



July 7, 2021

Ms. Vanessa Countryman
Secretary
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549-1090

Via email to rule-comments@sec.gov

RE: File No. SR-FINRA-2021-009 (Proposed Rule Change to Adopt a Supplemental Liquidity Schedule, and Instructions Thereto, Pursuant to FINRA Rule 4524 (Supplemental FOCUS Information))

Dear Ms. Countryman:

This letter is submitted by the Financial Industry Regulatory Authority (“FINRA”) in response to comments received by the Securities and Exchange Commission (“SEC” or “Commission”) on the above-referenced rule filing related to a proposed rule change to adopt a Supplemental Liquidity Schedule (“SIS”), and Instructions thereto, pursuant to FINRA Rule 4524 (Supplemental FOCUS Information) (the “Proposal”).¹

As discussed in further detail in the Proposal, 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. 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. 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),² and by each member whose aggregate amount outstanding under

¹ See Securities Exchange Act Release No. 91876 (May 12, 2021), 86 FR 27005 (May 18, 2021) (Notice of Filing of File No. SR-FINRA-2021-009). As discussed in the proposed rule filing, Securities Exchange Act (“SEA”) Rule 17a-5 (17 CFR 240.17a-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.

² 17 CFR 240.15c3-3.
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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. As proposed, 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. FINRA noted 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.

The Commission published the Proposal for public comment in the Federal Register on May 18, 2021 and received one comment in response to the Proposal.³ FINRA submits this response to the commenter's material concerns.

SIFMA acknowledged the extensive outreach and discussions in which FINRA engaged with industry participants in developing the proposed SLS. SIFMA noted that FINRA, with a view to potential burdens on firms that are in bank holding companies ("BHCs"), has aligned categories in the proposed SLS with reporting required for purposes of the Complex Institution Liquidity Monitoring Report (referred to as "FR 2052a") by the Federal Reserve Board. SIFMA suggested however that FINRA should delay implementation of the SLS, pending potential implementation of changes in FR 2052a reporting requirements. SIFMA suggested the SLS should map to or correspond with the potential new framework of FR 2052a reporting.

In response, as discussed in the Proposal, FINRA believes that the proposed SLS serves an important regulatory purpose, because access to the information that would be reported on the SLS is important for FINRA to efficiently monitor on an ongoing basis the liquidity profile of members.⁴ FINRA noted that 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 noted that events in connection with market volatility and other stress stemming from the COVID-19 pandemic, and events such as the extreme price volatility of certain stocks in January 2021, have reinforced the importance of

³ See Letter from Kevin Zambrowicz, Managing Director & Associate General Counsel, Securities Industry and Financial Markets Association, to Vanessa Countryman, Secretary, SEC, dated June 8, 2021 ("SIFMA").

⁴ See Proposal, 86 FR at 27006.

effective liquidity risk monitoring.⁵ FINRA published an earlier version of the proposed SLS for public comment in January 2018, and tailored the proposal based on extensive feedback from industry participants.⁶ FINRA is mindful that some members that would be subject to the SLS requirement could face potential burdens depending on how reporting requirements vis-à-vis other regulators, including the FR 2052a requirement, evolve. If approved by the Commission, FINRA will revisit the reporting categories under the Proposal as appropriate with a view to any potential alignments of such categories with other reporting requirements, such as the FR 2052a requirements, depending on how they evolve going forward. However, FINRA does not believe it is appropriate to delay implementation of the SLS beyond the timeframe set forth in the Proposal. In the Proposal, FINRA stated that, 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, and that such effective date will be no later than 180 days following publication of the Regulatory Notice.⁷ FINRA believes that this timeframe affords members sufficient time to prepare to implement the SLS.

FINRA believes that the foregoing responds to the material concerns raised by the commenters. If you have any questions, please contact me on 202-728- 6961, email: adam.arkel@finra.org.

Sincerely,

/s/ Adam Arkel

Adam Arkel
Associate General Counsel
Office of General Counsel

⁵ See Proposal, 86 FR at 27005.

⁶ See Proposal, 86 FR at 27006; see also Regulatory Notice 18-02 (January 2018) (Liquidity Reporting and Notification).

⁷ See Proposal, 86 FR at 27006.