVID-19 Economic Shock (October 2020) (report of the SEC Division of Economic and Risk Analysis regarding market stress during the COVID-19 shock of March 2020), available at: <https://www.sec.gov/files/US-Credit-Markets_COVID-19_Report.pdf>.

2021,[7] have reinforced the importance of effective liquidity risk monitoring. As such, FINRA believes that the proposed SLS is necessary to enhance its ongoing monitoring of members' liquidity risk and to have additional information that can be used to assess the impact of stress events on a member's liquidity. Members that would be subject to the SLS requirement would provide detailed reporting, using the SLS, as to their:

- reverse repurchase and repurchase agreements;
- securities borrowed and securities loaned;
- non-cash reverse repurchase and securities borrowed transactions;
- non-cash repurchase and securities loaned transactions;
- bank loan and other committed and uncommitted credit facilities;
- total available collateral in the member's custody;
- margin and non-purpose loans;
- collateral securing margin loans;
- deposits at clearing organizations; and
- cash and securities received and delivered on derivative transactions not cleared through a central clearing counterparty ("CCP").

In developing the proposed SLS, FINRA has engaged in extensive outreach and discussions with industry participants. In January 2018, FINRA published an earlier

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7 See Acting Chair Allison Herren Lee, Commissioners Hester M. Peirce, Elad L. Roisman, and Caroline A. Crenshaw, Public Statement Regarding Recent Market Volatility (January 29, 2021), available at: <https://www.sec.gov/news/public-statement/joint-statement-market-volatility-2021-01-29>.

version of the proposed SLS for comment[8] and, as discussed further below, in response to comments, and based on dialogue with and feedback from industry participants, has tailored and clarified the proposed SLS and Instructions. Under the proposed SLS, unless otherwise permitted by FINRA in writing, the SLS would be required to be filed by each carrying member with $25 million or more in free credit balances, as defined under SEA Rule 15c3-3(a)(8),[9] and by each member whose aggregate amount outstanding under repurchase agreements, securities loan contracts and bank loans is equal to or greater than $1 billion, as reported on the member's most recently filed FOCUS report. The SLS must be completed as of the last business day of each month (the "SLS date") and filed within 24 business days after the end of the month. A member need not file the SLS for any period where the member does not meet the $25 million or $1 billion thresholds.[10]

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8 See Regulatory Notice 18-02 (January 2018) (Liquidity Reporting and Notification).

9 17 CFR 240.15c3-3 (hereinafter cited as SEA "Rule 15c3-3").

10 FINRA notes that members that have elected to be treated as capital acquisition brokers ("CABs") would be subject to the rule change to the extent that FINRA Rule 4524, pursuant to CAB Rule 452(b), applies to CABs. However, the proposed rule change would unlikely impact CABs. The proposed $25 million free credit balances threshold applies to carrying members and as such would not affect CABs because, pursuant to CAB Rule 016(c)(2), CABs are prohibited among other things from carrying customer accounts, or from holding or handling customer funds or securities. With respect to the proposed $1 billion threshold, FINRA believes that it is unlikely any CABs would meet this level of financing given the limited nature of their business under the CAB rules.

The proposed rule change would not apply to funding portal members because such members are not subject to Rule 4524. Even if Rule 4524 were to apply, the rule change would unlikely affect funding portal members because, pursuant to Regulation Crowdfunding Rule 300(c)(2)(iv), such members are prohibited from holding, possessing, managing or otherwise handling investor funds or securities. Further, again by virtue of the limited nature of their business, funding portal members are unlikely to meet the proposed $1 billion threshold.

FINRA notes that, with these $25 million and $1 billion thresholds, the proposal would apply to approximately 85 to 100 members that have the largest customer and counterparty exposures, and as such, is tailored to apply to members whose liquidity events could have the greatest potential impact on customers, counterparties, and markets.

As noted in Item 2 of this filing, if the Commission approves the proposed rule change, FINRA will announce the effective date of the proposed rule change in a Regulatory Notice to be published no later than 30 days following Commission approval. The effective date will be no later than 180 days following publication of the Regulatory Notice announcing Commission approval.

(b) Statutory Basis

The proposed rule change is consistent with the provisions of Section 15A(b)(6) of the Act,[11] 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 interest. Consistent with the provisions of the Act, the proposed rule change will enable FINRA to more effectively monitor the liquidity risk of members with the largest customer and counterparty exposures, thereby enhancing FINRA's ability to supervise the financial responsibility of larger member firms and maintain investor protection.

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

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11 15 U.S.C. 78o-3(b)(6).

Act. The proposed SLS is designed to improve FINRA's ability to monitor liquidity risk of the members that would be subject to the requirement and provide additional warning of market stress. FINRA has designed the proposed SLS to achieve its intended and necessary regulatory purpose while minimizing the burden on firms. Ready access to the information is important for FINRA to efficiently monitor on an ongoing basis the liquidity profile of members. In particular, the information would facilitate FINRA's efforts to understand and respond to firms that may appear similar based on their balance sheet, but in fact have different liquidity risk profiles, which could negatively impact their ability to fund their operations during periods of market or other stress events. In the absence of this reporting requirement, FINRA would need to request this information repeatedly on a firm-by-firm basis as need arises, resulting in similar, or even potentially larger, costs for the firms.

FINRA notes that, as discussed above, the proposal would apply to approximately 85 to 100 members that meet the thresholds as defined by the proposal. Given that these firms have the largest customer and counterparty exposures, they are likely to have the largest potential liquidity risk, to which the proposed SLS is aimed at providing increased monitoring and transparency. The underlying information required to complete the proposed SLS should be readily available to members due to members' obligations to maintain books and records for those items required to be reported on the SLS.

FINRA further notes that out of the approximately 85 to 100 firms for which the proposal would apply to, about one quarter of those are members of large bank holding companies ("BHCs"). This subset of firms are required to provide similar information in

reporting at the BHC and material entity level to the Federal Reserve Board.[12] FINRA believes that the threshold for the SLS reporting requirement may result in some competitive effects, for firms that fall above or below the reporting threshold, in addition to firms that do and do not report overlapping information through the FR 2052a report. However, the overall direction of these effects is not clear, and FINRA does not believe the effects are significant when weighed against the value of the SLS report. FINRA has reviewed in this regard the information requested by the proposed SLS versus the information requested by the FR 2052a report. A broker-dealer that is a material entity within a BHC may report some of the same information under this proposal that the broker-dealer provides for purposes of the FR 2052a report.[13] To the extent there is some overlap in reporting, FINRA expects that additional costs from providing the information for purposes of the SLS would be minimal. These firms should be able to rely on their existing compliance systems and infrastructure for the reporting of these items. However, some costs are anticipated due to differences in the information required for the two reports and differences in the frequency of the reporting. Where this reporting is not duplicative, firms will incur some start-up costs to establish the reporting system and then ongoing costs in providing the information, and the relevant supervisory and compliance systems. In contrast, firms that are not within a BHC will incur new start-up costs that may be greater than the incremental start-up costs of firm within a BHC, while firms

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12 This reporting is done using the Complex Institution Liquidity Monitoring Report (FR 2052a) (hereinafter referred to as the "FR 2052a report"), available at: <https://www.federalreserve.gov/apps/reportforms/default.aspx>.

13 The instructions to the FR 2052a report provide that ". . . each material entity required to report will report on a consolidated basis," except as otherwise specified in the instructions.

below the threshold will not incur these costs. Nonetheless, FINRA believes the thresholds are well tailored to require disclosure from firms whose liquidity impacts substantially outweigh the collection and reporting costs of the SLS.

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

The proposed rule change was published for comment in Regulatory Notice 18-02 (January 2018) (the "Notice"). Three comments were received in response to the Regulatory Notice.[14] Exhibit 2a is a copy of the Regulatory Notice. Exhibit 2b contains copies of the comment letters received in response to the Regulatory Notice. Below is a summary of the comments and FINRA's responses.

In the Notice, in addition to seeking comment on a proposed earlier version of the SLS, FINRA sought comment on proposed amendments to FINRA Rule 4521 (Notifications, Questionnaires and Reports) that would have imposed additional requirements on members subject to the SLS to notify FINRA no more than 48 hours after specified events that may signal an adverse change in liquidity risk. Most of the concerns expressed by commenters focused on these proposed amendments to Rule 4521. In particular, SIFMA and Vining Sparks expressed concern that the proposed amendments were complex and operationally burdensome, were in need of further clarification, should be tailored to permit members to use models specific to their firms,

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[14] See Letter from Allen Riggs, CFO, Vining Sparks IBP, L.P., to Jennifer Piorko Mitchell, Office of the Corporate Secretary, FINRA, dated February 21, 2018 ("Vining Sparks"); Letter from Jon Zindel, Chief Financial Officer, William Blair & Company, LLC, to Jennifer Piorko Mitchell, Office of the Corporate Secretary, FINRA, dated March 7, 2018 ("William Blair"); and Letter from Mary Kay Scucci, Managing Director, Securities Industry and Financial Markets Association, to Jennifer Piorko Mitchell, Office of the Corporate Secretary, FINRA, dated March 8, 2018 ("SIFMA").

or should be aligned or coordinated with potential future Commission action in the area of broker-dealer liquidity and risk monitoring. In response, FINRA notes that it has been engaging, and plans to continue to engage, with industry participants and with other regulators with regard to these concerns and will give further consideration as to potential rule changes to address effective liquidity monitoring. As such, FINRA is not at this time proposing amendments to Rule 4521 as part of the proposed rule change.

With regard to the proposed SLS as originally proposed in the Notice, all three commenters suggested clarifications and revisions. William Blair and Vining Sparks expressed concern that, because the $25 million threshold as proposed in the Notice would have been based on "total credits" under Exhibit A of Rule 15c3-3, smaller firms that engage mostly in institutional trades on a delivery versus payment/receive versus payment ("DVP/ RVP") basis would fall within the proposed requirement by virtue of the credits they are obliged to report in connection with "failed to receive" transactions. Commenters believed this would include firms whose business activities do not present significant liquidity risk in the SLS reporting requirement. In response, FINRA has engaged with industry participants and has revised the $25 million threshold to reference "free credit balances" as defined under SEA Rule 15c3-3(a)(8). FINRA believes that referencing free credit balances for the $25 million threshold more directly identifies firms that should be subject to the SLS and is consistent with FINRA's intent to reach only members with the highest potential liquidity risk. As discussed above, the proposal would apply to approximately 85 to 100 firms, generally FINRA's largest members, which is the appropriate scope in light of its regulatory purpose. Vining Sparks expressed concern that the SLS, as originally proposed in the Notice, would require

disclosure of the names of the reporting member's top five counterparties for certain of the specified categories of information, which Vining Sparks suggested could raise privacy and confidentiality concerns. In response, FINRA has revised the Instructions to the proposed SLS so that members would have the option to specify a counterparty type or name in the portions of the SLS that request top five counterparty information. FINRA believes that permitting members this flexibility is appropriate because specifying counterparty types rather than counterparty names achieves the overall goal of helping to understand and monitor the impact from counterparties on the liquidity profile of the member submitting the SLS. Further, FINRA notes that it has the ability to request further information as to any counterparty transaction should such be warranted.

SIFMA expressed concern that the purpose of and need for the SLS as proposed in the Notice is unclear, that the SLS would require the disclosure of information that should be kept confidential, that the proposal is duplicative of requirements that apply to firms that are already part of BHCs, that the proposal should not go forward until the SEC acts in the area of liquidity monitoring, and that the information required on the proposed SLS is unhelpful or unnecessary to understanding a firm's liquidity or is operationally burdensome to track. FINRA engaged with industry participants and SIFMA to discuss these concerns.

FINRA believes that the purpose of, and regulatory need for, the proposal, as set forth in the Notice and as reiterated in this filing, is clear. To address the concerns expressed by commenters with regard to the potential burdens of the proposal, FINRA, based on extensive discussions with industry participants, has made several revisions to the proposed SLS. For example, FINRA has revised the proposed SLS so that members

with de minimis total reverse repurchase or repurchase agreements may elect not to complete the securities collateral subcategories in Lines 1 through 5 under Reverse Repurchase and Repurchase Agreements, and may elect not to complete the Top Five Counterparties portion that corresponds with that section.[15] As revised, also under the Reverse Repurchase and Repurchase Agreements section, the proposed SLS would permit members flexibility to allocate contracts collateralized by more than two security types among those types of collateral for purposes of their reporting. With regard to reporting counterparties, FINRA has revised the SLS so that members electing to report counterparties by type rather than by name will be permitted to use the counterparty classifications and definitions given in the FR 2052a report, thereby helping members in BHCs align their SLS reporting with the FR 2052a report. Similarly, FINRA has added language to the proposed SLS designed to align reporting for non-cash and collateral upgrade transactions with members' other regulatory reporting.[16]

SIFMA requested that FINRA further clarify the reporting date for the SLS, and suggested that data should be reported as of month-end. In response, FINRA has revised the SLS to provide that the SLS must be completed as of the last business day of each month (as noted above, the SLS date) and filed within 24 business days after the end of

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15 Members would need to complete Lines 6a, 6b, 6c and 7, as applicable. FINRA has made a corresponding revision to the Securities Borrowed and Securities Loaned section.

16 FINRA has made additional miscellaneous revisions to the SLS designed to clarify categories in the Instructions such as "term loans" and "deposits at clearing organizations." Further, in the Instructions, FINRA has also revised the Bank Loan and Other Committed and Uncommitted Credit Facilities section to clarify that Line 4 under that section (Drawn Amounts of Uncommitted Credit Facilities) includes, for example, commercial paper.

the month. FINRA notes the 24 business days is meant to afford members additional time to file versus the 22 business days as proposed in the Notice. SIFMA requested clarification as to who within a member would be responsible for completing the proposed SLS. In response, it is not FINRA's intention to impose an additional potential burden by designating specific persons within the firm that would need to complete the SLS. Given the SLS is intended as a supplement to the FOCUS reporting for which a member is already responsible, FINRA understands that members may handle the SLS as a financial and operational report consistent with their FOCUS and other financial-related reporting processes and obligations.

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.[17]

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.

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17 15 U.S.C. 78s(b)(2).

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.

11. Exhibits

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

Exhibit 2a. Regulatory Notice 18-02 (January 2018).

Exhibit 2b. Copies of the comment letters received in response to Regulatory Notice 18-02 (January 2018).

Exhibit 3. Supplemental Liquidity Schedule (SLS) and Instructions thereto.

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34- ; File No. SR-FINRA-2021-009)

Self-Regulatory Organizations; Financial Industry Regulatory Authority, Inc.; Notice of Filing of a Proposed Rule Change to Adopt a Supplemental Liquidity Schedule, and Instructions Thereto, Pursuant to FINRA Rule 4524 (Supplemental FOCUS Information)

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")[1] and Rule 19b-4 thereunder,[2] notice is hereby given that on , the 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 adopt a Supplemental Liquidity Schedule, and Instructions thereto, pursuant to FINRA Rule 4524 (Supplemental FOCUS Information).

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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1 15 U.S.C. 78s(b)(1).

2 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 provides in part that, as a supplement to filing FOCUS Reports required pursuant to SEA Rule 17a-5[3] and FINRA Rule 2010, each member, as FINRA shall designate, 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. Pursuant to FINRA Rule 4524, FINRA is proposing to adopt a Supplemental Liquidity Schedule ("SLS"), and Instructions thereto (the "Instructions").[4] The proposed SLS, which would be filed as a supplement to the FOCUS Report, is tailored to apply only to members with the largest customer and counterparty exposures, as discussed

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3 17 CFR 240.17a-5 (hereinafter cited as SEA "Rule 17a-5"). SEA Rule 17a-5 governs financial and operational reporting by brokers and dealers. Members are required to file with FINRA, through the eFOCUS System, reports concerning their financial and operational status using SEC Form X-17A-5 (the "FOCUS Report"). See, e.g., Information Notice, November 23, 2020 (2021 and First Quarter of 2022 Report Filing Due Dates); Regulatory Notice 18-38 (November 2018) (Amendments to the SEC's Financial Reporting Requirements – eFOCUS System Updates and Annual Audit Requirements). "FOCUS" stands for Financial and Operational Combined Uniform Single.

4 The proposed SLS and Instructions are included as Exhibit 3 to this rule filing.

further below. The SLS is designed to improve FINRA's ability to monitor for events that signal an adverse change in the liquidity risk of the members that would be subject to the requirement.

Effective monitoring of liquidity and funding risks is an essential element of members' financial responsibility and an ongoing focus for FINRA's financial supervision programs. Liquidity and funding stress was a significant factor in the financial crisis of 2008.[5] Since that time, FINRA has looked closely at members' liquidity and funding risk management practices.[6] Regulatory Notice 10-57 expressed FINRA's expectation that members develop and maintain robust funding and liquidity risk management practices and discussed results of examinations that FINRA had conducted of the practices of selected members. In addition, Regulatory Notice 15-33 provided guidance on liquidity risk management practices and described FINRA's review of policies and practices at selected members related to managing liquidity needs in a stressed environment. FINRA believes that the proposed SLS is a logical complement to these ongoing priorities and guidance that FINRA has communicated to members and would provide essential information about members' sources and uses of

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5 See, e.g., Final Report of the National Commission on the Causes of the Financial and Economic Crisis in the United States (January 2011), available at: <https://fraser.stlouisfed.org/title/financial-crisis-inquiry-report-5034>.

6 See Regulatory Notice 10-57 (November 2010) (Risk Management) and Regulatory Notice 15-33 (September 2015) (Liquidity Risk). However, even prior to the financial crisis, FINRA noted the importance of risk management practices. See, e.g., Notice to Members 99-92 (November 1999) (Risk Management Practices) (setting forth a joint statement by the SEC, NASD and NYSE on broker-dealer risk management practices). FINRA has also discussed liquidity risk in its Annual Regulatory and Examination Priorities Letters. See, e.g., 2019 Annual Risk Monitoring and Examination Priorities Letter, available at: <finra.org>.

liquidity to enable FINRA to better understand their liquidity profile. FINRA notes that events in connection with market volatility and other stress stemming from the COVID-19 pandemic,[7] and events such as the extreme price volatility of certain stocks in January 2021,[8] have reinforced the importance of effective liquidity risk monitoring. As such, FINRA believes that the proposed SLS is necessary to enhance its ongoing monitoring of members' liquidity risk and to have additional information that can be used to assess the impact of stress events on a member's liquidity. Members that would be subject to the SLS requirement would provide detailed reporting, using the SLS, as to their:

- reverse repurchase and repurchase agreements;
- securities borrowed and securities loaned;
- non-cash reverse repurchase and securities borrowed transactions;
- non-cash repurchase and securities loaned transactions;
- bank loan and other committed and uncommitted credit facilities;
- total available collateral in the member's custody;
- margin and non-purpose loans;
- collateral securing margin loans;
- deposits at clearing organizations; and

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7 See, e.g., S.P. Kothari et al., U.S. Credit Markets: Interconnectedness and the Effects of the COVID-19 Economic Shock (October 2020) (report of the SEC Division of Economic and Risk Analysis regarding market stress during the COVID-19 shock of March 2020), available at: <https://www.sec.gov/files/US-Credit-Markets_COVID-19_Report.pdf>.

