

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * 54	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4		File No.* SR - 2014 - * 025	Amendment No. (req. for Amendments *)
Filing by Financial Industry Regulatory Authority Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934				
Initial * <input checked="" type="checkbox"/>	Amendment * <input type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) * <input checked="" type="checkbox"/>	Section 19(b)(3)(A) * <input type="checkbox"/>
			Section 19(b)(3)(B) * <input type="checkbox"/>	
Pilot <input type="checkbox"/>	Extension of Time Period for Commission Action * <input type="checkbox"/>	Date Expires * <input type="text"/>	Rule <input type="checkbox"/> 19b-4(f)(1) <input type="checkbox"/> 19b-4(f)(4) <input type="checkbox"/> 19b-4(f)(2) <input type="checkbox"/> 19b-4(f)(5) <input type="checkbox"/> 19b-4(f)(3) <input type="checkbox"/> 19b-4(f)(6)	
Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010 Section 806(e)(1) * <input type="checkbox"/>			Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934 Section 3C(b)(2) * <input type="checkbox"/>	
Exhibit 2 Sent As Paper Document <input type="checkbox"/>		Exhibit 3 Sent As Paper Document <input type="checkbox"/>		
Description Provide a brief description of the action (limit 250 characters, required when Initial is checked *). Proposed Rule Change to Adopt a Supplemental Schedule for Inventory Positions 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 * Matthew Last Name * Vitek Title * Associate General Counsel E-mail * matthew.vitek@finra.org Telephone * (202) 728-8156 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. (Title *) Date 06/16/2014 Senior Vice President and Deputy General Counsel By Patrice Gliniecki (Name *) 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,				

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

Form 19b-4 Information *

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

Exhibit 1 - Notice of Proposed Rule Change *

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

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

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

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

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Exhibit Sent As Paper Document

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

Exhibit 3 - Form, Report, or Questionnaire

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Exhibit Sent As Paper Document

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

Exhibit 4 - Marked Copies

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

Exhibit 5 - Proposed Rule Text

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

Partial Amendment

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

1. Text of the Proposed Rule Change

(a) Pursuant to the provisions of Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act” or “SEA”),¹ 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 schedule for inventory positions pursuant to FINRA Rule 4524 (Supplemental FOCUS Information).

The proposed rule change does not make any changes to the text of FINRA rules.

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

At its meeting on December 6, 2012, 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.

The proposed rule change will be effective upon Commission approval. FINRA will announce the implementation date of the proposed supplemental schedule in a Regulatory Notice to be published no later than 60 days following Commission approval. The due date for the first proposed schedule will be no later than 90 days following Commission approval of the proposed rule change.

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

Pursuant to SEA Rule 17a-5,² most firms are required to file with FINRA reports concerning their financial and operational status using the Financial and Operational Combined Uniform Single (FOCUS) Report.³ In general, firms with a FOCUS filing requirement must either file a FOCUS Report Part II if they clear transactions or carry customer accounts⁴ or file a FOCUS Report Part IIA if they do not.⁵ Firms that are government securities broker-dealers registered under Section 15C of the Act⁶ do not file a FOCUS Report and instead are required to file reports concerning their financial and operational status using the Report on Finances and Operations of Government Securities Brokers and Dealers (FOGS Report).⁷ These firms are required to file a FOGS Report Part I and either a FOGS Report Part II if they clear transactions or carry customer accounts or FOGS Report Part IIA if they do not.⁸

FINRA Rule 4524 (Supplemental FOCUS Information) requires each firm, as FINRA shall designate, to file such additional financial or operational schedules or

² 17 CFR 240.17a-5.

³ SEC Form X-17A-5.

⁴ Firms that calculate net capital using Appendix E to SEA Rule 15c3-1 file FOCUS Report Part II CSE, rather than FOCUS Report Part II.

⁵ 17 CFR 240.17a-5.

⁶ 15 U.S.C. 78o-5.

⁷ Department of the Treasury Form G-405.

