

eFOCUS Reporting

eFOCUS System Updates Applicable to Joint Broker-Dealers/Futures Commission Merchants

Effective Date: Monthly FOCUS Report Part II and Part II CSE Due on February 26, 2014, Covering the January 31, 2014, Reporting Period

Executive Summary

Beginning with the monthly FOCUS Report that is due on February 26, 2014 (covering the January 31, 2014, reporting period), FINRA is updating specified reporting schedules under the eFOCUS system to incorporate several of the new financial reporting requirements the Commodity Futures Trading Commission (CFTC) has adopted. Each member firm that is a futures commission merchant (FCM) must file the updated schedules as part of its monthly FOCUS Reports. The modified version of the [FOCUS Report Part II and Part II CSE](#), which will include the updated CFTC schedules, will be available through FINRA's eFOCUS system beginning Monday, February 10, 2014.

Questions regarding this *Notice* should be directed to:

- ▶ Yui Chan, Managing Director, Risk Oversight & Operational Regulation (ROOR), at (646) 315-8426; or
- ▶ Susan DeMando Scott, Associate Vice President, ROOR, at (240) 386-4620.

Background & Discussion

In November 2013, the CFTC adopted amendments¹ to the CFTC's Regulation 1.10 that, among other things, include requirements for FCMs to make specified disclosures under the following schedules in the CFTC's Form 1-FR-FCM:²

- ▶ Statement of Segregation Requirements and Funds in Segregation for Customers Trading on U.S. Commodity Exchanges (the "Segregation Schedule");

December 2013

Notice Type

- ▶ Guidance

Suggested Routing

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

Key Topics

- ▶ eFOCUS Reporting

Referenced Rules & Notices

- ▶ CFTC Regulation 1.10
- ▶ FINRA Rule 4521
- ▶ Regulatory Notice 10-46
- ▶ SEA Rule 17a-5

- ▶ Statement of Secured Amounts and Funds Held in Separate Accounts Pursuant to Commission Regulation 30.7 (the “Secured Amount Schedule”); and
- ▶ Statement of Cleared Swaps Customer Segregation Requirements and Funds in Cleared Swaps Customer Accounts Under Section 4d(f) of the Commodity Exchange Act (the “Cleared Swaps Segregation Schedule”).

The amendments to the Segregation Schedule and the Secured Amounts Schedule require each FCM to disclose the targeted amount of “residual interest”³ that the FCM seeks to maintain in customer segregated accounts and secured accounts as computed under CFTC regulations. The Cleared Swaps Segregation Schedule is the new schedule that the CFTC has adopted⁴ to further implement the cleared swaps segregation requirements set forth under Section 724(a) of the Dodd-Frank Act.⁵ FINRA notes that the new Cleared Swaps Segregation Schedule replaces the Statement of Sequestration Requirements and Funds in Cleared OTC Derivatives Sequestered Accounts as implemented pursuant to [Regulatory Notice 10-46](#).

Pursuant to FINRA Rule 4521(a), FINRA member firms that are FCMs must file the updated schedules in eFOCUS as set forth in the modified FOCUS Report Part II and Part II CSE, commencing with the monthly FOCUS Report Part II and Part II CSE that is due on February 26, 2014 (covering the January 31, 2014, reporting period). The modified version of the [FOCUS Report Part II and Part II CSE](#), which will include the updated CFTC schedules, will be available through FINRA’s eFOCUS system beginning Monday, February 10, 2014.⁶

Endnotes

1. See CFTC Final Rule Release, *Enhancing Protections Afforded Customers and Customer Funds Held by Futures Commission Merchants and Derivatives Clearing Organizations*, 78 FR 68506 (November 14, 2013).
2. CFTC Regulation 1.10 addresses the financial reporting requirements of FCMs and introducing brokers subject to the CFTC's jurisdiction. Form 1-FR-FCM is the CFTC's financial reporting form for FCMs under Regulation 1.10.
3. As stated by the CFTC, "residual interest" refers to a cushion of proprietary funds that an FCM deposits into customer segregated and secured accounts to protect against becoming undersegregated or undersecured by failing to hold a sufficient amount of funds in such accounts to meet regulatory requirements. See 78 FR at 68513.
4. See 78 FR at 68514. The CFTC stated that FCMs currently prepare a schedule comparable to the Cleared Swaps Segregation Schedule under applicable contract market or National Futures Association rules, and that the new schedule codifies existing practices. In this regard, FINRA implemented the Statement of Sequestration Requirements and Funds in Cleared OTC Derivatives Sequestered Accounts as announced in *Regulatory Notice 10-46* (October 2010).
5. Pub. L. No. 111-203, 124 Stat. 1376 (2010).
6. The CFTC's amendments include specified revisions to the Statement of Financial Condition under Form 1-FR-FCM. See 78 FR at 68515. Member firms should note that FINRA is not adopting these revisions into the Statement of Financial Condition under eFOCUS.