8 See Acting Chair Allison Herren Lee, Commissioners Hester M. Peirce, Elad L. Roisman, and Caroline A. Crenshaw, Public Statement Regarding Recent Market Volatility (January 29, 2021), available at: <https://www.sec.gov/news/public-statement/joint-statement-market-volatility-2021-01-29>.

- cash and securities received and delivered on derivative transactions not cleared through a central clearing counterparty ("CCP").

In developing the proposed SLS, FINRA has engaged in extensive outreach and discussions with industry participants. In January 2018, FINRA published an earlier version of the proposed SLS for comment[9] and, as discussed further below, in response to comments, and based on dialogue with and feedback from industry participants, has tailored and clarified the proposed SLS and Instructions. Under the proposed SLS, unless otherwise permitted by FINRA in writing, the SLS would be required to be filed by each carrying member with $25 million or more in free credit balances, as defined under SEA Rule 15c3-3(a)(8),[10] and by each member whose aggregate amount outstanding under repurchase agreements, securities loan contracts and bank loans is equal to or greater than $1 billion, as reported on the member's most recently filed FOCUS report. The SLS must be completed as of the last business day of each month (the "SLS date") and filed within 24 business days after the end of the month. A member need not file the SLS for any period where the member does not meet the $25 million or $1 billion thresholds.[11]

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9 See Regulatory Notice 18-02 (January 2018) (Liquidity Reporting and Notification).

10 17 CFR 240.15c3-3 (hereinafter cited as SEA "Rule 15c3-3").

11 FINRA notes that members that have elected to be treated as capital acquisition brokers ("CABs") would be subject to the rule change to the extent that FINRA Rule 4524, pursuant to CAB Rule 452(b), applies to CABs. However, the proposed rule change would unlikely impact CABs. The proposed $25 million free credit balances threshold applies to carrying members and as such would not affect CABs because, pursuant to CAB Rule 016(c)(2), CABs are prohibited among other things from carrying customer accounts, or from holding or handling customer funds or securities. With respect to the proposed $1 billion threshold, FINRA believes that it is unlikely any CABs would meet this level of financing given the limited nature of their business under the CAB rules.

FINRA notes that, with these $25 million and $1 billion thresholds, the proposal would apply to approximately 85 to 100 members that have the largest customer and counterparty exposures, and as such, is tailored to apply to members whose liquidity events could have the greatest potential impact on customers, counterparties, and markets.

If the Commission approves the proposed rule change, FINRA will announce the effective date of the proposed rule change in a Regulatory Notice to be published no later than 30 days following Commission approval. The effective date will be no later than 180 days following publication of the Regulatory Notice announcing Commission approval.

2. Statutory Basis

The proposed rule change is consistent with the provisions of Section 15A(b)(6) of the Act,[12] 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 interest. Consistent with the provisions of the Act, the proposed rule change will enable FINRA to more effectively monitor the liquidity risk of members with the largest customer and

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The proposed rule change would not apply to funding portal members because such members are not subject to Rule 4524. Even if Rule 4524 were to apply, the rule change would unlikely affect funding portal members because, pursuant to Regulation Crowdfunding Rule 300(c)(2)(iv), such members are prohibited from holding, possessing, managing or otherwise handling investor funds or securities. Further, again by virtue of the limited nature of their business, funding portal members are unlikely to meet the proposed $1 billion threshold.

12 15 U.S.C. 78o-3(b)(6).

counterparty exposures, thereby enhancing FINRA's ability to supervise the financial responsibility of larger member firms and maintain investor protection.

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. The proposed SLS is designed to improve FINRA's ability to monitor liquidity risk of the members that would be subject to the requirement and provide additional warning of market stress. FINRA has designed the proposed SLS to achieve its intended and necessary regulatory purpose while minimizing the burden on firms. Ready access to the information is important for FINRA to efficiently monitor on an ongoing basis the liquidity profile of members. In particular, the information would facilitate FINRA's efforts to understand and respond to firms that may appear similar based on their balance sheet, but in fact have different liquidity risk profiles, which could negatively impact their ability to fund their operations during periods of market or other stress events. In the absence of this reporting requirement, FINRA would need to request this information repeatedly on a firm-by-firm basis as need arises, resulting in similar, or even potentially larger, costs for the firms.

FINRA notes that, as discussed above, the proposal would apply to approximately 85 to 100 members that meet the thresholds as defined by the proposal. Given that these firms have the largest customer and counterparty exposures, they are likely to have the largest potential liquidity risk, to which the proposed SLS is aimed at providing increased monitoring and transparency. The underlying information required to complete the

proposed SLS should be readily available to members due to members' obligations to maintain books and records for those items required to be reported on the SLS.

FINRA further notes that out of the approximately 85 to 100 firms for which the proposal would apply to, about one quarter of those are members of large bank holding companies ("BHCs"). This subset of firms are required to provide similar information in reporting at the BHC and material entity level to the Federal Reserve Board.[13] FINRA believes that the threshold for the SLS reporting requirement may result in some competitive effects, for firms that fall above or below the reporting threshold, in addition to firms that do and do not report overlapping information through the FR 2052a report. However, the overall direction of these effects is not clear, and FINRA does not believe the effects are significant when weighed against the value of the SLS report. FINRA has reviewed in this regard the information requested by the proposed SLS versus the information requested by the FR 2052a report. A broker-dealer that is a material entity within a BHC may report some of the same information under this proposal that the broker-dealer provides for purposes of the FR 2052a report.[14] To the extent there is some overlap in reporting, FINRA expects that additional costs from providing the information for purposes of the SLS would be minimal. These firms should be able to rely on their existing compliance systems and infrastructure for the reporting of these items. However, some costs are anticipated due to differences in the information required for the

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13 This reporting is done using the Complex Institution Liquidity Monitoring Report (FR 2052a) (hereinafter referred to as the "FR 2052a report"), available at: <https://www.federalreserve.gov/apps/reportforms/default.aspx>.

14 The instructions to the FR 2052a report provide that ". . . each material entity required to report will report on a consolidated basis," except as otherwise specified in the instructions.

two reports and differences in the frequency of the reporting. Where this reporting is not duplicative, firms will incur some start-up costs to establish the reporting system and then ongoing costs in providing the information, and the relevant supervisory and compliance systems. In contrast, firms that are not within a BHC will incur new start-up costs that may be greater than the incremental start-up costs of firm within a BHC, while firms below the threshold will not incur these costs. Nonetheless, FINRA believes the thresholds are well tailored to require disclosure from firms whose liquidity impacts substantially outweigh the collection and reporting costs of the SLS.

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

The proposed rule change was published for comment in Regulatory Notice 18-02 (January 2018) (the "Notice"). Three comments were received in response to the Regulatory Notice.[15] Exhibit 2a is a copy of the Regulatory Notice. Exhibit 2b contains copies of the comment letters received in response to the Regulatory Notice. Below is a summary of the comments and FINRA's responses.

In the Notice, in addition to seeking comment on a proposed earlier version of the SLS, FINRA sought comment on proposed amendments to FINRA Rule 4521 (Notifications, Questionnaires and Reports) that would have imposed additional requirements on members subject to the SLS to notify FINRA no more than 48 hours

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15 See Letter from Allen Riggs, CFO, Vining Sparks IBP, L.P., to Jennifer Piorko Mitchell, Office of the Corporate Secretary, FINRA, dated February 21, 2018 ("Vining Sparks"); Letter from Jon Zindel, Chief Financial Officer, William Blair & Company, LLC, to Jennifer Piorko Mitchell, Office of the Corporate Secretary, FINRA, dated March 7, 2018 ("William Blair"); and Letter from Mary Kay Scucci, Managing Director, Securities Industry and Financial Markets Association, to Jennifer Piorko Mitchell, Office of the Corporate Secretary, FINRA, dated March 8, 2018 ("SIFMA").

after specified events that may signal an adverse change in liquidity risk. Most of the concerns expressed by commenters focused on these proposed amendments to Rule 4521. In particular, SIFMA and Vining Sparks expressed concern that the proposed amendments were complex and operationally burdensome, were in need of further clarification, should be tailored to permit members to use models specific to their firms, or should be aligned or coordinated with potential future Commission action in the area of broker-dealer liquidity and risk monitoring. In response, FINRA notes that it has been engaging, and plans to continue to engage, with industry participants and with other regulators with regard to these concerns and will give further consideration as to potential rule changes to address effective liquidity monitoring. As such, FINRA is not at this time proposing amendments to Rule 4521 as part of the proposed rule change.

With regard to the proposed SLS as originally proposed in the Notice, all three commenters suggested clarifications and revisions. William Blair and Vining Sparks expressed concern that, because the $25 million threshold as proposed in the Notice would have been based on "total credits" under Exhibit A of Rule 15c3-3, smaller firms that engage mostly in institutional trades on a delivery versus payment/receive versus payment ("DVP/ RVP") basis would fall within the proposed requirement by virtue of the credits they are obliged to report in connection with "failed to receive" transactions. Commenters believed this would include firms whose business activities do not present significant liquidity risk in the SLS reporting requirement. In response, FINRA has engaged with industry participants and has revised the $25 million threshold to reference "free credit balances" as defined under SEA Rule 15c3-3(a)(8). FINRA believes that referencing free credit balances for the $25 million threshold more directly identifies

firms that should be subject to the SLS and is consistent with FINRA's intent to reach only members with the highest potential liquidity risk. As discussed above, the proposal would apply to approximately 85 to 100 firms, generally FINRA's largest members, which is the appropriate scope in light of its regulatory purpose. Vining Sparks expressed concern that the SLS, as originally proposed in the Notice, would require disclosure of the names of the reporting member's top five counterparties for certain of the specified categories of information, which Vining Sparks suggested could raise privacy and confidentiality concerns. In response, FINRA has revised the Instructions to the proposed SLS so that members would have the option to specify a counterparty type or name in the portions of the SLS that request top five counterparty information. FINRA believes that permitting members this flexibility is appropriate because specifying counterparty types rather than counterparty names achieves the overall goal of helping to understand and monitor the impact from counterparties on the liquidity profile of the member submitting the SLS. Further, FINRA notes that it has the ability to request further information as to any counterparty transaction should such be warranted.

SIFMA expressed concern that the purpose of and need for the SLS as proposed in the Notice is unclear, that the SLS would require the disclosure of information that should be kept confidential, that the proposal is duplicative of requirements that apply to firms that are already part of BHCs, that the proposal should not go forward until the SEC acts in the area of liquidity monitoring, and that the information required on the proposed SLS is unhelpful or unnecessary to understanding a firm's liquidity or is operationally burdensome to track. FINRA engaged with industry participants and SIFMA to discuss these concerns.

FINRA believes that the purpose of, and regulatory need for, the proposal, as set forth in the Notice and as reiterated in this filing, is clear. To address the concerns expressed by commenters with regard to the potential burdens of the proposal, FINRA, based on extensive discussions with industry participants, has made several revisions to the proposed SLS. For example, FINRA has revised the proposed SLS so that members with de minimis total reverse repurchase or repurchase agreements may elect not to complete the securities collateral subcategories in Lines 1 through 5 under Reverse Repurchase and Repurchase Agreements, and may elect not to complete the Top Five Counterparties portion that corresponds with that section.[16] As revised, also under the Reverse Repurchase and Repurchase Agreements section, the proposed SLS would permit members flexibility to allocate contracts collateralized by more than two security types among those types of collateral for purposes of their reporting. With regard to reporting counterparties, FINRA has revised the SLS so that members electing to report counterparties by type rather than by name will be permitted to use the counterparty classifications and definitions given in the FR 2052a report, thereby helping members in BHCs align their SLS reporting with the FR 2052a report. Similarly, FINRA has added language to the proposed SLS designed to align reporting for non-cash and collateral upgrade transactions with members' other regulatory reporting.[17]

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16 Members would need to complete Lines 6a, 6b, 6c and 7, as applicable. FINRA has made a corresponding revision to the Securities Borrowed and Securities Loaned section.

17 FINRA has made additional miscellaneous revisions to the SLS designed to clarify categories in the Instructions such as "term loans" and "deposits at clearing organizations." Further, in the Instructions, FINRA has also revised the Bank Loan and Other Committed and Uncommitted Credit Facilities section to clarify

SIFMA requested that FINRA further clarify the reporting date for the SLS, and suggested that data should be reported as of month-end. In response, FINRA has revised the SLS to provide that the SLS must be completed as of the last business day of each month (as noted above, the SLS date) and filed within 24 business days after the end of the month. FINRA notes the 24 business days is meant to afford members additional time to file versus the 22 business days as proposed in the Notice. SIFMA requested clarification as to who within a member would be responsible for completing the proposed SLS. In response, it is not FINRA's intention to impose an additional potential burden by designating specific persons within the firm that would need to complete the SLS. Given the SLS is intended as a supplement to the FOCUS reporting for which a member is already responsible, FINRA understands that members may handle the SLS as a financial and operational report consistent with their FOCUS and other financial-related reporting processes and obligations.

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.

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that Line 4 under that section (Drawn Amounts of Uncommitted Credit Facilities) includes, for example, commercial paper.

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
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-FINRA-2021-009 on the subject line.

Paper Comments:

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

All submissions should refer to File Number SR-FINRA-2021-009. 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. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-FINRA-2021-009 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.[18]

Jill M. Peterson
Assistant Secretary

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[18] 17 CFR 200.30-3(a)(12).

Exhibit 2a

Regulatory Notice 18-02

Liquidity Reporting and Notification

FINRA Requests Comment on Proposed Amendments to FINRA Rule 4521 and New Supplemental Liquidity Schedule

Comment Period Expires: March 8, 2018

Summary

FINRA is seeking comment on proposed amendments to FINRA Rule 4521 (Notifications, Questionnaires and Reports) that would require specified member firms to notify FINRA no more than 48 hours after specified events that may signal an adverse change in liquidity risk. FINRA also seeks comment on a proposed new Supplemental Liquidity Schedule (SLS) that member firms with the largest customer and counterparty exposures would file as a supplement to the FOCUS Report. On the new SLS, these firms would report information related to specified financing transactions and other sources or uses of liquidity. The information would include among other things financing term, collateral types and large counterparties.

FINRA is seeking comment on all aspects of the proposed amendments to Rule 4521 and the proposed new SLS (together, referred to as the "proposal"), including the impact of the proposal on market participants. The proposed amendments to Rule 4521 are available as Attachment A. The proposed SLS and instructions to the SLS are available as Attachments B and C, respectively.

Questions regarding this *Notice* should be directed to:

- Kris Dailey, Vice President, Risk Oversight & Operational Regulation, at (646) 315-8434;
- Kathryn E. Mahoney, Director, Financial Operations Policy Group, at (646) 315-8428; or
- Adam H. Arkel, Associate General Counsel, Office of General Counsel, at (202) 728-6961.

January 8, 2018

Notice Type

- Request for Comment

Suggested Routing

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

Key Topics

- FOCUS Reports
- Liquidity Reporting and Notification
- Supplemental Liquidity Schedule

Referenced Rules & Notices

- FINRA Rule 4521
- FINRA Rule 4524
- FINRA Rule 6710
- Notice to Members 99-92
- Regulatory Notice 10-57
- Regulatory Notice 15-33
- SEA Rule 15c3-3
- SEA Rule 17a-5

Action Requested

FINRA encourages all interested parties to comment on the proposal. Comments must be received by March 8, 2018.

Comments must be submitted through one of the following methods:

- Emailing comments to *pubcom@finra.org*; or
- Mailing comments in hard copy to:

  Jennifer Piorko Mitchell
  Office of the Corporate Secretary
  FINRA
  1735 K Street, NW
  Washington, DC 20006-1506

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

Important Notes: All comments received in response to this *Notice* will be made available to the public on the FINRA website. In general, FINRA will post comments as they are received.[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 filed with the SEC pursuant to SEA Section 19(b).[2]

Background & Discussion

Effective monitoring of liquidity and funding risks is an essential element of firms' financial responsibility and an ongoing focus for FINRA's financial supervision programs. To that end, FINRA is issuing this *Notice* to seek comment on proposed amendments to FINRA Rule 4521 (Notifications, Questionnaires and Reports) and on a new Supplemental Liquidity Schedule (SLS) that specified member firms would file as a supplement to the FOCUS Report. The proposed rule amendments and the new SLS, in combination, are tailored requirements that will improve FINRA's ability to monitor for events that signal an adverse change in the liquidity risk of the firms that would be subject to the new requirements.

Firms' liquidity and funding stress was a significant factor in the financial crisis of 2008.[3] Since that time, FINRA has looked closely at firms' liquidity and funding risk management practices.[4] *Regulatory Notice 10-57* expressed FINRA's expectation that firms develop and maintain robust funding and liquidity risk management practices and discussed examinations that FINRA had conducted of the practices of selected firms. *Regulatory Notice 15-33* provided guidance on liquidity risk management practices and described

FINRA's review of policies and practices at selected firms related to managing liquidity needs in a stressed environment. FINRA believes that the proposed requirements are a logical complement to ongoing priorities and guidance that FINRA has communicated to firms.

In developing the proposal, FINRA has engaged in discussions with industry participants and has tailored the proposal to firms with the largest customer and counterparty exposures. As discussed further below, FINRA is seeking comment on all aspects of the proposal, including the proposal's impact on market participants.

Following is a summary of the key aspects of the proposal.