⁸ 17 CFR 405.2; 17 CFR 240.17a-5.

reports as FINRA may deem necessary or appropriate for the protection of investors or in the public interest as a supplement to the FOCUS Report.⁹ Pursuant to FINRA Rule 4524, FINRA is proposing the adoption of a supplemental schedule to the FOCUS Report Part II, FOCUS Report Part IIA and the FOGS Report Part I that would provide more detailed information of inventory positions held by firms. The proposed Supplemental Inventory Schedule (“SIS”) would be due 20 business days after the end of a firm’s FOCUS or FOGS reporting period.¹⁰

The proposal requires the SIS to be filed by firms that are required to file FOCUS Report Part II, FOCUS Report Part IIA or FOGS Report Part I with inventory positions as of the end of the FOCUS or FOGS reporting period with two exceptions. The first exception is for firms that have a minimum net capital or liquid capital requirement¹¹ of less than \$100,000. Such firms are not allowed to engage in dealer activities and are limited to 10 proprietary transactions per year. Further, such firms are not permitted to self-clear or carry customer accounts. The second exception is for firms that have inventory positions consisting only of money market mutual funds. Money market mutual funds limit their investments to short-term, high-quality debt securities and are permitted to sell and redeem shares at a stable price, typically at \$1.00 per share, without

⁹ The reference to FOCUS reports under FINRA Rule 4524 includes FOGS Reports required to be filed by government securities broker-dealers registered under Section 15C of the Act in lieu of FOCUS Reports.

¹⁰ Firms that file FOCUS Report Part II CSE would not be subject to the proposed SIS. As part of FOCUS Report Part II CSE, the Aggregate Securities and OTC Derivative Positions schedule requires firms to provide information that is similar to the proposed SIS.

¹¹ Firms that file the FOCUS Report must comply with a minimum net capital requirement, while firms that file the FOGS Report must comply with a minimum liquid capital requirement.

regard to small variations in the value of the funds' underlying securities.¹² A firm with inventory positions consisting only of money market mutual funds would need to affirmatively indicate through functionality on the eFOCUS system that no SIS filing is required for the reporting period. FINRA believes that firms that meet either of these two criteria pose significantly less risk to customers and other market participants. These exceptions will not only minimize the burden on firms, but also will allow FINRA to focus its resources where the risk is most concerning.

The proposed SIS is intended to capture more details of a firm's long and short inventory positions than what is captured on the FOCUS Report Part II, FOCUS Report Part IIA and FOGS Report Part I. For example, FOCUS Report Part II, FOCUS Report Part IIA and FOGS Report Part I require total inventory of securities sold short to be reported in aggregate (Item 1620), providing no information on the types of securities sold short by firms. In addition, FOGS Report Part I requires that all long inventory be reported in aggregate (Item 850). Further, on FOCUS Report Part II and IIA, long inventory is reported in categories that aggregate securities with different market risk profiles (e.g., the Corporate Obligations category on the FOCUS Report Part II (Item 400) and Debt Securities category on the FOCUS Report Part IIA (Item 419) include single name corporate bonds, private-label mortgage-backed securities and foreign issuer debt obligations). The proposed SIS would enhance FINRA's ongoing surveillance monitoring of firms' financial condition by providing greater transparency into the market risk posed by a firm's inventory positions and the potential impact to a firm's net

¹² See Securities Act Release No. 9408 (June 5, 2013), 78 FR 36834, 36835 (June 19, 2013) (Proposed Rule: Money Market Fund Reform; Amendments to Form PF).

capital or liquid capital, as well as related funding and liquidity needs. In addition, the information provided by the proposed SIS would enable FINRA staff to perform more targeted examinations of firms' market risk exposure.

As noted in Item 2 of this filing, the proposed rule change will be effective upon Commission approval. FINRA will announce the implementation date of the proposed supplemental schedule in a Regulatory Notice to be published no later than 60 days following Commission approval. The due date for the first proposed schedule will be no later than 90 days following Commission approval of the proposed rule change.

(b) Statutory Basis

FINRA believes that the proposed rule change is consistent with the provisions of Section 15A(b)(6) of the Act,¹³ 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. FINRA believes that the proposed rule change is consistent with the provisions of the Act noted above in that the proposed SIS will provide FINRA with greater insights into the types of securities held in inventory by firms and the related market risk associated with such inventory positions. In addition, the proposed SIS would enable FINRA staff to assess the related impact on firms' liquidity and funding needs. The information provided on the proposed SIS would be used by FINRA to monitor firms' financial condition and perform more targeted examinations of firms' market risk exposure. The proposed rule change also is consistent with Section 712(b)(3)(B) of the

¹³ 15 U.S.C. 78o-3(b)(6).

Dodd-Frank Wall Street Reform and Consumer Protection Act¹⁴ in that it is necessary to enable FINRA to more effectively examine for compliance with, and enforce, its rules on capital adequacy.