New SLS

The new, proposed SLS is tailored to larger firms and is intended to provide more detailed information about such firms' liquidity profile than is reflected on the FOCUS Report (Part II, Part IIA or Part II CSE, as appropriate). Under the proposal, unless otherwise permitted by FINRA in writing, the SLS is required to be filed by each carrying or clearing FINRA firm with $25 million or more in total credits, as determined pursuant to the customer reserve formula computation as set forth in SEA Rule 15c3-3 Exhibit A, and by each FINRA firm whose aggregate amount outstanding under repurchase agreements, securities loan contracts and bank loans is equal to or greater than $1 billion, as reported on the most recently filed FOCUS Report.[5]

These firms would report information related to specified financing transactions and other sources or uses of liquidity.

Specifically, they would provide detailed reporting as to their reverse repurchase and repurchase agreements, securities borrowed and securities loaned, bank loans and other credit facilities, total available collateral, margin loans, collateral securing margin loans, deposits at clearing organizations, and cash and securities received and delivered on derivative transactions not cleared through a central clearing counterparty. The required information will enable FINRA to more effectively assess these firms' ability to continue to fund their operations and to meet their settlement, customer and counterparty obligations, thereby enabling FINRA to more effectively evaluate these firms' liquidity and funding profiles and to identify higher risk firms. In particular, the information would facilitate FINRA's efforts to distinguish among firms that may have similar balance sheets but very different liquidity risk profiles that could impact their ability to fund their operations during stress scenarios.[6]

Amendments to FINRA Rule 4521

The SEC approved Rule 4521 as part of FINRA's new, consolidated financial responsibility rules in 2009.[7] The rule provides FINRA authority to request information from firms to carry out its surveillance and examination responsibilities. Paragraph (c) of the rule currently requires each carrying or clearing firm to notify FINRA in writing, no more than 48 hours after its tentative net capital as computed pursuant to SEA Rule 15c3-1 has declined 20 percent or more from the amount reported in its most recent FOCUS Report or, if later, the most recent such notification filed with FINRA.

Under the proposal, additional notification requirements would be applied to the same firms that would be subject to the SLS (that is, unless otherwise permitted by FINRA in writing, each carrying or clearing firm with $25 million or more in total credits, as determined pursuant to the customer reserve formula computation as set forth in SEA Rule 15c3-3 Exhibit A, and each firm whose aggregate amount outstanding under repurchase agreements, securities loan contracts and bank loans is equal to or greater than $1 billion, as reported on the most recently filed FOCUS Report).[8] Specifically, the specified firms would be required to notify FINRA in writing, no more than 48 hours after:

- the firm becomes aware of a loss of access to secured funding through repurchase agreements, and where such loss, excluding funding collateralized by U.S. Treasury Securities,[9] or funding collateralized by securities issued by a U.S. Government Agency[10] or Government-Sponsored Enterprise (GSE),[11] in the aggregate, across all counterparties, represents 20 percent or more of the highest amount borrowed through such contracts within a 35 rolling calendar day period;
- the firm becomes aware of a loss of access to secured funding through securities loans, and where such loss, excluding funding collateralized by U.S. Treasury Securities, or funding collateralized by securities issued by a U.S. Government Agency or GSE, in the aggregate, across all counterparties, represents 20 percent or more of the highest amount borrowed through such contracts within a 35 rolling calendar day period;
- any one of the firm's five largest repurchase agreement counterparties or any one of the firm's five largest securities loan counterparties increases collateral haircuts on the counterparty's repurchase agreements or securities loan contracts with the firm, excluding funding collateralized by U.S. Treasury Securities, or funding collateralized by securities issued by a U.S. Government Agency or GSE, by 20 percent or more within a 35 rolling calendar day period;
- any one of the firm's five largest repurchase agreement counterparties, excluding funding collateralized by U.S. Treasury Securities, or funding collateralized by securities issued by a U.S. Government Agency or GSE, initiates termination of outstanding repurchase contracts prior to maturity, initiates the option not to renew or rollover the contract, or reduces access to undrawn or unused financing through repurchase contracts by 20 percent or more from the highest amount borrowed through such counterparty within a 35 rolling calendar day period;

- any one of the firm's five largest securities loan counterparties, excluding funding collateralized by U.S. Treasury Securities, or funding collateralized by securities issued by a U.S. Government Agency or GSE, initiates termination of securities loaned contracts prior to maturity, or reduces access to financing through securities loans by 20 percent or more of the highest amount borrowed through such counterparty within a 35 rolling calendar day period;
- the firm becomes aware of a reduction in or termination of committed or uncommitted lines of credit from banks, whether secured or unsecured, by 20 percent or more within a 35 rolling calendar day period;
- the firm triggers a material adverse change clause in any contract containing such clause, including events of acceleration or default, provided that the notification required pursuant to the rule shall be required within 48 hours after the expiration of any applicable cure period without remedy; or
- (only for firms that, pursuant to Rule 4210(g), have received approval from FINRA, or the firm's DEA if other than FINRA, to establish a portfolio margin methodology for eligible participants) the total change in the firm's customer margin balances, or decrease in the firm's free credit balances, in the gross aggregate, is greater than or equal to five percent or $5 billion in one business day, whichever is lower. For purposes of this requirement, the daily customer margin balances and free credit balances would be as determined pursuant to current paragraphs (d)(3)(A) and (d)(3)(B) of the rule.[12]

These notification requirements should enable FINRA to be promptly alerted by a firm whose ability to fund its operations has been reduced significantly within a short period of time. FINRA believes that the notifications are consistent with the types of events or conditions that many firms currently monitor for as part of prudent funding and liquidity risk management programs. Further, the notifications dovetail with the reporting that the specified firms would provide pursuant to the proposed SLS, as discussed above.

Impact on Market Participants and Request for Comment on the Proposal

The purpose of the proposed SLS is to provide FINRA with more detailed information about the specified firms' liquidity profiles than what is reflected on the current FOCUS Reports. This will enable FINRA to more effectively assess firms' ability to meet their settlement, customer and counterparty obligations and to differentiate between high and low risk firms by analyzing firm-specific risk factors. The primary anticipated net benefit would be that FINRA is provided a more granular level of detail on firms' funding sources such as term or maturity information, collateral quality, haircuts and use of secured versus unsecured financing, so that FINRA can assess whether firms possess adequate liquidity pools to fund their daily operations without relying on relatively less stable sources such as short-term unsecured loans or borrowing against customer collateral.

A potential significant benefit of this proposal may also arise from the information that can be generated on the interconnectedness of firms through significant counterparty exposure, which is a key component in FINRA's efforts to effectively monitor liquidity and funding risks as a part of its regulatory programs.

FINRA estimates that, based on the quarterly FOCUS data from 2016, approximately 110 firms, of which approximately half are part of a bank holding company, would be required to file the SLS under the proposal, though the actual number may fluctuate from month to month as a firm will not be required to file the SLS for any month where the firm does not meet the specified thresholds. Based on discussions with a select number of firms, FINRA does not expect the filing of the SLS to create significant direct compliance costs for these firms, as the information required to complete the SLS should be readily available to the firms. However, firms may potentially incur costs associated with processing data to compute certain items on the SLS.

Similarly, the new notification requirements in the proposed amendments to FINRA Rule 4521 are expected to cause minimal direct burdens on firms that are subject to the SLS, as FINRA believes that firms already monitor events that trigger notification to FINRA as a part of funding and liquidity risk management programs. Some level of one-time direct costs may be incurred by firms that establish automated monitoring tools to comply with the rule. However, to the extent that firms and liquidity providers alter their demand and supply for funding as a result of the proposal, there might be an indirect impact on competition in the funding markets. Firms may choose to diversify their counterparties to mitigate counterparty risk and to report less concentration of counterparties in the SLS. As a result, current counterparties would have to search for other firms that demand funding. Similarly, liquidity providers may potentially shift their client base from specified FINRA firms, to non-specified FINRA firms or to non-firms, to avoid being reported as a counterparty on the SLS. Such change in behavior is expected to be more likely for firms and liquidity providers that are at the margin with respect to the reporting thresholds. These effects may lead to greater search costs or funding costs for some impacted firms.

As discussed above, FINRA is seeking comment on all aspects of the proposed new SLS and the proposed notification amendments to Rule 4521, including the impact of the proposal on market participants.

Request for Comment with Regard to the Proposed SLS

- Do the items on the proposed SLS sufficiently capture the material secured and unsecured exposures of firms that would be subject to reporting?
- Are the proposed thresholds for firms that would be required to report under the proposed SLS appropriate? Are there alternative thresholds that would be more effective in capturing the liquidity risk profiles of firms?

- Are the proposed thresholds for the activities that would be required to be reported under the proposed SLS appropriate? What other, if any, information should FINRA consider capturing in order to meet its goals? Should FINRA consider any changes to the proposed items to increase the efficiency or reduce the costs of compliance while maintaining FINRA's ability to meet its goals?
- Is the proposed SLS expected to create significant compliance costs, including data collection and processing costs, for the impacted firms? If so, please provide information about these costs, including their potential magnitude, cost drivers that might differ among firms based on their business or business model, and ways that FINRA could mitigate these costs through the design of the collection or reporting mechanism.
- Are there additional costs for firms that are part of a bank holding company, stemming from potential discrepancies between the computation and reporting of items on the proposed SLS and other regulatory forms?
- To what extent do firms report substantially the same information to other regulators today? Do the proposed SLS items overlap with or differ from items that are reported to other regulators? Should any changes be made to the proposed SLS? If so, why?
- What are the potential impacts of the proposed SLS on counterparties? Are some counterparties more likely to be impacted by the proposed requirements than others?
- The proposed SLS will require firms to report the gross contract value of all reverse repurchase and repurchase agreements by collateral type, including all intercompany and third party agreements. Should FINRA exclude from the SLS reverse repurchase contracts where the collateral is used to satisfy the SEA Rule 15c3-3 reserve deposit?
- Are there any other economic impacts or competitive effects of the proposed SLS?

Request for Comment with Regard to the Proposed Amendments to FINRA Rule 4521

- Under the proposed amendments to Rule 4521, is the specified 35 rolling calendar day timeframe appropriate? Would use of a fixed time period, such as the most recent month-end date or most recently filed report, be more operationally feasible or more cost effective to implement than use of the highest open amount in a rolling period? If yes, would use of a fixed date cause the rule to be less effective?
- Should the proposed notification requirement with respect to margin and free credit balances exclude changes resulting from the firm sweeping customer funds to a bank or money market sweep? Should there be other exclusions?
- The proposed amendments to Rule 4521 include specified notification requirements with respect to any of the firm's five largest repurchase agreement counterparties or five largest securities loan counterparties. Are the specified requirements appropriate? Why? If not, why not?

- The proposed amendments include specified reporting requirements when a firm triggers a material adverse change clause. Are the specified requirements appropriate? Should there be any exclusions from the requirement? Why? If not, why not?

Additional Request for Comment with Regard to the Impact of the Proposal

- Has FINRA identified the appropriate events to trigger notification of a material change in liquidity and funding risk? Are there other events that FINRA should consider?
- Instead of listing specific events that trigger notification, should FINRA use different notification triggers? If yes, what should the different triggers be? What are the benefits and drawbacks of such different triggers?
- Are the proposed thresholds that would trigger notification to FINRA relevant and do they appropriately address material changes in liquidity and funding risks? Are there alternative thresholds that FINRA should consider?
- Do the proposed notifications with respect to secured and unsecured funding sources appropriately address the sources of funding risk? Are there other unsecured financing sources and collateral types that FINRA should consider for notification events?
- Do impacted firms currently monitor events that may potentially trigger notification to FINRA? How likely are firms to change their risk management practices due to the proposed notification requirements?
- Are the proposed notification requirements with respect to liquidity and funding events likely to impact the supply and demand for funding? Specifically, are impacted firms likely to alter their behavior, collateral management and choice of counterparties in the funding markets?
- Are there any other economic impacts or competitive effects of the proposed notification requirements?

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 NTM 03-73* (November 2003) (NASD Announces Online Availability of Comments) for more information.

2. *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.

3. *See, e.g.*, Final Report of the National Commission on the Causes of the Financial and Economic Crisis in the United States (January 2011).

4. *See Regulatory Notice 10-57* (November 2010) (Risk Management) and *Regulatory Notice 15-33* (September 2015) (Liquidity Risk). However, even prior to the financial crisis, FINRA noted the importance of risk management practices. *See, e.g., Notice to Members 99-92* (November 1999) (Risk Management Practices) (setting forth a joint statement by the SEC, NASD and NYSE on broker-dealer risk management practices). FINRA has also discussed liquidity risk in its recent Annual Regulatory and Examination Priorities Letters.

5. Under the proposal, the SLS must be filed within 22 business days after the end of each month. The SLS need not be filed for any period where the firm does not meet the $25 million or $1 billion thresholds.

6. Upon receiving comment on the proposed SLS, FINRA proposes to file the SLS with the SEC pursuant to Rule 4524. Rule 4524 provides that, as a supplement to filing FOCUS reports required pursuant to SEA Rule 17a-5 and FINRA Rule 2010, each member, as FINRA shall designate, 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 rule provides that the content of such schedules or reports, their format, and the timing and the frequency of such supplemental filings shall be specified in a *Regulatory Notice* (or similar communication) issued pursuant to the rule. The rule further provides that FINRA shall file with the SEC pursuant to Section 19(b) of the Exchange Act the content of any such *Regulatory Notice* (or similar communication) issued pursuant to the rule.

7. *See Regulatory Notice 09-71* (December 2009) (SEC Approves Consolidated FINRA Rules Governing Financial Responsibility).

8. Supplementary Material .01 of Rule 4521 provides that, for purposes of the rule, all requirements that apply to a member that clears or carries customer accounts shall also apply to any member that, operating pursuant to the exemptive provisions of SEA Rule 15c3-3(k)(2)(i), either clears customer transactions pursuant to such exemptive provisions or holds customer funds in a bank account established thereunder. By way of clarification, FINRA notes that firms otherwise subject to the rule by virtue of Supplementary Material .01 would not be subject to the new requirements if they do not meet the specified $25 million or $1 billion thresholds.

9. FINRA Rule 6710(p) defines "U.S. Treasury Security" to mean "a security issued by the U.S. Department of the Treasury to fund the operations of the federal government or to retire such outstanding securities."

10. FINRA Rule 6710(k) defines ''agency'' to mean a United States executive agency as defined in 5 U.S.C. 105 that is authorized to issue debt directly or through a related entity, such as a government corporation, or to guarantee the repayment of principal or interest of a debt security issued by another entity. The term excludes the U.S. Department of the Treasury in the exercise of its authority to issue U.S. Treasury Securities as defined under FINRA Rule 6710(p). Under 5 U.S.C. 105, the term ''executive agency'' is defined to mean an ''Executive department, a Government corporation, and an independent establishment.''

11. FINRA Rule 6710(n) defines GSE to have the meaning set forth in 2 U.S.C. 622(8). Under 2 U.S.C. 622(8), a GSE is defined, in part, to mean a corporate entity created by a law of the United States that has a Federal charter authorized by law, is privately owned, is under the direction of a board of directors, a majority of which is elected by private owners, and, among other things, is a financial institution with power to make loans or loan guarantees for limited purposes such as to provide credit for specific borrowers or one sector and raise funds by borrowing (which does not carry the full faith and credit of the Federal Government) or to guarantee the debt of others in unlimited amounts.

12. Paragraphs (d)(3)(A) and (d)(3)(B) address free credit balances and margin balances for purposes of specified monthly reporting requirements under current paragraph (d) of Rule 4521.

Below is the text of the proposed rule change. Proposed new language is underlined; proposed deletions are in brackets.

* * * * *

4000. FINANCIAL AND OPERATIONAL RULES

* * * * *

4520. Financial Records and Reporting Requirements

4521. Notifications, Questionnaires and Reports

(a) Each carrying or clearing member shall submit to FINRA, or its designated agent, at such times as may be designated, or on an ongoing basis, in such form and within such time period as may be prescribed, such financial and operational information regarding the member or any of its correspondents as FINRA deems essential for the protection of investors and the public interest.

(b) Every member approved by the SEC pursuant to SEA Rule 15c3-1 to use the alternative method of computing net capital contained in Appendix E to that Rule shall file such supplemental and alternative reports as may be prescribed by FINRA.

(c)(1) Each carrying or clearing member shall notify FINRA in writing, no more than 48 hours after its tentative net capital as computed pursuant to SEA Rule 15c3-1 has declined 20 percent or more from the amount reported in its most recent FOCUS Report or, if later, the most recent such notification filed with FINRA. For purposes of this paragraph, "tentative net capital as computed pursuant to SEA Rule 15c3-1" shall exclude withdrawals of capital previously approved by FINRA.

(2) Unless otherwise permitted by FINRA in writing, each carrying or clearing member with $25 million or more in total credits, as determined pursuant to the customer reserve formula computation as set forth in SEA Rule 15c3-3 Exhibit A, and each member whose aggregate amount outstanding under repurchase agreements, securities loans contracts and bank loans is equal to or greater than $1 billion, as reported on the member's most recently filed FOCUS Report, shall notify FINRA in writing, no more than 48 hours after:

(A) the member becomes aware of a loss of access to secured funding through repurchase agreements, and where such loss, excluding funding collateralized by U.S. Treasury Securities, or funding collateralized by securities issued by a U.S. Government Agency or Government-Sponsored Enterprise, in the aggregate, across all

counterparties, represents 20 percent or more of the highest amount borrowed through such contracts within a 35 rolling calendar day period;

(B) the member becomes aware of a loss of access to secured funding through securities loans, and where such loss, excluding funding collateralized by U.S. Treasury Securities, or funding collateralized by securities issued by a U.S. Government Agency or Government-Sponsored Enterprise, in the aggregate, across all counterparties, represents 20 percent or more of the highest amount borrowed through such contracts within a 35 rolling calendar day period;

(C) any one of the member's five largest repurchase agreement counterparties or any one of the member's five largest securities loan counterparties increases collateral haircuts on the counterparty's repurchase agreements or securities loan contracts with the member, excluding funding collateralized by U.S. Treasury Securities, or funding collateralized by securities issued by a U.S. Government Agency or Government-Sponsored Enterprise, by 20 percent or more within a 35 rolling calendar day period;

(D) any one of the member's five largest repurchase agreement counterparties, excluding funding collateralized by U.S. Treasury Securities, or funding collateralized by securities issued by a U.S. Government Agency or Government-Sponsored Enterprise, initiates termination of outstanding repurchase contracts prior to maturity, initiates the option not to renew or rollover the contract, or reduces access to undrawn or unused financing through repurchase contracts by 20 percent or more from the highest amount borrowed through such counterparty within a 35 rolling calendar day period;

(E) any one of the member's five largest securities loan counterparties, excluding funding collateralized by U.S. Treasury Securities, or funding collateralized by securities issued by a U.S. Government Agency or Government-Sponsored Enterprise, initiates termination of securities loaned contracts prior to maturity, or reduces access to financing through securities loans by 20 percent or more of the highest amount borrowed through such counterparty within a 35 rolling calendar day period;

(F) the member becomes aware of a reduction in or termination of committed or uncommitted lines of credit from banks, whether secured or unsecured, by 20 percent or more within a 35 rolling calendar day period;

(G) the member triggers a material adverse change clause in any contract containing such clause, including events of acceleration or default, provided that the notification required pursuant to this Rule shall be required within 48 hours after the expiration of any applicable cure period without remedy; or

(H) the total change in the member's customer margin balances, or decrease in the member's free credit balances, in the gross aggregate, is greater than or equal to five percent or $5 billion in one business day, whichever is lower; provided, however, that paragraph (c)(2)(H) of this Rule shall apply to members that, pursuant to Rule 4210(g), have received approval from FINRA, or the member's DEA if other than FINRA, to establish a portfolio margin methodology for eligible participants. For purposes of this paragraph (c)(2)(H), the daily customer margin balances and free credit balances shall be as determined pursuant to paragraphs (d)(3)(A) and (d)(3)(B) of this Rule.

(d)(1) Unless otherwise permitted by FINRA in writing, members carrying margin accounts for customers are required to submit, on a settlement date basis, the information specified in paragraphs (d)(2)(A) and (d)(2)(B) of this Rule as of the last business day of the month. If a member has no information to submit, a report should be filed with a notation thereon to that effect. Reports are due as promptly as possible after the last business day of the month, but in no event later than the sixth business day of the following month. Members shall use such form as FINRA may prescribe for these reporting purposes.

(2) Each member carrying margin accounts for customers shall submit reports containing the following customer information:

(A) Total of all debit balances in securities margin accounts; and

(B) Total of all free credit balances in all cash accounts and all securities margin accounts.

(3) For purposes of this paragraph (d):

(A) Only free credit balances in cash and securities margin accounts shall be included in the member's report. Balances in short accounts and in special memorandum accounts (see Regulation T of the Board of Governors of the Federal Reserve System) shall not be considered as free credit balances.

(B) Reported debit or credit balance information shall not include the accounts of other FINRA members, or of the associated persons of the member submitting the report where such associated person's account is excluded from the definition of customer pursuant to SEA Rule 15c3-3.

(e) Unless a specific temporary extension of time has been granted, there shall be imposed upon each member required to file any report, notification or information pursuant to this Rule, a late fee as set forth in Schedule A Section 4(g)(1) to the FINRA By-Laws.

(f) For purposes of this Rule, any report filed pursuant to this Rule containing material inaccuracies shall be deemed not to have been filed until a corrected copy of the report has been resubmitted.

• • • Supplementary Material: ----------

.01 Members Operating Pursuant to the Exemptive Provisions of SEA Rule 15c3-3(k)(2)(i). For purposes of this Rule, all requirements that apply to a member that clears or carries customer accounts shall also apply to any member that, operating pursuant to the exemptive provisions of SEA Rule 15c3-3(k)(2)(i), either clears customer transactions pursuant to such exemptive provisions or holds customer funds in a bank account established thereunder.

* * * * *

FINRA FORM SLS

Supplemental Report to FOCUS REPORT
Supplemental Liquidity Schedule ("SLS")
(Please read instructions before completing form)

NAME OF BROKER-DEALER			**SEC FILE NO.**
ADDRESS OF PRINCIPAL PLACE OF BUSINESS			FIRM ID NO.
(No. and Street)			FOR PERIOD ENDING (MM/DD/YY)
(City)	(State)	(Zip Code)	
NAME OF PERSON COMPLETING THIS REPORT TELEPHONE NO. OF PERSON COMPLETING THIS REPORT			

All amounts should be reported in thousands.

REVERSE REPURCHASE AND REPURCHASE AGREEMENTS	**Reverse Repurchase (000s)**	**Repurchase (000s)**
1. U.S. Treasury Securities		
a. Open and Overnight	$	$
b. Term	$	$
Weighted Average Maturity	_____	_____
c. Forward Starting	$	$
2. U.S. Government Agency & Government-Sponsored Enterprise Securities		
a. Open and Overnight	$	$
b. Term	$	$
Weighted Average Maturity	_____	_____
c. Forward Starting	$	$
3. Equity Securities		
a. Open and Overnight	$	$
b. Term	$	$
Weighted Average Maturity	_____	_____
c. Forward Starting	$	$
4. Investment Grade Corporate Obligations		
a. Open and Overnight	$	$
b. Term	$	$
Weighted Average Maturity	_____	_____
c. Forward Starting	$	$
5. Other Collateral		
a. Open and Overnight	$	$
b. Term	$	$
Weighted Average Maturity	_____	_____
c. Forward Starting	$	$
6. Total at Tri-Party Custodian or DTCC	$	$
7. TOTAL	$	$

Top 5 Counterparties: Reverse Repurchase and Repurchase Agreements			
Reverse Repurchase Counterparty Name	**Contract Value (000s)**	**Repurchase Counterparty Name**	**Contract Value (000s)**
1.	$	**1.**	$
2.	$	**2.**	$
3.	$	**3.**	$
4.	$	**4.**	$
5.	$	**5.**	$

SECURITIES BORROWED AND SECURITIES LOANED	**Securities Borrowed (000s)**	**Securities Loaned (000s)**
1. U.S. Treasury Securities		
a. Open and Overnight	$	$
b. Term	$	$
Weighted Average Maturity	_____	_____
c. Forward Starting	$	$
2. U.S. Government Agency & Government-Sponsored Enterprise Securities		
a. Open and Overnight	$	$
b. Term	$	$
Weighted Average Maturity	_____	_____
c. Forward Starting	$	$
3. Equity Securities		
a. Open and Overnight	$	$
b. Term	$	$
Weighted Average Maturity	_____	_____
c. Forward Starting	$	$
4. Investment Grade Corporate Obligations		
a. Open and Overnight	$	$
b. Term	$	$
Weighted Average Maturity	_____	_____
c. Forward Starting	$	$
5. Other Collateral		
a. Open and Overnight	$	$
b. Term	$	$
Weighted Average Maturity	_____	_____
c. Forward Starting	$	$
6. Total Guaranteed by a CCP	$	$
7. TOTAL	$	$

Top 5 Counterparties: Securities Borrowed and Securities Loaned			
Securities Borrowed Counterparty Name	**Contract Value (000s)**	**Securities Loaned Counterparty Name**	**Contract Value (000s)**
1.	$	**1.**	$
2.	$	**2.**	$
3.	$	**3.**	$
4.	$	**4.**	$
5.	$	**5.**	$

BANK LOAN AND OTHER CREDIT FACILITIES					
	Total (000s)	**Affiliate**		**Non-Affiliate**	
		Committed (000s)	**Uncommitted (000s)**	**Committed (000s)**	**Uncommitted (000s)**
1. U.S. Treasury, U.S. Government Agency & Government-Sponsored Enterprise Securities					
a. Open and Overnight	**$**	**$**	**$**	**$**	**$**
b. Term	**$**	**$**	**$**	**$**	**$**
2. Equity Securities					
a. Open and Overnight	**$**	**$**	**$**	**$**	**$**
b. Term	**$**	**$**	**$**	**$**	**$**
3. Other Collateral					
a. Open and Overnight	**$**	**$**	**$**	**$**	**$**
b. Term	**$**	**$**	**$**	**$**	**$**
4. Unused Portion of Secured Credit Facilities	**$**	**$**	**$**	**$**	**$**
5. Unsecured Credit Facilities					
a. Drawn Amounts	**$**	**$**	**$**	**$**	**$**
b. Undrawn Amounts	**$**	**$**	**$**	**$**	**$**

TOTAL AVAILABLE COLLATERAL (Free Box)	
	Total Market Value
1. U.S. Treasury Securities	$

MARGIN LOANS		
		Balance (000s)
1. Demand Loans		**$**
2. Term Loans - Drawn		**$**
a. Weighted Average Maturity of Term Loans	_____	
3. Term Loans - Undrawn		**$**

COLLATERAL SECURING MARGIN LOANS		
a. Top 5 Equity Securities		
CUSIP #	**ISSUER**	**Market Value (000s)**
1.		**$**
2.		**$**
3.		**$**
4.		**$**
5.		**$**

b. Top 5 Fixed Income Securities (excluding U.S. Treasury, Government Agency & Government-Sponsored Enterprise Securities)

CUSIP	ISSUER	Market Value (000s)
1.		**$**
2.		**$**
3.		**$**
4.		**$**
5.		**$**

DEPOSITS AT CLEARING ORGANIZATIONS

	Amount Required (000s)	Amount Posted (000s)	Proprietary	Largest Single Intra-Month Call (000s)	Date
1. DTCC (total)	$	$	$	$	
a. NSCC	$	$	$	$	
b. FICC	$	$	$	$	
2. OCC	$	$	$	$	
3. CME	$	$	$	$	
4. ICE	$	$	$	$	
5. Other>10% of Total	$	$	$	$	

CASH AND SECURITIES RECEIVED AND DELIVERED ON DERIVATIVE TRANSACTIONS NOT CLEARED THROUGH A CCP

Cash and Securities Delivered In to Collateralize Receivables

Counterparty Name	Affiliate (Y/N)	Total Cash (000s)	Total Securities
1.		$	$
2.		$	$
3.		$	$
4.		$	$
5.		$	$

Cash and Securities Delivered Out to Collateralize Payables

Counterparty Name	Affiliate (Y/N)	Total Cash (000s)	Total Securities
1.		$	$
2.		$	$
3.		$	$
4.		$	$
5.		$	$

SUPPLEMENTAL SCHEDULE TO FOCUS REPORT
Supplemental Liquidity Schedule

GENERAL INSTRUCTIONS

The Supplemental Liquidity Schedule ("SLS") is intended to provide more detailed information about a member's liquidity profile than what is reflected on the FOCUS Report (Part II, Part IIA or Part II CSE, as appropriate). Unless otherwise permitted by FINRA in writing, the SLS is required to be filed by each carrying or clearing FINRA member with $25 million or more in total credits, as determined pursuant to the customer reserve formula computation as set forth in SEA Rule 15c3-3 Exhibit A, and by each FINRA member whose aggregate amount outstanding under repurchase agreements, securities loans contracts and bank loans is equal to or greater than $1 billion, as reported on the member's most recently filed FOCUS report.

The SLS must be filed within 22 business days after the end of each month. A member need not file the SLS for any period where the member does not meet the $25 million or $1 billion thresholds.

SPECIFIC INSTRUCTIONS

Note: For explanations of the types of securities to be included in the requested line items of the SLS, please refer to "Explanation of Terms" on pages 3 and 4 of these instructions.

Reverse Repurchase and Repurchase Agreements

Report the gross contract value of all reverse repurchase and repurchase agreements by collateral type, including all intercompany and third party agreements. Exclude intracompany agreements between desks within the same legal entity. Report collateral upgrade transactions based on the contract type for each leg of the transaction (i.e., report Master Repurchase Agreements ("MRA") contracts in the Reverse Repurchase and Repurchase Agreements section and Master Stock Loan Agreement ("MSLA") contracts in the Securities Borrowed and Securities Loaned section, as discussed further below).

Compute the "Weighted Average Maturity" on term agreements only (i.e., exclude open and overnights). For contracts that contain an option feature that permits the counterparty to choose not to renew with an agreed-upon notice period ("evergreen contracts"), use the earliest possible close date.

Report in "Other Collateral" the gross contract value of all reverse repurchase and repurchase agreements not otherwise reported in the previous product categories.

For "Total at Tri-Party Custodian or DTCC," report the gross contract value of all reverse repurchase and repurchase agreements where the collateral is held at a tri-party custodian or at Depository Trust & Clearing Corporation (DTCC), including DTCC's subsidiary Fixed Income Clearing Corporation (FICC).

For "Top 5 Counterparties: Reverse Repurchase and Repurchase Agreements," report the top 5 counterparties after netting (in accordance with ASC 210-20-45-1 and ASC 210-20-45-11). Where contracts have been novated to FICC, FICC should be reported as the counterparty. Where the counterparty contracted with the member through an agent (Agency Repo), report the name of the underlying principal as counterparty.

Securities Borrowed and Securities Loaned

Report the gross contract value of all securities borrowed and securities loaned agreements by collateral type, including all intercompany and third party agreements. Exclude intracompany agreements between desks within the same legal entity. Report collateral upgrade transactions based on the contract type for each leg of the transaction (i.e., report Master Repurchase Agreement contracts in the Reverse Repurchase and Repurchase Agreements section and Master Securities Lending Agreement contracts in the Securities Borrowed and Securities Loaned section).

Compute the "Weighted Average Maturity" on term agreements only (i.e., exclude open and overnight contracts).

Report in "Other Collateral" the gross contract value of all securities borrowed and securities loaned agreements not otherwise reported in the previous product categories, if applicable.

"Total Guaranteed by a CCP" shall include the gross contract value of all securities borrowed and securities loaned agreements guaranteed by a Central Clearing Counterparty.

"Top 5 Counterparties: Securities Borrowed and Securities Loaned" shall include the Top 5 Counterparties after netting (in accordance with ASC 210-20-45-1 and ASC 210-20-45-11). Where the counterparty contracted with the member through an agent bank (Agency Lending), report the name of the underlying principal as the counterparty.

Bank Loan and Other Credit Facilities

Report the dollar value of bank loan and other credit facilities (for example, subordinated loans, liens of credit, secured demand notes, etc.) by collateral type for secured lines, separating affiliated sources from unaffiliated sources.

For purposes of this SLS, a committed line of credit is one where the lender is contractually committed to lend to the member, provided the member has not violated any conditions or covenants in the terms of the contract.

Total Available Collateral (Free Box)

Report U.S. Treasury Securities (see "Explanation of Terms") in the member's possession or control that can be re-hypothecated, are otherwise unencumbered and are not required to be returned upon demand of the owner.

Margin Loans

Report margin loans, including non-purpose loans extended by the member. For purposes of this SLS, "Demand" loans are those that are callable for immediate repayment. "Term" loans are those that are not callable for immediate repayment and have stated maturity dates.

Collateral Securing Margin Loans

For "Top 5 Equity Securities," report the top five equity securities by total market value, collateralizing all margin loans.

For "Top 5 Fixed Income Securities," report the top five fixed income securities, excluding U.S. Treasury, Government Agency & Government-Sponsored Enterprise Securities, collateralizing all margin loans.

Deposits at Clearing Organizations

Report the total amount required to be on deposit, as well as the total amount of cash and securities on deposit, at clearing organizations at the report date. The amount may include the clearing deposit, adequate assurance deposits, additional liquidity deposits, guarantee fund deposits, etc. In addition, report in this section the largest single call intra-month by the clearing organization.

For "Other>10% Total," report the total clearing deposit at any one clearing organization that is greater than 10% of the total amounts required and on deposit at all clearing organizations, if applicable.

Cash and Securities Received and Delivered on Derivative Transactions Not Cleared Through a CCP

Report cash and securities used to collateralize marks to market on derivative transactions that are not cleared through a central clearing counterparty ("CCP"). For purposes of this SLS, "derivatives transactions" include non-regular way settlement transactions (including To Be Announced ("TBA") securities and delayed delivery and settlement transactions) as well as swap contracts.

For "Cash and Securities Delivered In to Collateralize Receivables," report the top five counterparties with gross derivative mark-to-market receivables, by counterparty name, and identify whether the derivative counterparty is an affiliate.

For "Cash and Securities Delivered Out to Collateralize Payables," report the top five counterparties with gross derivative mark-to-market payables, by counterparty name, and identify whether the derivative counterparty is an affiliate.

EXPLANATION OF TERMS

U.S. Treasury Securities

Direct obligations of the U.S. Treasury, including but not limited to, bills, notes, bonds, Treasury Inflation-Protected Securities (TIPS), U.S. Treasury Strips (IO) or (PO), and Treasury floating rate notes.

U.S. Government Agency & Government-Sponsored Enterprise Securities

Securities issued by a United States federal agency, or a United States Government-Sponsored Enterprise, including agency securities guaranteed as to principal or interest by the U. S. government (e.g., GNMA securities).

Equity Securities

Preferred and common stocks, warrants and ETFs issued by any domestic or foreign issuer.

Investment Grade Corporate Obligations

Investment grade debt securities issued by any corporation, whether domestic or foreign. Corporate obligations include but are not limited to non-convertible, convertible, floating rate debt securities and ETNs.

Other Collateral

All other securities not otherwise included in the other categories.

Exhibit 2b

February 21, 2018

Jennifer Piorko Mitchell
FINRA Office of the Corporate Secretary
1735 K Street, NW
Washington, DC 20006-1506

Thank you for entertaining commentary on the proposed amendment to FINRA Rule 4521 and the new proposed Supplementary Liquidity Schedule as outlined in Regulatory Notice 18-02. Funding and liquidity issues are of paramount importance to our firm and the financial services industry overall. We support measures that allow firms continued access to the secured funding markets. The following are some observation and concerns about your recently proposed regulatory changes in this area.

Comments on New SLS Reporting Thresholds and Requested Information to be included in the SLS

The threshold to identify firms that FINRA seeks to learn more about regarding their liquidity profiles, specifically firms that have greater than $1 billion of external funding, appears to be a reasonable breakpoint to identify larger firms with large gross funding exposures.

The other proposed threshold for SLS Reporting (and the proposed change to 4521 reporting) - greater than $25 million of customer credits in the reserve formula - has nothing at all to do with a firms funding or liquidity profile, nor does it identify firms that have abnormally high and potentially risky leverage in relation to their equity. For example, a firm with a very low leverage ratio, or almost no borrowing, could have total customer credits of more than $25 million if they have a very large RVP customer fail to receive versus a fail to deliver to a different DVP customer in the same security. Fails like this are frequent for institutional DVP/RVP firms, but have no impact on the firms funding or liquidity profile, nor do they greatly impact the 15c3-3 reserve requirement. To keep the focus of this rule on liquidity, we suggest dropping the $25 million customer credit threshold.