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

FINRA does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. FINRA believes that the economic and operational impact associated with completion of the proposed SIS would be minimal because the required information should be readily available to firms, as it is necessary for purposes of computing the haircut deductions required under SEA Rule 15c3-1.¹⁵ However, FINRA recognizes that there may be an initial one-time cost to map inventory positions to the line items on the proposed SIS. FINRA believes that any burden imposed by the proposed SIS would be outweighed by the benefit to firms in allowing the staff to better understand a firm's market risk, which will lead to more focused reviews during examinations. In addition, the proposal is narrowly tailored to capture those firms that pose the most risk to customers and other market participants. Firms with inventory positions as of the end of the FOCUS or FOGS reporting period will not have to file the proposed SIS if they: (1) have a minimum net capital or liquid capital requirement of less than \$100,000; or (2) have inventory positions consisting only of money market mutual funds. Based on FOCUS Report data, as of June 30, 2013, FINRA estimates that 2,830 out of 4,327 firms

¹⁴ Pub. L. No. 111-203, 124 Stat. 1376 (2010).

¹⁵ 17 CFR 240.15c3-1.

(65 percent) have a minimum net capital or liquid capital requirement of less than \$100,000.

As discussed in Item 5 below, FINRA initially considered exempting from the SIS filing requirement those firms that had inventory positions consisting only of U.S. Treasury securities or money market mutual funds. However, three commenters questioned the U.S. Treasury exemption, noting among other factors the market risk posed by certain U.S. Treasury securities and the risks posed by concentrations in those securities. Alternatively, these commenters suggested exemptions based on a firm's level of excess capital and leverage, for short-term instruments and for small broker-dealers. In response to commenters' suggestions, FINRA is not proposing an exemption for U.S. Treasury securities. However, FINRA is proposing at this time to exempt from the SIS filing requirement those firms that have a minimum net capital or liquid capital requirement of less than \$100,000. FINRA believes that exempting such firms should serve to reduce the compliance burdens for many small firms while also ensuring that FINRA receives the SIS data from those firms that pose higher risk to customers and other market participants.

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 13-05 (January 2013) (the "Notice"). Four comments were received in response to the Notice.¹⁶

¹⁶ See Letter from Pat Nelson, dated January 31, 2013 ("Nelson"); letter from Jim Nelson, dated February 7, 2013 ("Jim Nelson"); letter from Wendie L Wachtel, CCO, Wachtel & Co Inc, to Marcia E Asquith, Corporate Secretary, FINRA, dated February 12, 2013 ("Wachtel"); and letter from Howard Spindel, Senior Managing Director, and Cassondra E. Joseph, Managing Director, Integrated Management Solutions USA LLC, dated February 25, 2013 ("IMS").

A copy of the Notice is attached as Exhibit 2a. A list of the comment letters received in response to the Notice is attached as Exhibit 2b. Copies of the comment letters received in response to the Notice are attached as Exhibit 2c. Below is a summary of the comments and FINRA's responses.

(a) Exemption for U.S. Treasury Securities

In the Notice, FINRA specifically requested comment on whether firms that have inventory positions consisting only of U.S. Treasury securities should be exempt from the filing requirement. One commenter believed that no securities, including U.S. Treasury securities, should be excluded from review as all securities pose certain risks especially if they are concentrated.¹⁷ As discussed further below, one commenter believed that the exemption is a poor match with regulatory objectives.¹⁸ Another commenter disagreed with the exemption and questioned "why FINRA would exempt from reporting a firm with a portfolio of longer-term, low coupon U.S. Government bonds that would be significantly more sensitive to market risk than many other debt instruments especially investment-grade ones of much shorter durations."¹⁹ The commenter believed that there should be an exemption for firms that invest their excess cash in short-term instruments such as money market mutual funds, short-term funds and high-grade debt instruments maturing in the short term.²⁰

¹⁷ Nelson.

¹⁸ Wachtel.

¹⁹ IMS.

²⁰ IMS.

FINRA has considered these comments and agrees that a firm that has inventory positions consisting only of U.S. Treasury securities should be required to file the proposed SIS. FINRA, however, proposes to exempt from the filing requirement those firms that: (1) have a minimum net capital or liquid capital requirement of less than \$100,000; or (2) have inventory positions consisting only of money market mutual funds. In response to the comment for a short-term instrument exemption, FINRA notes that the proposal exempts firms with inventory positions consisting only of money market mutual funds. However, FINRA believes that firms with inventory positions in short-term funds or high-grade debt instruments maturing in the short term should not be exempted from the proposed SIS as those positions are subject to greater market risk. For example, the credit crisis showed that short-term debt instruments (e.g., auction rate securities) can suffer material losses, irrespective of their investment grade ratings.