A more meaningful second threshold test, if necessary, could require either 1) firms with a liquidity ratio over some level to report or 2) firms that use Non-US Treasury or Non GSE collateral for secured borrowing that exceeds some amount, possibly $150 million, to report. Either of these tests would help identify firms that may need their liquidity profiles studied more thoroughly than would the currently proposed $25 million customer credit threshold. A threshold implemented based on the amount of borrowing against non-government collateral would dovetail nicely with the type of information that you are proposing to be reported in the Amendment to FINRA Rule 4521 - the loss of Non-UST or Non-GSE collateralized funding over certain thresholds.

For firms that meet SLS reporting thresholds, the additional data which is proposed to be reported seems to be reasonable except for disclosure of the names of the top 5 counterparties. I think it is appropriate for firms to list their top 5 counterparties by size, but with the names of the counterparties withheld. If FINRA needs to follow up with firms on a one-off basis by calling or emailing with specific questions about their counterparties, that is perfectly fine. FINRA staff does that now from time to time without issue. However, it is not appropriate for firms to be required to regularly report to FINRA who their counterparties are and to what degree they have borrowings from (or loans out to) such counterparties. This type of information would effectively let FINRA use this data to reverse engineer the funding profiles and linkages of the significant market participants. This type of detailed information, in the wrong hands, would be damaging to member firms. This is a privacy concern. Also, the currently unknown unintended consequences which will surely arise from disclosing the counterparty names could be very problematic. Would a firm intentionally pull back the amount of funding that they would otherwise provide to some counterparties to keep them off the top 5 list? Quite possibly. Such behavior would disadvantage access to funding for small to medium sized firms without benefiting the market or making it generally safer.

Comments on the Amendment to FINRA Rule 4521 – additional notification requirements

The primary reason for notification (loss of a sizable source of secured funding) is well intentioned. The proposed methodology for identifying this loss of a funding source while very specific, is overly complex and should be simplified.

The notification requirement focuses only on the loss of Non-GSE collateralized funding access, but subjects all SLS reporting firms to monitoring and measurement requirements to comply with potential reporting, even firms that have very small amounts of Non-GSE Assets or Non-GSE Collateralized funding.

The proposal specifies that a "loss of access to secured funding" is reportable, but does not specify if the "access" is "active" or not. If nothing is drawn and the counterparty notifies it will no longer fund going forward and it passes the rolling 35 day and 20% size test, does that still count as a reportable event?

Does a "freeze" on the amount drawn count as a loss of funding? If a counterparty doesn't let a firm add to positions as it does normally, but may let them resume additions after a quarter end or other event passes, is this reportable?

Many repo/reverse repo counterparties traffic in UST, GSE and Non-GSE Collateral. The proposed reporting is only for Non-UST/GSE Collateral. What if counterparties don't specify limits by collateral type? How does a firm know how much access they have lost to Non-GSE Funding?

Building a report or system to monitor a 35-day rolling maximum amount borrowed based on a certain collateral type by counterparty is onerous and burdensome. Also, as proposed, the trigger does not consider that SLS qualifying firms may borrow against extremely small amounts of Non-UST/GSE collateral. Since FINRA is only targeting Non UST/GSE collateral, a much simpler trigger could be defined. One such approach would be to report any Non-GSE or Non-UST funding access that is lost that

is more than the lesser of $XX million or YY% of Net Capital. Use a sliding scale to define sensible variables based on a range of a Firm's Net Capital at the most recently reported month end.

Regarding the 20% increase in haircut rates that are reportable on the top 5 funding counterparties: A 20% increase in a haircut rate can be very small. A move from 2.5% to 3% or from 5% to 6% is a 20% increase. Is this the type of move that FINRA is concerned with? Should small haircut changes like these be reportable? Wouldn't a fixed haircut percentage change in Non-UST/GSE collateral types be a better reportable event? For example, if the haircut rate on Non-GSE collateral goes up by more than 2.5% (from 3% to 6%) a reportable trigger may be reached.

Once again, thank you for providing the opportunity to comment. We believe that a properly functioning secured funding market for dealers is vital for the industry and support initiatives to strengthen the market for all participants. We disagree with the application of overly complex measurement tools which require significant programming time and expense when simple alternatives are available. We also have legitimate concerns about the unintended consequences that will follow the implementation of this proposal as it has currently been presented.

Best Regards,

Allen Riggs

CFO, Vining Sparks IBG, L.P.

sifma
Invested in America

March 8, 2018

Exclusively via email to pubcom@finra.org

Jennifer Piorko Mitchell
Office of the Corporate Secretary
FINRA
1735 K Street, NW
Washington, DC 20006-1506

Re: Comments on FINRA Regulatory Notice 18-02: Liquidity Reporting and Notification

Dear Ms. Mitchell:

The Securities Industry and Financial Markets Association ("SIFMA")[1] is submitting this letter in response to the Financial Industry Regulatory Authority's ("FINRA") proposed amendments to FINRA Rule 4521 Notifications, Questionnaires and Reports (the "Notification Requirements") and to the new Supplemental Liquidity Schedule (the "SLS"), as described in Regulatory Notice 18-02 (the "Notice"). SIFMA appreciates the opportunity to provide comments on the proposed amendment and the new schedule as further described in the Notice (the "Liquidity Proposal").

SIFMA acknowledges the critical importance of liquidity to the U.S. capital markets, as SIFMA firms make possible the foundation for the deepest and most liquid global capital markets in the world. SIFMA member firms agree with the need for firms to have in place systems and processes to monitor their liquidity and their sources of funding. While SIFMA supports the goal that the Liquidity Proposal is intended to achieve, we have concerns with: (1) the regulatory process that is being used to address that goal, and (2) substantive flaws in the Liquidity Proposal, which flaws we believe result in substantial part from the deficiencies in that process.

Our comment letter is structured, first, respectfully to highlight our concerns with FINRA's regulatory process. We then follow with a thorough review of the Liquidity Proposal itself.

Section I of our comment letter explains our concerns with FINRA's regulatory process. Section II of the letter provides an overview of our substantive comments on the Liquidity

[1] SIFMA is the voice of the U.S. securities industry. We represent the broker-dealers, banks and asset managers whose nearly 1 million employees provide access to the capital markets, raising over $2.5 trillion for businesses and municipalities in the U.S., serving clients with over $18.5 trillion in assets and managing more than $67 trillion in assets for individual and institutional clients including mutual funds and retirement plans. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association (GFMA). For more information, visit http://www.sifma.org.

Proposal. Section III of the letter suggests that the goals of the Liquidity Proposal would be better served by allowing firms the option to use liquidity models that are firm-specific and holistic. Sections IV - VII of the letter go through our substantive comments on the Liquidity Proposal in more detail. Section VIII of the letter raises concerns as to the confidentiality of the information provided to FINRA. Section IX sets out material questions as to the SLS including as to whether it is intended to be GAAP compliant and as to its "governance." Appendix A provides some questions as to the SLS.

I. The FINRA Rulemaking Process

Before commenting on the specifics of the Notice, we think it useful to review the history of the process by which the Notice was issued. FINRA's public attention to liquidity largely began with the issue of Notice 10-57. That notice set out a list of potentially relevant practices that FINRA stated that it had observed in a review of 15 mid-sized and large broker-dealers. In March 2014, FINRA initiated a further review of the policies and practices of liquidity management of 43 firms. Based upon this "best practice survey," Notice 15-33[2] provided "guidance" on liquidity risk management practices and described FINRA's review of policies and practices at these 43 firms. FINRA then included these liquidity and firm funding requirements in its 2016 Exam Priorities based upon its expectations described in Notice 15-33. FINRA expanded its expectations of firms' liquidity risk management in its 2017 Exam Priorities, reviewing firm funding and liquidity plans, contingency plans, stress testing, and other risk management mechanisms, again citing Notice 15-33 in the absence of rule-based authority or even of a survey that had been developed *with* member input.[3]

In summary, FINRA has subjected firms to exam requirements and has published the Liquidity Proposal based upon a March 2014 survey that was never put out for public comment or subject to cost-benefit review. While liquidity is an important aspect of financial soundness, SIFMA believes that the practice of FINRA establishing regulatory expectations in the absence of any of the processes that would accompany formal rulemaking raises material procedural issues and that these deficiencies of regulatory procedure are likely to result in deficiencies of substance.

FINRA is obviously aware that there is no current SEC liquidity regulation (or FINRA liquidity requirement). However, the SEC staff has indicated to SIFMA that it expects to propose and to adopt a substantive rule regarding liquidity. In adopting any such liquidity rule, the SEC will be obligated to follow the Administrative Procedure Act (the "APA") and perform a cost benefit analysis ("CBA"). Whatever the requirements of the initial SEC proposal on liquidity may be, there is little doubt that any such proposal would be reformulated to some extent as the SEC goes through the procedures required by the APA and evaluates its proposal pursuant to the CBA. While SIFMA understands that FINRA is a member organization and can amend its notification requirements, we do not believe it is appropriate for FINRA to require notification where there is no underlying statutory SEC requirement and, in essence, avoid Congressional requirements in an area so critical to the capital markets.

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2 Regulatory Notice 15-33 Liquidity Risk: Guidance on Liquidity Risk Management Practices (Sept. 2015).

3 http://www.finra.org/sites/default/files/2017-regulatory-and-examination-priorities-letter.pdf.

In short, FINRA should not adopt any notice requirement with regard to liquidity until the SEC adopts its own liquidity requirements (at which point any FINRA notice requirement should be made consistent). In this regard, we note that there is no urgency to the adoption of the Liquidity Proposal because, as a practical matter, FINRA already supervises firms' liquidity procedures. Therefore, FINRA would be better served by adopting any liquidity requirements deliberately, and in conjunction with the SEC, rather than proceeding with a new rulemaking based on information that has not been broadly or publicly vetted.

In sum, while we acknowledge the importance of broker-dealers' monitoring their liquidity and funding, that does not diminish the value of following appropriate regulatory process; indeed, good process is far more likely to result in good substance. Accordingly, we respectfully suggest that FINRA address the industry concerns regarding the regulatory process before proceeding further with the Liquidity Proposal. However, given our concern that FINRA may determine not to address this important procedural objection, the remainder of our comments represent our review of the Liquidity Proposal and our suggestions as to very substantial amendments and recalibration.

II. Overview of Principal Substantive Comments

Before providing a more detailed review, we are providing an overview of our comments and suggestions. They are, in broad strokes, as follows: (1) FINRA should permit the use of models and, in general, take a more holistic and aggregated approach to monitoring liquidity, (2) the notification triggers should be substantially revised, (3) FINRA should ensure the confidentiality of information contained in notifications, and (4) the SLS requires substantial clarification around both the content and process.

Holistic Approach

SIFMA acknowledges that it is important to address the liquidity and funding risks to which firms are exposed and that there is value in FINRA being made aware should a firm be vulnerable to a liquidity stress event. However, we believe that FINRA's objective could be better served by taking a conceptually very different approach than that taken in the Liquidity Proposal.

There are two major conceptual issues that underlie many of our comments. First, the adoption of a one-size-fits-all approach to liquidity is inconsistent with firms' very diverse business activities and sources of funding. Second, the Liquidity Proposal takes a very siloed approach to the monitoring of liquidity, treating the various forms of funding through repurchase agreements, securities lending and bank loans as if they were wholly distinct, implicitly assuming that a change in the level of funding that a firm receives under a particular type of contract would be an indication of stress. In fact, each of these funding contracts is fungible with the others. Firms manage liquidity and funding in a manner that is comprehensive and aggregated across funding contracts and counterparties.

Accordingly, we begin by proposing that FINRA allow firms the option to base their reporting and notifications upon firm-specific models that are developed specifically to model stress to funding sources in the aggregate, as opposed to the untailored and siloed approach taken by FINRA in the Liquidity Proposal. For firms that are part of financial organizations that are

subject to Regulation YY of the Board of Governors of the Federal Reserve, we recommend that they be permitted to use a model that is consistent with the requirements of Regulation YY, albeit with all the reporting done at the broker-dealer level, not the holding company level. Firms that are not subject to Regulation YY would also have the discretion to use their firm-specific models, albeit subject to FINRA review of those models.

Our letter then turns from models to a more specific discussion of the FINRA's Liquidity Proposal as it is set forth in the Notice. SIFMA proposes very substantial amendment and re-calibration of both the Notification Requirements and the SLS. We note that many of the specific, substantive comments on the Liquidity Proposal are consistent with our proposal that use of firm-specific models should be permitted. That is, any approach to monitoring liquidity should take a "holistic" view of a firm's financing sources, rather than, for example, being focused on the particular type of agreement under which a firm receives financing. This "Holistic Approach" should be conceptually applied to all firms. Under this Holistic Approach, FINRA would allow firms either (1) to use a firm-specific model, or (2) for firms not using a model, FINRA would revise the siloed approach it took in the Liquidity Notice so that reporting and trigger requirements were based on aggregate funding levels and not on contract-specific or counterparty specific funding amounts.

Amendments Required to Notification Requirements

The Notification Requirements in the Liquidity Proposal are intended to "...enable FINRA to be promptly alerted to a firm whose ability to fund its operations has been reduced significantly within a short period of time." That is, the Notification Requirements should establish triggers that are indicative of an oncoming liquidity risk event. SIFMA believes that the Notification Requirements do not work because they do not account for the fact that firms manage and optimize their liquidity on an aggregate basis. Accordingly, monitoring specific contract types and counterparties in isolation does not capture how firms manage and monitor their liquidity, and, more importantly, it does not capture a firm's actual liquidity position. Therefore, any notifications should be based upon a member firm's aggregate funding. Further, transactions on which member firms do not rely to fund their businesses (*i.e.*, free credit balances and margin balances), and ordinary business events, such as changes in counterparties, ought not be the basis of any Notification Requirements.

In later sections of this comment letter, we expand on the following key recommendations:

- *Tracking Liquidity on an Aggregate Basis.* The Liquidity Proposal requires that a firm report any loss of liquidity, or reduction in funding, based on the contract type (*e.g.*, repo, securities loan or bank loan) under which it had originally obtained the liquidity. However, a change in funding by contract type in isolation is simply not meaningful. As a practical matter, liquidity generated from one contract type, such as a repurchase agreement, can be replaced with funding from another contract type, such as a securities lending agreement or a bank loan. As such, Notification Requirements should be based on a member firm's aggregate funding, not funding by contract type.

- *One-Day Spikes.* SIFMA is of the view that a Notification Requirement should not be based upon a one day "spike" or event. The amount of a member firm's sources of funding is inherently subject to business-as-usual volatility; for example, as part of a member firm's liability management strategy, a firm may undertake actions to replace funding from one source to another on a particular day, which could result in a trigger of one of the Notification Requirements, as prescribed, but would not be indicative of a risk event. Therefore, a notification to FINRA should be required only if a trigger has been breached for three consecutive days in order to mitigate the risk of a meaningless notice.

- *Studies Should Be Conducted Before a Trigger Level Is Set.* Notification triggers should be set at a level that indicates a genuine problem. Based on our preliminary reviews, a 20% decrease in a firm's aggregate funding profile does not indicate a funding risk event. That said, we do not believe that there is sufficient basis for FINRA to establish a set Notification Requirement level at this time. Accordingly, we would recommend that FINRA establish a two-year quantitative study period during which it would observe changes in funding levels across various firms before setting any formal trigger level requirement.

- *Free Credit Balances and Customer Margin Balances Should Not Be Used as Notification Triggers.* In the ordinary course of business, the amount of free credit balances is extremely volatile because the amounts change very dramatically with ordinary course business events and weekly operational processes. To take two simple examples, periodic payments of interest on bonds and weekly sweeps of customer cash to money market funds or certificates of deposit would result in numerous false positive reports to FINRA, almost without regard to how high the trigger levels were set. As a practical matter, given the extreme volatility of free credit balances, member firms do not rely on these balances as a source of funding. On a related note, if the Notification Requirements are aimed at monitoring sources of funding, we do not believe that it is useful to monitor changes in customer assets (*i.e.*, margin debit balances).

- *Changes in Counterparties and Funding Agreements Should Not Be Used as Notification Triggers.* Firms may change the counterparties from which, or the agreements under which, they receive funding for any number of reasons, including a member firm's decision under normal course to change its funding composition and mix due to underlying business needs, changes in the firm's liability management strategy, lower cost of funding from other lending sources, etc. So long as a firm has adequate funding on an aggregate basis, there is no value in triggering notices on the basis of changes in a member firm's counterparties or use of particular funding agreements.

Confidentiality of the SLS and of the Notification Requirements

FINRA's Liquidity Proposal in its current form requires the regular disclosure to FINRA of a significant amount of sensitive information. SIFMA believes that it is critical that information communicated to FINRA by member firms be treated as confidential and sensitive so as to minimize the risk of public dissemination that could result in material damage to member firms. In particular, SIFMA members are extremely concerned that in the event of a liquidity notification to FINRA, were the making of the notification to become public, the notice itself could trigger a liquidity drain at the firm or could even lead to broader systemic liquidity events, even if the original notice were based on ordinary course business events having no economic significance.

Operation of the SLS Must Be More Fully Considered

We do not believe that FINRA has given sufficient consideration to many of the operational and logistical requirements of the SLS. For example, has FINRA considered that it is asking for numbers that are not generally consistent with a firm's GAAP accounts and that it will be operationally difficult to reconcile these numbers readily to GAAP numbers? Likewise, FINRA seems not to have considered who at a firm would be responsible for filing the SLS and any notifications.

As to the SLS itself, many of the requirements are not clear, and certain of the information is not knowable (for example, the dollar loss of an uncommitted line). Other information requested by FINRA does not enhance understanding of when a firm may be experiencing a liquidity stress or funding event (the top five stocks held in all margin accounts). We are also concerned with the requirement to disclose customer information, particularly as it seems to serve no value for the purpose of the SLS.

III. Alternative Proposal: Holistic Model Approach

The firms that would be subject to the requirements vary widely in the types of business that they conduct and in the manner in which they manage sources and uses of funding. Thus, we are first proposing that as an alternative to the standardized requirements set forth by the Liquidity Proposal, FINRA allows member firms the option of complying with any new liquidity requirement through the use of a Holistic Model Approach, which leverages existing liquidity and funding risk management processes that have been established by member firms.

A. Replacement of Factors-Based Notification Requirements with Firm-Specific Liquidity Risk Measure

SIFMA recognizes that FINRA's proposed Notification Requirements are intended to "...enable FINRA to be promptly alerted by a firm whose ability to fund its operations has been reduced significantly within a short period of time." To this end, the Trigger Requirements should address the specific types of liquidity risks to which a particular member firm may be exposed. FINRA's primary objective should be to determine the member firm's holistic liquidity risk position and its ability to pre-fund for all potential cash and collateral needs during a liquidity crisis. Thus, in lieu of monitoring specific risk events in isolation, FINRA should allow member firms to elect the use of a holistic liquidity risk measure that quantifies the member firm's funding sources relative to its aggregate liquidity requirement during a stress period. Firms using a Holistic

Model Approach would consider financing in aggregate, not on a contract-specific or counterparty-specific basis.

Member firms that are subsidiaries of U.S. bank holding companies ("BHCs") or U.S. intermediate holding companies ("IHCs") subject to Regulation YY have already been required to establish liquidity risk management processes. These firms would base their Holistic Model Approach on internal liquidity stress testing processes developed in accordance with Regulation YY requirements. Member firms would be able to develop Holistic Model Approaches based on processes either: (1) similar to the Regulation YY approach or (2) that are otherwise tailored to their specific activities, businesses and funding sources, so long as the internal processes that they establish meets the objectives of FINRA's Notification Requirements.

The following describes a Holistic Model Approach that is based upon Regulation YY, but where the relevant calculation *would be performed at the broker-dealer level*:

- **"Liquidity Buffer"** is defined as the amount available as unencumbered, highly liquid securities and cash instruments held at the member firm; and

- **"Liquidity Risk Requirement"** is defined as the member firm's net stress cash-flow need over a 30-day planning horizon of a liquidity stress test. This requirement captures potential contractual and contingent cash and collateral outflows during a liquidity stress scenario.

Under the proposed framework, a member firm would divide the Liquidity Buffer by Liquidity Risk Requirements each day. If the member firm maintains a ratio of greater than or equal to 100%, then the member firm is sufficiently liquid and has pre-funded for its estimated potential cash needs, considering its various sources of funding. If the member becomes aware that its ratio falls below a level of 100% for three consecutive days, it would be required to notify FINRA in writing within two business days that it may not currently have sufficient liquidity to meet its liquidity requirements during a stress period.

Although the Holistic Model Approach described above has been built on the requirements set forth by Regulation YY, member firms that are not subject to Regulation YY also ordinarily employ internal liquidity stress testing models that are specifically tailored to their own businesses. All firms with appropriate business-specific models should be permitted to use such models, assuming that they are commercially reasonable, in place of a one-size-fits-all approach. These models would be subject to oversight by FINRA to ensure that they provide adequate monitoring of liquidity risk consistent with FINRA's goals.

B. Replacement of SLS with Firm-Specific Liquidity Reporting

Under the Holistic Approach, firms would work with FINRA to develop reports that are consistent with the manner in which they manage liquidity in their businesses. Many firms already provide FINRA with information that is based upon their existing models and we believe that this information that is already provided to FINRA will, in many cases, be sufficient for FINRA and, in fact, superior to the standardized information required by the SLS.

IV. True Funding Metrics

A. Customer Margin Balances and Free Credit Balances

SIFMA believes that it would be of little utility to include changes in either customer margin balances or customer free credit balances as a basis for FINRA notification requirements as to liquidity, and that their inclusion would result in numerous false positive reports. Such balances are highly volatile based on ordinary course events, such as weekly operational processes, corporate actions, regularly scheduled bond interest and maturity payments into customer accounts, and sweeps of cash from customer accounts into money market funds or certificates of deposit. Further, our limited back-testing analysis determined that the triggers for customer margin balances and free credits impacts firms with wholly different business models (*i.e.*, institutional vs. retail), different automation levels (*i.e.*, daily vs weekly reserve account calculations) and different sizes (*i.e.*, large vs regional) but, in all cases, for reasons that were wholly unrelated to liquidity or funding problems. Although firms can use free credit balances in funding margin loans, given the volatility of such balances, firms do not rely upon customer free credit balances as a funding source, and changes in the amounts of such balances do not provide a meaningful view into firms' liquidity.

One factor that makes free credit balances so volatile is that many firms routinely sweep these balances into money market funds or certificates of deposit, rather than keeping them in a reserve bank account. This means that for many firms, these balances tend to be kept small, which makes them appear very volatile as money flows in and out of customer accounts to and from money market funds or certificates of deposit.

In light of the above, we do not believe that the inclusion of a notice requirement on customer free credit balances can be addressed by raising the trigger level. While SIFMA has not conducted a full quantitative impact survey of its member firms, anecdotally we understand that the 5% notification threshold would have been hit by surveyed wholesale and retail firms dozens of times (or more) within the past year because of ordinary course customer cash management, trading activities or market events without signaling any material liquidity concerns at broker-dealers. Two regional retail firms performed back-testing at the 5% notification trigger and found that, for each of them, it would have triggered notifications more than 100 times per year. If the trigger were raised to 20%, these firms would have triggered notifications approximately 20 times in a year for one firm, and 50 times for the other. Two large banking firms also performed back-testing at the 5% notification trigger and found that, for each of them, it would have triggered notifications; in the case of one firm very few notifications at the 5% level and, in the case of the other, more than 30 in a single year. Notifications for these firms would have been materially reduced, but not eliminated, at the 20% trigger level.

As is implicit in the findings of this review, the frequent "triggers" would not have been the result of any liquidity or funding problems at the firms but, rather, because notification requirements based on customer activity will inherently result in numerous notices that are not indicative of any adverse change liquidity or funding. Below we outline some of the reasons why customer free credit balances are inherently volatile:

(a) At many firms, customer cash routinely accumulates during the week and then is swept out on a single day into money market funds as part of ordinary business processing. For retail firms, this routine weekly processing by itself would often trigger a weekly notice to FINRA of a (non-existent) liquidity issue.

(b) The DTC settlement process for maturity and interest payments can double normal cash balances on particular days of the month, such as the first or the fifteenth. These payments serve to inflate customer free credit balances for a short period before they are withdrawn or re-invested. For example, at a retail firm, the July 1 interest payments may result in a doubling of free credit balances and then a subsequent halving as the money is swept out into a money market account on the next weekly processing date.

(c) Similar to the above, corporate events such as the paydown of the principal amount of a bond, or a corporate acquisition, may result in large cash payments to customers' accounts that are shortly withdrawn or reinvested.

(d) A private fund that is liquidating may sell off its assets and accumulate cash before making a payout to its investors.

(e) Customers may shift their balances from "cash" at a broker-dealer to a sweep account held through the same broker-dealer. This would typically be because the customer is seeking a higher interest rate or it could be because a firm routinely sweeps money into money market funds on a particular date or day of the week.

(f) Customers may shift their balances from a broker-dealer to an affiliate of the broker-dealer, such as a bank. This, again, would indicate that the customer is seeking a higher interest rate and does not have any concerns with the financial organization.

(g) A customer may bring in significant cash in advance of an acquisition and then withdraw the cash or employ that cash through the broker-dealer.

(h) Prior to year-end, trustees frequently transfer money from estate accounts to beneficiaries' accounts as part of an annual distribution directive. This creates a short-term free credit surge in the beneficiaries' accounts until the money is swept to a money market fund.

(i) A customer may deliver cash to buy a security in an RVP/DVP transaction. If the settlement fails, the firm's free credit balances will surge for a day.

Unless firms were able to account for (which is to say "subtract out") the effects of these predictable short-term events that cause increases in cash balances and subsequent reductions, firms (particularly more retail-oriented firms) would be required to make constant routine notices of "triggers" that are not indicative of an adverse liquidity event. While it would be possible in theory to subtract out events of the type described above, it would be very difficult to do that in an automated fashion. Trying to account for these events by hand would be expensive and time-consuming: to do it on a daily basis, as would be required by the Liquidity Proposal, with a two-day notice requirement to FINRA, if a trigger were hit, would be impossible.

Likewise, we do not believe that it would be meaningful for firms to report swings in their customer margin balances. As a starting matter, these balances represent a use of funds, not a source of funding. Secondly, these balances swing for a wide variety of reasons, having nothing to do with the broker-dealer itself. For example, customers may shift the legal entity at which they hold balances (for example, from a U.S. broker-dealer to offshore or vice versa) or they may change the form in which they finance themselves (from margin lending to swap or vice versa).[4]

As to both free credit balances and customer margin balances, there does not appear to be a compelling reason to include a hard dollar $5 billion notification requirement. As a practical matter, a hard dollar threshold would only be relevant for the largest broker-dealers. These firms are generally subject to comprehensive consolidated liquidity risk management regulatory programs. The $5 billion threshold appears arbitrary and ungrounded in any existing liquidity risk management framework. While the SEC's capital rules require notifications when an "alternative net capital rule" broker-dealer's "Tentative Net Capital" declines below $5 billion,[5] there is no analogue between the calibration of a broker-dealer capital minimum capital standard and day-to-day fluctuations in customer margin balances or free credit balances.

For smaller firms, a 5% notification threshold would result in a significant number of false positive reporting events as noted previously.

B. Identification of Counterparties

Given the numerous factors that impact the funding decisions made by both member firms and their counterparties, SIFMA believes that there is no reason to name funding counterparties or to use a change in funding counterparties as a basis for any notification requirements. For example, a member firm may choose to terminate a funding agreement with a counterparty, or vice versa, due to business-as-usual events that do not indicate a liquidity stress. A member firm may replace this funding source with new funding from a different counterparty with no change in net funding. Thus, using a counterparty change as a funding notification trigger is overly simplistic and will result in false positives.

V. Funding Contract Types and Contractual Issues

A. Siloing

The Notification Requirements are intended to enable FINRA to monitor a situation in which a member firm is experiencing difficulty in funding its operations. In order to effectively monitor a member firm's funding, FINRA should focus on monitoring changes across a member firm's funding in the aggregate. However, the Notice Requirements in the Liquidity Proposal are based on the assumption that broker-dealers have separate and distinct funding sources based upon the type of contract used to document that funding: a repurchase agreement, a securities lending agreement or a bank loan. Segmenting liquidity in this way, by contract type, does not have any economic basis and will increase notifications that are essentially false positives. Any trigger

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[4] While we believe that this trigger should be eliminated entirely, if it is retained, the trigger percentage should be raised very substantially.

[5] *See* Rule 15c3-1(a)(7)(ii).

notice requirement should be based on a firm's aggregate funding amount, not its contract-type funding amounts.

To provide an example, the Liquidity Proposal, as currently drafted, would require a firm to: notify FINRA if it either suffers (1) a 20% decrease in funding via any of repurchase agreement, securities lending or lines of credit extended by banks or (2) a loss of any one of its type five counterparties in either repurchase or securities lending agreements. This segmentation of a firm's funding profile by contract type and counterparty runs directly counter to the way in which firms view liquidity (and the way that FINRA should view liquidity): which is in the aggregate.

Suppose, for example, that a firm receives one third of its funding from each of these types of contracts. In that case, a 20% reduction in funding from one type of contract would trigger a notice to FINRA even though (i) all else being equal, the firm had lost less than 7% of its funding and (ii) the firm might very well have increased funding from other sources, so that its funding was net positive. This might seem an extreme case but, in fact, it is an understatement of the issue. That is, a firm is likely to have the largest percentage swings (whether positive or negative) in the smallest funding sources. So if a firm derives only 10% of its funding from one of the three types of contracts, a 20% "loss" of funding in that contract would represent only 2% of the firm's funding and it is very likely that the firm would replace that with other types of funding, if it needed to do so, from its primary funding agreement types.

The same type of difficulty arises with funding counterparties. The less that a firm makes use of a particular type of funding contract (whether securities lending, repurchase agreement or banking lending), the fewer counterparties using that type of agreement it will have (in fact, it may not even have five agreements of that type). By way of example, for firms that do not fund heavily through securities lending, it would not be unusual to have less than five funding counterparties that they use in that type of contract. Thus, the loss of a single such counterparty would require notice to FINRA, even if the loss were inconsequential in amount and even if the counterparty were immediately replaced. (As previously discussed, SIFMA is of the view that there should not be any triggers based on changes in counterparty.)

The multiplication of trigger events that results from FINRA segmenting liquidity by type of financing contract (or counterparty) results in "hair triggers" and will result in needless false positives. This problem could be alleviated by simply aggregating all of the different types of financing contracts, by requiring a trigger based upon events that have a meaningful effect in the aggregate, and by setting the trigger at a more substantial level, perhaps 25%.

We note that FINRA itself seems to acknowledge that it is the aggregate number that is meaningful (and not the contract-type number) since a firm would be subject to the rule if the aggregate of its financing under the different types of agreements exceeds $1 billion; *i.e.*, FINRA does not measure financing on a type of contract basis.

B. Financing through Swaps or Security-Based Swaps

In addition to the financing agreements identified by FINRA in the Notice, firms also use total return swaps as a source of financing. (For example, a firm may go synthetically long an asset through a total return swap, rather than purchase the asset and pledge it as collateral in respect

of a "cash market" financing agreement.) Accordingly, assuming that FINRA would rethink its triggers so as to view liquidity in the aggregate, rather than as contract-type specific, FINRA should also take account of the fact that firms may use swaps fairly interchangeably with other types of agreements to obtain financing.

SIFMA recommends that FINRA take account of total return swaps because any liquidity requirements should be based on a holistic view of a firm's liquidity position. Simply adding "swaps" as a new type of segmented financing category that has its own unique hair triggers would materially exacerbate the problems identified in the prior section of this letter.

VI. Material Issues with the Definitions in the Liquidity Proposal

The Liquidity Proposal uses various terms that are not defined and the meaning of which is not clear. In the table below, we have identified key undefined terms in the Liquidity Proposal and included our recommended definitions, to the extent that FINRA decides to incorporate these terms in the final rule.

Key Term	**SIFMA Recommendation**	**Explanation**
"Loss of access"	"Loss of access" to secured funding should be solely limited to instances in which the counterparty refuses to roll its outstanding contract at maturity with the respective member firm, citing specific credit concerns, and the member firm is not able to replace the loss of funding with another funding source. We note that a lender may choose not to roll secured funding trades due to its own internal liquidity needs. If the firm and the counterparty each independently choose not to roll the funding, this should not be considered a "loss of access."	SIFMA's recommended definition is designed to capture situations where a broker-dealer has truly "lost" funding that it needs to support its operations, as opposed to normal course rebalancing of funding relationships.
"Initiates termination"; "reduces access"; "initiate the option not to renew"	Consistent with the definition of "loss of access," these specific notification requirements should be limited to situations where a member firm becomes aware that a counterparty is generally willing to provide credit to other broker-dealers on the relevant type of collateral at competitive terms but will not provide credit to the	These terms are probably far more ambiguous than FINRA intends. For example, what does it mean that a counterparty "initiates the option not to renew" where it has no obligation to do so and the FINRA member may not, in any case, be seeking renewal.

Key Term	SIFMA Recommendation	Explanation
	relevant firm, and the firm is not able to replace the loss of funding with another funding source.	
"Reduction in an un-committed line"	SIFMA does not believe that there is any way to "quantify" the size or loss of any "uncommitted line"; thus, it is impractical to base any notification requirement on a metric that cannot be measured.	It is SIFMA's understanding that the credit departments of various lender counterparties would periodically determine how much of a credit line that a counterparty might extend to any particular broker-dealer. However, the counterparty would not generally inform the broker-dealer of the size of that credit line at any particular time, nor would it inform the broker-dealer of any changes to the credit line. Therefore, if a broker-dealer were to seek funding from the provider of uncommitted credit, and that funding were to be either denied or limited to a specified amount, the broker-dealer would have no means of determining the quantity of credit as to which it had supposedly "lost access."
"Material adverse change"	SIFMA recommends that this Notification Requirement only apply to material funding contracts that contain MAC clauses, and be limited to instances in which a MAC trigger breach occurs and is exercised.	Subject to the size of the member firm, broker-dealers may have a multitude amount of contracts that include trigger events that, if breached, would not represent a material funding risk event to that specific member firm.
"48 hours"	SIFMA assumes that this should be interpreted to mean within two business days.	The Notice requires the giving of notice of certain events within "48 hours" of a firm becoming aware of the relevant trigger.

VII. Use of Rolling Averages

A number of the FINRA triggers are based on numbers that change daily, in the case of free credit balances, or a thirty-five day "rolling average." This creates two types of problems. First, some measurements, for example, free credit balances, will be volatile because, for example,

one day may be very high because bond interest payments are made and another day might be very low because the firm makes a weekly sweep to money market funds.[6]

The use of the thirty-five rolling day average will unduly complicate tracking. Firms will not only need to track each day's funding; they will need to measure that funding against a base amount that changes every day.

In order to simplify the calculations required by any ultimate notice requirement, firms should be able to calculate their funding against a base level that is fixed for the month as measured by their funding on a particular day in the month.

VIII. Requirement to Ensure Confidentiality

In light of the likelihood that the Liquidity Proposal will require over-reporting of liquidity events by firms, SIFMA urges that, at least initially, any notice that firms are required to give to FINRA be oral only. Further, it is critical that FINRA state that any notification is not intended to trigger other forms of notification, such as an 8-K filing. Lastly, should there be any related notification requirement to other regulatory bodies, it is imperative the information be provided under strict controls. Any dissemination of a member firm's trigger events beyond FINRA could result in meaningful harm to the firms and potentially could result in a broader destabilizing event across the financial sector.

SIFMA is extremely concerned that any notification that signals that a firm is or may be experiencing liquidity stress, even if the triggering event is non-substantive, could very well result in a true liquidity risk event. For instance, if a member firm's funding counterparty were to learn that a member firm had filed a notification, then the counterparty could react negatively, withdrawing existing funding from the member firm, creating a real liquidity event. An inaccurate misinterpretation of a member firm's liquidity and funding position could quickly lead to real liquidity deterioration or even worse, lead to a systemic liquidity crisis.

These concerns are exacerbated by the short notice period requirement between the time in which the member becomes aware of the specific event occurring, and required notification to FINRA. Thus, in the event that FINRA chooses to adopt a finalized version of the Liquidity Proposal, SIFMA believes it is imperative that FINRA maintain strict control over the information. Otherwise, FINRA will be not be merely overseeing risk; it will be creating risk.