(b) Exemption for Firms Based on Net Capital or Liquid Capital Requirement

In the Notice, FINRA specifically requested comment on whether there is a category of firms that should not be required to file the proposed SIS based upon a de minimis amount of inventory positions. One commenter believed there should be a de minimis cutoff and stated that FINRA should “not place undue burdens on the small broker dealer community.”²¹ The commenter suggested that “reporting should only be required by firms that pose a systemic risk to the financial markets.”²² One commenter believed that an exemption should be focused on a firm’s level of excess capital and

²¹ Jim Nelson and Nelson.

²² Nelson.

leverage.²³ FINRA has considered these comments and proposes that firms with inventory positions that have a net capital or liquid capital requirement of less than \$100,000 would not need to file the proposed SIS. These firms are prohibited from engaging in dealer activities, self-clearing or carrying customer accounts and, as such pose less risk to the financial markets than firms with higher net capital or liquid capital requirements. FINRA disagrees with the commenters that reporting should only be required by firms that pose systemic risk or that an exemption should be focused on a firm's level of excess capital and leverage. Systemic risk is not the focus of the proposed SIS; rather, the proposal is intended to protect customers and other market participants who could be at risk if the firm's financial condition deteriorates. As such, requiring only firms that pose systemic risk to report to FINRA would hinder the staff's ability to identify and monitor the market, funding and liquidity risk of other firms whose inventory positions and dealer activities could result in harm to customers and other market participants. In addition, an exemption based on a firm's high excess net capital or liquid capital without regard to the type of inventory positions held would exempt a number of firms that hold significant levels of complex securities in inventory and self-clear, carry customer accounts or engage in dealer activities. Further, an exemption based on leverage would exempt those firms that have a low leverage ratio without regard to other risk factors, such as a high concentration in a particular category of less liquid securities (e.g., high yield debt, private label collateralized mortgage obligations).

²³ Wachtel.

(c) Economic Impact

In the Notice, FINRA specifically requested comment on the economic impact of the proposed SIS. Two commenters believed that the proposed SIS would place an unjustified burden on firms.²⁴ One of these commenters stated that even though firms already have the requested inventory information, the data will have to be put in the required format.²⁵ The commenter suggested that FINRA should ask a firm for a copy of its inventory and then input the data.²⁶ One commenter believed that there would be significant cost with no benefit and the proposed SIS would increase the effort of monthly filing by 15%.²⁷ Further, the commenter requested that any new requirements be incorporated into the original FOCUS form rather than requiring separate schedules that entail burdensome duplication and reconciliations.²⁸ However, one commenter agreed that firms currently compile inventory information as it is needed to compute haircut deductions when calculating net capital and stated that the proposed SIS is not nearly as burdensome as receiving questions from FINRA examiners or coordinators seeking to drill down into figures that are provided by the FOCUS Report.²⁹

Consistent with the discussion above, FINRA believes that the economic impact associated with completion of the proposed SIS would be minimal because the required

²⁴ Jim Nelson and Nelson.

²⁵ Nelson.

²⁶ Nelson.

²⁷ Wachtel.

²⁸ Wachtel.

²⁹ IMS.

information should be readily available to firms, as it is necessary for purposes of computing the haircut deductions required under SEA Rule 15c3-1.³⁰ Moreover, FINRA believes the proposed SIS is an effective and timely way to obtain detail of the inventory positions held by firms. FINRA notes it consulted with its advisory committees to help inform this view. In regard to the comment that the proposed SIS would increase the effort of monthly filing by 15%, FINRA notes that the commenter did not provide any evidence, basis or context to support the assertion, and therefore FINRA is uncertain as to its reliability. With respect to incorporating new requirements into the original FOCUS form, Form X-17A-5, FINRA notes that it is an SEC form, and any changes to it must be proposed and adopted by the SEC. However, FINRA would support updates to Form X-17A-5 by the SEC that would incorporate this more detailed reporting, and, if such updates were made, FINRA staff would seek to reduce accordingly the requirement for firms to file the proposed SIS.

(d) Instructions and Recommended Changes

One commenter was concerned that there were no instructions provided for the proposed SIS and that key definitions such as “arbitrage” and “no ready market” are not defined.³¹ In addition, the commenter believed that the term “Investments” is particularly confusing in the category for “Investments with no ready market” and suggested that “Securities” should be used.³² In addition, the commenter believed that asking for a

³⁰ 17 CFR 240.15c3-1.

³¹ IMS.