IX. Supplemental Liquidity Schedule

A. Purpose of the SLS

The specific objective that FINRA wants to achieve with the SLS is not clear. Is the SLS intended to be a traditional accounting report, similar to the FOCUS report, but for liquidity? Or is the purpose of the report to develop a new type of FINRA liquidity risk report?

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[6] Retail firms commented that reconciling free credit movements daily would present a massive operational challenge.

We observe that if the purpose is to have the amounts reported in the traditional standard FOCUS approach, the numbers in the SLS will not agree to the amounts reported on the FOCUS balance sheet due to, among other reasons:

- the instructions to SLS indicate that collateral upgrade transactions (*i.e.*, securities for securities) should be reported. However, these amounts are off-balance sheet transactions and, therefore, not included in the FOCUS balance sheet amounts, and

- the FOCUS balance sheet includes netting in accordance with U.S. GAAP, so the instructions for reporting reverse repos and repos in SLS as gross balances will create reconciliation issues.

SIFMA believes that FINRA would be best served by an SLS whose purpose is a new type of liquidity risk report, focused on true funding triggers, and where the information requested is not under U.S. GAAP but is specifically defined by regulation. Once the purpose of the report is fully clarified, that clarification will also raise significant governance questions.

B. Governance

SIFMA is concerned that FINRA has not sufficiently clarified the governance structure it is proposing as to the Liquidity Proposal. SIFMA is unable to determine specifically who, if anyone, would be required to attest to the information in the SLS and/or the Liquidity Notifications (*i.e.*, would it be the FINOP, Chief Compliance Officer, Treasurer or some other person?). We are also unable to ascertain if liability will attach to any individual(s) attesting to the accuracy of the SLS Reports and providing the Notifications. Will there be liability for an individual if a Notification is not provided? Will there be liability for an individual who attests to the SLS and then finds a clerical error? Or will the firm be the responsible for any error?

SIFMA recommends that firms that should have latitude to determine the reporting individual within the firm. In this regard, SIFMA observes that the procedures firms would be required to institute a Liquidity Proposal whose purpose is a new liquidity risk report, as opposed to one under GAAP, would not ordinarily be carried out by a firm's Accounting Department or by a firm's Financial and Operational Professional.

C. SLS Questions/Clarifications

(a) Reporting Dates

Once the purpose of the SLS is clarified, SIFMA requests that FINRA clarify the reporting date for the SLS. We believe that all data should be as of month-end.

(b) Summary of Appendix A

SIFMA has provided detailed questions regarding the definitions and clarifications questions regarding the form in Appendix A. The industry will gladly meet with FINRA and discuss those more detailed questions. The major issues addressed in our review are:

1. Inappropriate Information. Counterparty and customer information is generally confidential, and we believe it is inappropriate to report it on forms that may be more broadly circulated.

2. Unhelpful Information. The SLS requires reporting many items (*i.e.,* CUSIPs in a margin account) that SIFMA does not believe provide any insight into a firm's liquidity.

3. Unclear Goals. The SLS requires reporting certain items in a way where the goal is not clear (*i.e.*, asking for both the amount required to be posted and the amount actually posted for deposits at clearing organizations).

4. Information that Is Not Currently Tracked. The SLS creates new operational issues by asking for information that is not ordinarily tracked by all firms, such as the highest day-to-day margin changes at clearing corporations.

* * * * * *

Thank you for this opportunity to provide you with the industry's concerns regarding the new liquidity notification rules. SIFMA would be pleased to discuss our views with FINRA or provide any additional information needed to address our comments. Please contact me at (212) 313-1331 if you have questions concerning our letter.

Regards,

Mary Kay Scucci, PhD, CPA
Managing Director
SIFMA

cc:
Robert Cook, President and CEO, FINRA
William Wollman, EVP Risk Oversight & Operational Regulation, FINRA
Kris Dailey, Vice President, Risk Oversight & Operational Regulation, FINRA
Robert Colby, General Counsel, Office of General Counsel, FINRA
Adam H. Arkel, Associate General Counsel, Office of General Counsel, FINRA
Susan Schroeder, Executive Vice President and Head of Enforcement, FINRA

Brett Redfearn, Director, Trading and Markets, SEC
Michael Macchiaroli, Associate Director, Trading and Markets, SEC
Tom McGowan, Associate Director, Trading and Markets, SEC
Kevin Goodman, National Associate Director of the FINRA and Securities Industry Oversight Examination Program, SEC

Steven Lofchie, Partner, Cadwalader, Wickersham & Taft LLP

APPENDIX A

Review of the Supplementary Liquidity Schedule

(a) Information as to Reverse Repurchase and Repurchase Agreements. SIFMA does not believe that information about individual contracts is meaningful for the purposes of assessing firms' liquidity. Likewise, information as to changes in types of collateral provided is not meaningful.

(b) Repo and Reverse Repo Counterparties. SIFMA does not believe that this information should be included in the form, as we do not believe that it is meaningful. Further, this information is generally confidential, and while we understand that FINRA can obtain the information, we generally object to having to report it on forms that will inevitably be the subject of some broader circulation.

(c) Information as to Securities Lending and Borrowing Agreements. SIFMA believes that amounts relating to conduit securities lending transactions should be excluded from the relevant calculations as these reflect customer demand as of any time and are not "funding" transactions.

(d) Securities Lending and Borrowing Counterparties. SIFMA does not believe that counterparty information should be included in the form.

(e) Information as to Bank Loan and Other Credit Facilities. SIFMA notes that a number of the questions in this section of the form cannot be answered. For example, it is not clear what FINRA means by asking as to the "uncommitted" portion of a term lending facility: isn't any term facility committed? What does it mean to have an uncommitted term agreement? Similarly, FINRA asks as to the unused portion of an "uncommitted facility." But if the facility is "uncommitted," there is no definitive amount available and, thus, the question cannot be answered.

(f) Total Available Collateral (Free Box). The question asks the total value of U.S. Government securities that the firm has available. The request would be more meaningful if firms provided information as to all "high quality liquid assets," not just U.S. Government securities. Is this question referring to proprietary assets only? What about affiliate subordinated non-seg assets? What about customer non-seg assets?

(g) Top Five Equity and Fixed Income (but Not U.S. Government Agency, GSE) Securing Margin Loans. SIFMA does not believe that this information has any value at all. Firms do not make margin loans based on individual securities but rather based on the aggregate market value of liquid securities. Thus, the five equity securities that are in margin loan portfolios will simply be five securities that are broadly owned by customers. For many firms, these are likely to be securities in the S&P 50 as those securities are likely to be in the accounts of many customers. Further, when a customer is concentrated in a particular security, firms will generally lend materially less against that security, which will make it seem as if the firm is more dependent on that particular security as collateral when, in fact, the firm has taken a larger haircut on the security. (Although we would hope that FINRA would determine that this question is not meaningful, if FINRA does determine

to ask it, one question is whether the results would be reported on a trade date or settlement date basis. In addition, it is not clear whether the amounts requested by FINRA are limited to customer transactions or would include loans to PAB accounts or to subordinated accounts.)

(h) Top Five Fixed Income Securities (but Not U.S. Government Agency, GSE) Securing Margin Loans. For the reasons above, SIFMA does not believe that this question will provide meaningful information. Given the tremendous number of individual debt CUSIPs, the five largest fixed income securities are likely to be fairly random collection of securities although, again, likely concentrated in the largest issuers.

(i) Deposits at Clearing Organizations. As to deposits as clearing organizations, we do not understand why the form asks for separate answers as to the amount required to be posted and the amount actually posted. We would expect these amounts to be essentially the same. Likewise, it is not clear what is meant by "proprietary." Is there an expectation that there is a proprietary clearing amount and a customer clearing amount at each clearing agency? The form asks for information as to "other greater than 10% of total." As a starting matter, does the "total" include or exclude the "other"? Additionally, we are concerned that this data will require that firms develop new operations or reporting procedures, for example, to track the largest call in any day.

(j) Cash and Securities Delivered in to Collateralize Receivable and Delivered out to Collateralize Payables. The information to this question will not provide any information as to a firm's liquidity. Generally, if a firm has received in collateral in respect of a receivable, it will be "in-the-money" on a derivative, and the collateral will be essentially freely usable as a proprietary asset. (If the firm did not receive collateral, it would generally have an unsecured receivable, and so could not take any in-the-money amount into account in determining its regulatory capital.) Similarly, if a firm has lost money on a derivative, it may deliver out assets, but that delivery out will already have been reflected as a reduction from its net capital. As we have stated above, firms also do not believe that there is any reason for them to disclose the names of counterparties on the SLS.

William Blair

March 7, 2018

Jennifer Piorko Mitchell
Office of the Corporate Secretary
FINRA
1735 K Street, NW
Washington, DC 20006-1516

Sent via e-mail to pubcom@finra.org

Re: Comments on the Proposed New Supplemental Liquidity Schedule (FINRA Regulatory Notice 18-02)

Dear Ms. Mitchell,

William Blair appreciates the opportunity to comment on FINRA's proposed new Supplemental Liquidity Schedule (SLS) discussed in FINRA Regulatory Notice 18-02. We recognize the importance of our firm's effective monitoring of liquidity and funding risks and support FINRA's objective of improving its ability to monitor for events that signal an adverse change in a firm's liquidity risk.

The Regulatory Notice states that the proposed SLS is tailored to larger firms. Under the proposal, unless otherwise permitted by FINRA in writing, the SLS is required to be filed by each carrying or clearing FINRA firm with:

(i) $25 million or more in total credits as determined pursuant to the customer reserve formula computation as set forth in SEA Rule 15c3-3 Exhibit A, and by

(ii) each FINRA firm whose aggregate amount outstanding under repurchase agreements, securities loan contracts and bank loans is equal to or greater than $1 billion, as reported on the most recently filed FOCUS Report.

We agree with the $1 billion threshold proposed in the second criterion. However, we believe the first criterion should be reexamined. There are many firms that clear only institutional trades on a DVP / RVP basis. As such, the balances in their customer reserve formula computations are related exclusively to failed settlement trades of institutional sales accounts. These reserve formula credits would be offset by equal or greater debits in the formula for fail-to-deliver transactions. More importantly, the vast majority of these failed trades ultimately do settle. We do acknowledge that a large volume of failed settlement trades may be indicative of increased counterparty exposure. However, our experience is the counterparty risk is greater on fail-to-deliver trades due to the client's potential inability to pay for the securities purchased. We believe

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that having fail-to-deliver and fail-to-receive balances in excess of $25 million does not signal an adverse change in liquidity risk (or counterparty risk).

William Blair respectfully requests that FINRA consider either of the firm's recommendations below as a revision to the original proposal.

(i) Raise the exemption threshold to more than $25 million in total credits in the customer formula.

(ii) Revise $25 million in total credits in the customer reserve formula computation to $25 million in free credit balances in the customer reserve formula computation. This revision would require a SLS filing for member firms that hold sizeable amounts of cash in retail accounts but would eliminate the filing requirement for member firms that do not hold retail customer funds and where 15c3-3 credits are fail-to-receive transactions.

William Blair appreciates the opportunity to provide its comments on this proposal.

Sincerely,

Jon Zindel
William Blair & Company, LLC
Chief Financial Officer

Exhibit 3

SUPPLEMENTAL SCHEDULE TO FOCUS REPORT
Supplemental Liquidity Schedule

GENERAL INSTRUCTIONS

The Supplemental Liquidity Schedule ("SLS") is intended to provide detailed information about a member's liquidity profile. Unless otherwise permitted by FINRA in writing, the SLS is required to be filed by each carrying FINRA member[1] with $25 million or more in free credit balances, as defined under SEA Rule 15c3-3(a)(8), and by each FINRA member whose aggregate amount outstanding under repurchase agreements, securities loans contracts and bank loans is equal to or greater than $1 billion, as reported on the member's most recently filed FOCUS Report. The SLS must be completed as of the last business day of each month (the "SLS date") and filed within 24 business days after the end of the month. A member need not file the SLS for any period where the member does not meet the $25 million or $1 billion thresholds.

SPECIFIC INSTRUCTIONS

NOTE: For explanations of the types of securities to be included in the requested line items of the SLS, please refer to "Explanation of Terms" on page 5 of these instructions. The SLS presentation of reportable items may differ from the presentation of similar items reported on the firm's FOCUS Report (for example, some items may be reported on a gross basis on the SLS vs. net on the FOCUS Report).

SECTION 1. REVERSE REPURCHASE AND REPURCHASE AGREEMENTS

General Instructions:

De Minimis Amounts: If a member's total reverse repurchase agreements represent less than 5% of the sum of the total reverse repurchase agreements and total securities borrowed contracts, the member may elect to report only the subtotal and total amounts of such reverse repurchase agreements in Lines 6a, 6b, 6c, and 7, without completing the securities collateral subcategories, and may elect not to complete the reverse repurchase agreement counterparties subsection of the "Top 5 Counterparties" section. If a member's total repurchase agreements represent less than 5% of the sum of the total repurchase agreements, total securities loaned contracts and bank loans, the member may elect to report only the subtotal and total repurchase agreements in Lines 6a, 6b, 6c, and 7, without completing the securities collateral subcategories, and may elect not to complete the repurchase agreement counterparties subsection of the "Top 5 Counterparties" section.

Report the gross contract value of all reverse repurchase and repurchase agreements by collateral type, including all affiliated, third party and non-cash agreements. Exclude agreements between desks or other units within the same legal entity. Collateral value may be determined either gross or net of haircuts, provided the reporting method is noted in the item memo field for the specific line item and is consistent from period to period.

Contracts collateralized by more than one security type should be categorized using a consistent method, with a description of such method included in the line item memo. For example, if the majority of the collateral for a contract consists of U.S. Treasury securities, but also includes some U.S. Government Agency securities, the member may elect to include the entire contract with other contracts collateralized with U.S. Treasury securities, or the member may elect to allocate the contract between the two types of collateral (for example, based on the market value of the respective collateral types, either before or after the application of haircuts). The reporting method for contracts collateralized by more than one security type should be consistent from month to month.

"Weighted Average Maturity" should be computed on the gross contract value of term agreements

[1] "Carrying" in these instructions has the same meaning as in SEA Rule 15c3-1(a)(2)(i).

only. For this purpose, "term agreements" includes all transactions that are not terminable on demand and have a termination date later than the next business day after the SLS date. For contracts that contain an option feature permitting the funding provider to elect not to renew the contract after an agreed-upon notice period ("evergreen contracts"), use the termination date applicable if that election were made on the earliest possible date on or after the SLS date.

See instructions under Sections 3 and 4 for reporting non-cash reverse repurchase and collateral upgrade transactions and non-cash repurchase transactions.

"Top 5 Counterparties: Reverse Repurchase and Repurchase Agreements (Reported by Name or Type)"- report the top five counterparties based on contract value, after netting of contracts (in accordance with ASC 210-20-45-1 and ASC 210-20-45-11), and identify each counterparty by counterparty type or name. Where contracts have been novated to a clearing organization, report the clearing organization as the counterparty. Where the counterparty contracted with the member through an agent (agency repo arrangements), report the name or type of the underlying principal as counterparty. In determining the top five counterparties, include forward starting reverse repurchase and forward starting repurchase agreements, where applicable. If the top five counterparties include more than one counterparty affiliated with the member, report each affiliated counterparty separately (by type or name).

Members electing to report counterparties by their type in lieu of name may use the counterparty classifications and definitions as these apply pursuant to reporting for the Federal Reserve Board's FR 2052a report (Complex Institution Liquidity Monitoring Report).

Additional Instructions for Specific Line Items:

Line 4. "Investment Grade Corporate Obligations"- see the "Explanation of Terms" Section.

Line 5. "Other Securities" - report the gross contract value of all reverse repurchase and repurchase agreements not reported in Lines 1 through 4.

Line 7a. "Amount of Line 7 Total held at Tri-Party Custodian" - report the gross contract value of all reverse repurchase and repurchase agreements where the collateral is held in accounts under a tri-party custodial arrangement.

SECTION 2. SECURITIES BORROWED AND SECURITIES LOANED

General Instructions:

De Minimis Amounts: If a member's total securities borrowed contracts represent less than 5% of the sum of the total reverse repurchase agreements and total securities borrowed contracts, the member may elect to report only the subtotal and total securities borrowed in Lines 6a, 6b, 6c, and 7, without completing the securities collateral subcategories. If a member's total securities loaned contracts represent less than 5% of the sum of the total repurchase agreements, total securities loaned contracts and bank loans, the member may elect to report only the total securities loaned in Lines 6a, 6b, 6c, and 7, without completing the securities collateral subcategories. In such cases, members are not required to complete the "Top 5 Counterparties" section.

Report the gross contract value of all securities borrowed and securities loaned agreements by collateral type, including all affiliated and third-party agreements. Exclude intracompany agreements between desks within the same legal entity.

"Weighted Average Maturity" should be computed on term agreements only. For this purpose, "term agreements" includes all transactions that are not terminable on demand and have a settlement date

later than the next business day after the SLS date.

See instructions under Sections 3 and 4 for reporting non-cash securities borrows and non-cash securities loan transactions.

"Top 5 Counterparties: Securities Borrowed and Securities Loaned (Reported by Name or Type)" - include the top five counterparties based on contract value, after netting of contracts (in accordance with ASC 210-20-45-1 and ASC 210-20-45-11), and identify each counterparty by counterparty type or name. Where the counterparty contracted with the member through an agent bank (i.e., agency lending arrangements), report the name and type of the underlying principal as the counterparty.

Members electing to report counterparties by their type in lieu of name may use the counterparty classifications and definitions as these apply pursuant to reporting for the Federal Reserve Board's FR 2052a report (Complex Institution Liquidity Monitoring Report).

Additional Instructions for Specific Line Items:

Line 5. "Other Securities" – report the gross contract value of all securities borrowed and securities loaned agreements not otherwise reported in Lines 1 through 4.

SECTION 3. NON-CASH REVERSE REPURCHASE AND SECURITIES BORROWED TRANSACTIONS

Report non-cash and collateral upgrade transactions in the non-cash reverse repurchase and securities borrowed transactions section, according to the contract type, including the contract value of collateral received in and market value of collateral delivered out on non-cash reverse repurchase and securities borrowed.

SECTION 4. NON-CASH REPURCHASE AND SECURITIES LOANED TRANSACTIONS

Report non-cash and collateral upgrade transactions in the non-cash repurchase and securities loaned section, according to the contract type, including the contract value of collateral received in and market value of collateral delivered out on non-cash repurchase and securities loaned transactions.

SECTION 5. BANK LOAN AND OTHER COMMITTED AND UNCOMMITTED CREDIT FACILITIES

Report the dollar amount of committed bank loan and other secured committed credit facilities (for example, subordinated loans, lines of credit, and secured demand notes) that have been drawn on lines 1a-1b, separating affiliated lending sources from non-affiliated lending sources, with the undrawn amounts of secured committed credit facilities on line 2. Include any unsecured credit facilities in lines 3a. and 3b. Report drawn amounts of uncommitted credit facilities in line 4 (for example, commercial paper).

For purposes of this SLS, "committed credit facility" refers to a credit facility established via a legally binding agreement between the lender and the member that provides the member with the right to draw funds at a future date, provided the member has not violated any conditions or covenants in the terms of the contract.

SECTION 6. TOTAL AVAILABLE COLLATERAL IN BROKER-DEALER'S CUSTODY

Report U.S. Treasury securities and other securities issued or guaranteed as to principal and interest by the U.S. Government (see "Explanation of Terms" section below) that are proprietary, non-customer, or customer securities in the member's possession, which in each case can be re-hypothecated, are otherwise unencumbered and are not required to be returned upon demand of the owner.

SECTION 7. MARGIN & NONPURPOSE LOANS

General Instructions:

Report the amount of credit extended under margin loans (that is, margin debit balances[2]), including non-purpose credit loans.[3] For purposes of this SLS, "Demand" loans are those that are callable for immediate repayment. "Term" loans are any loans where the member is contractually committed to lend to the borrower for a stated term, that have a stated maturity date and that cannot be called for immediate repayment.

Members may report these amounts on either a trade date or a settlement date basis, provided they disclose in the line item memo field the manner in which they are reporting and apply the method consistently.

Additional Instructions for Specific Line Items:

Line 3. "Term Loans – Drawn" and Line 4. "Term Loans – Undrawn"- Report the total dollar a mount of the term loan commitments drawn and undrawn. Do not net total dollar amounts against any collateral posted by the borrowers. For purposes of this section, "drawn amounts" means the amount drawn as of the reporting date, and "undrawn amounts" means the difference between the drawn amount and the maximum amount that can be borrowed as of the SLS date.

SECTION 8. COLLATERAL SECURING MARGIN LOANS

SECTION 8.a. "Top 5 Equity Securities" - report the top five equity securities, based on market value, that collateralize all margin loans.

SECTION 8.b. "Top 5 Fixed Income Securities"- report the top five fixed income securities, based on market value, that collateralize all margin loans, excluding U.S. Treasury, Government Agency & Government-Sponsored Enterprise securities, and foreign sovereign debt. The total market value shall include accrued interest.

SECTION 9. DEPOSITS AT CLEARING ORGANIZATIONS

General Instructions:

Report the total value of cash and securities required to be on deposit at clearing organizations, and the total value of cash and securities deposited at clearing organizations (which may be in excess of the amount required to be on deposit) as of the SLS date. The amounts shall include the following: the clearing deposit, initial and variation margin, adequate assurance deposits, additional liquidity deposits, guarantee fund deposits, and any other cash and proprietary assets deposited.

"Proprietary Collateral Included in Total Amount Deposited" - include cash or securities deposited at a clearing organization owned by the member, as well as collateral obtained by the member via financing agreements or non-conforming subordinations.

Additional Instructions for Specific Line Items:

Line 5. "Other if >10% of Total on Line 6." - report the total value of collateral deposited at any clearing organization that is greater than 10% of the total value on deposit at all clearing organizations as reported on line 6., box 21310. Where the member's deposits at more than one clearing organization meet this condition, report the aggregate amount deposited at all such clearing organizations and include each clearing organization name in the line item memo for line 5, box 21307.

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[2] Margin debit balances should be reported gross of any short credit balance.

[3] Loans of cash that are "non-purpose credit" under Section 220.6(e) of Regulation T (12 CFR 220.6(e)).

SECTION 10. CASH & SECURITIES RECEIVED AND DELIVERED ON DERIVATIVE TRANSACTIONS NOT CLEARED THROUGH A CCP

General Instructions:

Report cash and securities used to collateralize derivative transactions that are not cleared through a central clearing counterparty ("CCP"). For purposes of this SLS, "derivative transactions" include non-regular way settlement transactions (including To Be Announced ("TBA"), delayed delivery and delayed settlement transactions) as well as swap and security-based swap transactions. "Received by" includes cash and securities received by the member as collateral and not yet returned. Initial and variation margin delivered or received shall be included.

SECTION 10.A. "Cash and Securities Received by the Broker-Dealer to Collateralize Derivative Receivables"

Report the five largest deposits of cash and securities received by the member to collateralize amounts receivable on derivative transactions, identified by counterparty name or type, and identify whether the derivative counterparty is an affiliate of the member. Amounts deposited by an individual counterparty for multiple transactions are to be aggregated and reported as one deposit for that counterparty.

SECTION 10.B. "Cash and Securities Delivered by the Broker-Dealer to Collateralize Derivative Payables"

Report the five largest deposits of cash and securities delivered by the member to collateralize amounts payable on derivative transactions, identified by counterparty name or type, and identify whether the derivative counterparty is an affiliate of the member. Amounts deposited by an individual counterparty for multiple transactions are to be aggregated and reported as one deposit for that counterparty.

Members electing to report counterparties by counterparty type in lieu of name, may use the counterparty classifications and definitions as these apply pursuant to reporting for the Federal Reserve Board's FR 2052a report (Complex Institution Liquidity Monitoring Report).

EXPLANATION OF TERMS

U.S. Treasury Securities:

Direct obligations of the U.S. Treasury, including but not limited to, bills, notes, bonds, Treasury Inflation-Protected Securities (TIPS), U.S. Treasury Strips (IO) or (PO), and Treasury floating rate notes.

U.S. Government Agency & Government-Sponsored Enterprise Securities:

Securities issued by a United States federal agency, or a United States Government-Sponsored Enterprise, including agency securities guaranteed as to principal or interest by the U. S. government (for example, GNMA securities).

Equity Securities:

Preferred and common stocks, warrants and exchange traded funds ("ETFs") issued by any domestic or foreign issuer.

Investment Grade Corporate Obligations:

Investment grade debt securities issued by any corporation, whether domestic or foreign. Corporate

obligations include but are not limited to non-convertible, convertible, floating rate debt securities and exchange traded notes ("ETNs"). Include issuers that have been rated BBB or higher by two Nationally Recognized Statistical Rating Organizations ("NRSROs"). Alternatively, members may elect to include in "investment grade corporate obligations" those issues having "minimal credit risk" as that term is defined in SEA Rule 15c3-1(c)(2)(vi)(I), provided they include a line item memo on the SLS noting their election.

Other Collateral:

All other securities not otherwise included in the other categories.

FINRA
FORM SLS

FORM

Supplemental Report to FOCUS REPORT
Supplemental Liquidity Schedule ("SLS")
(Please reference instructions before completing form)

NAME OF BROKER-DEALER 13

ADDRESS OF PRINCIPAL PLACE OF BUSINESS 20

(No. and Street)

21 22 23

(City) (State) (Zip Code)

SEC FILE NO. 14

FIRM ID NO. 15

FOR PERIOD ENDING (MM/DD/YY) 25

NAME OF PERSON COMPLETING THIS REPORT 21013

TELEPHONE NO. OF PERSON COMPLETING THIS REPORT 21014

NOTE: All amounts should be reported in thousands.

SECTION 1. REVERSE REPURCHASE AND REPURCHASE AGREEMENTS	**Reverse Repurchase (000s)**	**Repurchase (000s)**
1. U.S. Treasury Securities		
a. Open and Overnight	$ 21015	$ 21016
b. Term	$ 21017	$ 21018
Weighted Average Maturity	21019	21020
c. Forward Starting	$ 21021	$ 21022
2. U.S. Government Agency & Government-Sponsored Enterprise Securities		
a. Open and Overnight	$ 21023	$ 21024
b. Term	$ 21025	$ 21026
Weighted Average Maturity	21027	21028
c. Forward Starting	$ 21029	$ 21030
3. Equity Securities		
a. Open and Overnight	$ 21031	$ 21032
b. Term	$ 21033	$ 21034
Weighted Average Maturity	21035	21036
c. Forward Starting	$ 21037	$ 21038
4. Investment Grade Corporate Obligations		
a. Open and Overnight	$ 21039	$ 21040
b. Term	$ 21041	$ 21042
Weighted Average Maturity	21043	21044
c. Forward Starting	$ 21045	$ 21046
5. Other Securities		
a. Open and Overnight	$ 21047	$ 21048
b. Term	$ 21049	$ 21050
Weighted Average Maturity	21051	20152
c. Forward Starting	$ 21053	$ 21054
6. Subtotals		
a. Open and Overnight	$ 21055	$ 21056
b. Term	$ 21057	$ 21058
Weighted Average Maturity	21059	21060
c. Forward Starting	$ 21061	$ 21062
7. TOTAL Open, Overnight, Term & Forward Starting	$ 21063	$ 21064
a. Amount of Line 7 Total held at Tri-Party Custodian	$ 21065	$ 21066

TOP 5 COUNTERPARTIES: REVERSE REPURCHASE AND REPURCHASE AGREEMENTS (Reported by Name or Type)					
Reverse Repurchase Counterparty		Contract Value (000s)		Repurchase Counterparty	Contract Value (000s)
1.	21067	$ 21068	1.	21069	$ 21070
2.	21071	$ 21072	2.	21073	$ 21074
3.	21075	$ 21076	3.	21077	$ 21078
4.	21079	$ 21080	4.	21081	$ 21082
5.	21083	$ 21084	5.	21085	$ 21086

SECTION 2. SECURITIES BORROWED AND SECURITIES LOANED	Securities Borrowed (000s)	Securities Loaned (000s)
1. U.S. Treasury Securities		
a. Open and Overnight	$ 21087	$ 21088
b. Term	$ 21089	$ 21090
Weighted Average Maturity	21091	21092
c. Forward Starting	$ 21093	$ 21094
2. U.S. Government Agency & Government-Sponsored Enterprise Securities		
a. Open and Overnight	$ 21095	$ 21096
b. Term	$ 21097	$ 21098
Weighted Average Maturity	21099	21100
c. Forward Starting	$ 21101	$ 21102
3. Equity Securities		
a. Open and Overnight	$ 21103	$ 21104
b. Term	$ 21105	$ 21106
Weighted Average Maturity	21107	21108
c. Forward Starting	$ 21109	$ 21110
4. Investment Grade Corporate Obligations		
a. Open and Overnight	$ 21111	$ 21112
b. Term	$ 21113	$ 21114
Weighted Average Maturity	21115	21116
c. Forward Starting	$ 21117	$ 21118
5. Other Securities		
a. Open and Overnight	$ 21119	$ 21120
b. Term	$ 21121	$ 21122
Weighted Average Maturity	21123	21124
c. Forward Starting	$ 21125	$ 21126
6. Subtotals		
a. Open and Overnight	$ 21127	$ 21128
b. Term	$ 21129	$ 21130
Weighted Average Maturity	21131	21132
c. Forward Starting	$ 21133	$ 21134
7. Total Open, Overnight, Term and Forward Starting	$ 21135	$ 21136

TOP 5 COUNTERPARTIES: SECURITIES BORROWED AND SECURITIES LOANED (Reported by Name or Type)					
Securities Borrowed Counterparty		Contract Value (000s)		Securities Loaned Counterparty		Contract Value (000s)	
1.	21137	$ 21138		1.	21139	$ 21140	
2.	21141	$ 21142		2.	21143	$ 21144	
3.	21145	$ 21146		3.	21147	$ 21148	
4.	21149	$ 21150		4.	21151	$ 21152	
5.	21153	$ 21154		5.	21155	$ 21156	

SECTION 3. NON-CASH REVERSE REPURCHASE AND SECURITIES BORROWED TRANSACTIONS	Securities Received (000s)	Securities Delivered (000s)
1. U.S. Treasury Securities		
a. Open and Overnight	$ 21157	$ 21158
b. Term	$ 21159	$ 21160
2. U.S. Government Agency & Government-Sponsored Enterprise Securities		
a. Open and Overnight	$ 21161	$ 21162
b. Term	$ 21163	$ 21164
3. Equity Securities		
a. Open and Overnight	$ 21165	$ 21166
b. Term	$ 21167	$ 21168
4. Investment Grade Corporate Obligations		
a. Open and Overnight	$ 21169	$ 21170
b. Term	$ 21171	$ 21172
5. Other Securities		
a. Open and Overnight	$ 21173	$ 21174
b. Term	$ 21175	$ 21176
6. TOTAL		
a. Open and Overnight	$ 21177	$ 21178
b. Term	$ 21179	$ 21180

SECTION 4. NON-CASH REPURCHASE AND SECURITIES LOANED TRANSACTIONS	Securities Received (000s)	Securities Delivered (000s)
1. U.S. Treasury Securities		
a. Open and Overnight	$ 21181	$ 21182
b. Term	$ 21183	$ 21184
2. U.S. Government Agency & Government-Sponsored Enterprise Securities		
a. Open and Overnight	$ 21185	$ 21186
b. Term	$ 21187	$ 21188
3. Equity Securities		
a. Open and Overnight	$ 21189	$ 21190
b. Term	$ 21191	$ 21192
4. Investment Grade Corporate Obligations		
a. Open and Overnight	$ 21193	$ 21194
b. Term	$ 21195	$ 21196
5. Other Securities		
a. Open and Overnight	$ 21197	$ 21198
b. Term	$ 21199	$ 21200
6. TOTAL		
a. Open and Overnight	$ 21201	$ 21202
b. Term	$ 21203	$ 21204

SECTION 5. BANK LOAN AND OTHER COMMITTED & UNCOMMITTED CREDIT FACILITIES					
		Affiliate		Non-Affiliate	
	Total (000s)	Bank (000s)	Non-Bank (000s)	Bank (000s)	Non-Bank (000s)
1. Drawn Amounts of Secured Credit Facilities					
a. Open and Overnight	$ 21205	$ 21206	$ 21207	$ 21208	$ 21209
b. Term	$ 21210	$ 21211	$ 21212	$ 21213	$ 21214
2. Undrawn Portion of Secured Committed Credit Facilities	$ 21215	$ 21216	$ 21217	$ 21218	$ 21219
3. Unsecured Committed Credit Facilities					
a. Drawn Amounts	$ 21220	$ 21221	$ 21222	$ 21223	$ 21224
b. Undrawn Amounts	$ 21225	$ 21226	$ 21227	$ 21228	$ 21229
4. Drawn Amounts of Uncommitted Credit Facilities	$ 21230	$ 21231	$ 21232	$ 21233	$ 21234
5. Total (Lines 1a, 1b, 2, 3a, 3b & 4)	$ 21235	$ 21236	$ 21237	$ 21238	$ 21239

SECTION 6. TOTAL AVAILABLE COLLATERAL IN BROKER-DEALER'S CUSTODY	
1. Total Market Value of U.S. Treasuries and Other Securities Issued or Guaranteed as to principal and interest by the U.S Government	$ 21240

SECTION 7. MARGIN & NON-PURPOSE LOANS	
	Balance
1. Margin Demand Loans	$ 21241
2. Non-Purpose Demand Loans	$ 21242
3. Term Loans – Drawn (Margin and Non-Purpose Loans)	$ 21243
a. Weighted Average Maturity of Term Loans	21244
4. Term Loans - Undrawn	$ 21245

SECTION 8. COLLATERAL SECURING MARGIN LOANS

a. Top 5 Equity Securities

	CUSIP #	ISSUER	Market Value (000s)
1.	21246	21247	$ 21248
2.	21249	21250	$ 21251
3.	21252	21253	$ 21254
4.	21255	21256	$ 21257
5.	21258	21259	$ 21260

b. Top 5 Fixed Income Securities (Excluding U.S. Treasury, Government Agency & Government-Sponsored Enterprise Securities

	CUSIP	ISSUER	Market Value (000s)
1.	21261	21262	$ 21263
2.	21264	21265	$ 21266
3.	21267	21268	$ 21269
4.	21270	21271	$ 21272
5.	21273	21274	$ 21275

SECTION 9. DEPOSITS AT CLEARING ORGANIZATIONS					
	Amount Required (000s)	Total Amount Deposited (000s)	Proprietary Collateral Included in Total Amount Deposited (000s)	Largest Single Intra-Month Total Amount Deposited (000s)	Date
1. DTCC (total)	$ 21276	$ 21277	$ 21278	$ 21279	21280
a. NSCC	$ 21281	$ 21282	$ 21283	$ 21284	21285
b. FICC	$ 21286	$ 21287	$ 21288	$ 21289	21290
2. OCC	$ 21291	$ 21292	$ 21293	$ 21294	21295
3. CME	$ 21296	$ 21297	$ 21298	$ 21299	21300
4. ICE	$ 21301	$ 21302	$ 21303	$ 21304	21305
5. Other if >10% of Total on Line 6.	$ 21306	$ 21307	$ 21308		
6. Total	$ 21309	$ 21310	$ 21311		

SECTION 10. CASH & SECURITIES RECEIVED & DELIVERED ON DERIVATIVE TRANSACTIONS NOT CLEARED THROUGH A CCP

A. Cash and Securities Received by the Broker-dealer to Collateralize Derivative Receivables

Counterparty Name or Type	Affiliated with BD (Y/N)	Total Cash (000s)	Total Securities
1. 21312	21313	$ 21314	$ 21315
2. 21316	21317	$ 21318	$ 21319
3. 21320	21321	$ 21322	$ 21323
4. 21324	21325	$ 21326	$ 21327
5. 21328	21329	$ 21330	$ 21331

B. Cash and Securities Delivered by the Broker-dealer to Collateralize Derivative Payables

Counterparty Name or Type	Affiliated with BD (Y/N)	Total Cash (000s)	Total Securities
1. 21332	21333	$ 21334	$ 21335
2. 21336	21337	$ 21338	$ 21339
3. 21340	21341	$ 21342	$ 21343
4. 21344	21345	$ 21346	$ 21347
5. 21348	21349	$ 21350	$ 21351