³² IMS.

beginning date on the proposed SIS is meaningless information.³³ Furthermore, the commenter stated that the proposed SIS ignores financings such as repurchase agreements and loans, does not contain a line for securities lending, does not itemize derivatives by market bias and does not request a breakdown of the types of commodities actually being held.³⁴

In response to the commenter, FINRA has developed instructions for the proposed SIS, which are included in the attached Exhibit 3. The instructions include guidance, clarifications and definitions with respect to specific line items that FINRA believes should ameliorate the commenter's concern. In addition, FINRA has amended the proposed SIS to state "Securities with no ready market" on line 13, instead of "Investments with no ready market," to alleviate confusion and has removed the line item for a beginning period date. With regard to capturing information about repurchase agreements and securities lending, FINRA notes that the proposed SIS is an inventory schedule and, as such, is not intended to capture financing transactions. In response to the comment about itemizing derivatives exposures by market bias, FINRA has expanded the "Derivatives including Options" on line 11 to distinguish between centrally cleared derivatives and other derivatives and to require a limited breakdown of information for the two categories. In addition, FINRA notes that additional derivatives information is captured on the Derivatives and Other Off-Balance Sheet Schedule. Finally, in response to the request for a breakdown of the types of commodities actually being held, FINRA believes, at this time, that the proposed SIS captures the information that is needed to

³³ IMS.

³⁴ IMS.

enable FINRA staff to assess the related market risk and impact on firms' liquidity and funding needs arising from inventory holdings.

(e) Alternatives to Proposed SIS

One commenter offered an alternative to the proposed SIS.³⁵ The commenter suggested that "FINRA should offer firms the ability to report the dollar amounts to which each haircut category applies."³⁶ The commenter believed that "[t]he haircut category is so much more relevant than the issuer type or even whether the haircut is on a long or short position."³⁷ FINRA disagrees with the commenter and believes that for purposes of understanding market risk associated with firms' inventory positions, issuer type is more appropriate than haircut category. For example, an equity security has different market risk than certain high-yield bonds; however, both types of securities can be in the same haircut category. Therefore, FINRA believes that obtaining information regarding the actual makeup of a firm's inventory positions is best achieved through the proposed SIS.

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.³⁸

³⁵ IMS.

³⁶ IMS.

³⁷ IMS.

³⁸ 15 U.S.C. 78s(b)(2).

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

11. **Exhibits**

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

Exhibit 2a. Regulatory Notice 13-05 (January 2013).

Exhibit 2b. A list of comment letters received in response to Regulatory Notice 13-05 (January 2013).

Exhibit 2c. Copies of the comment letters received in response to Regulatory Notice 13-05 (January 2013).

Exhibit 3. Supplemental Inventory Schedule (SIS) and accompanying instructions.

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34- ; File No. SR-FINRA-2014-025)

Self-Regulatory Organizations; Financial Industry Regulatory Authority, Inc.; Notice of Filing of a Proposed Rule Change to Adopt a Supplemental Schedule for Inventory Positions 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 , 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 schedule for inventory positions 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.

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

Pursuant to SEA Rule 17a-5,³ most firms are required to file with FINRA reports concerning their financial and operational status using the Financial and Operational Combined Uniform Single (FOCUS) Report.⁴ In general, firms with a FOCUS filing requirement must either file a FOCUS Report Part II if they clear transactions or carry customer accounts⁵ or file a FOCUS Report Part IIA if they do not.⁶ Firms that are government securities broker-dealers registered under Section 15C of the Act⁷ do not file a FOCUS Report and instead are required to file reports concerning their financial and operational status using the Report on Finances and Operations of Government Securities

³ 17 CFR 240.17a-5.

⁴ SEC Form X-17A-5.

⁵ Firms that calculate net capital using Appendix E to SEA Rule 15c3-1 file FOCUS Report Part II CSE, rather than FOCUS Report Part II.

⁶ 17 CFR 240.17a-5.

⁷ 15 U.S.C. 78o-5.

Brokers and Dealers (FOGS Report).⁸ These firms are required to file a FOGS Report Part I and either a FOGS Report Part II if they clear transactions or carry customer accounts or FOGS Report Part IIA if they do not.⁹

FINRA Rule 4524 (Supplemental FOCUS Information) requires each firm, as FINRA shall designate, to file such additional financial or operational schedules or reports as FINRA may deem necessary or appropriate for the protection of investors or in the public interest as a supplement to the FOCUS Report.¹⁰ Pursuant to FINRA Rule 4524, FINRA is proposing the adoption of a supplemental schedule to the FOCUS Report Part II, FOCUS Report Part IIA and the FOGS Report Part I that would provide more detailed information of inventory positions held by firms. The proposed Supplemental Inventory Schedule (“SIS”) would be due 20 business days after the end of a firm’s FOCUS or FOGS reporting period.¹¹

The proposal requires the SIS to be filed by firms that are required to file FOCUS Report Part II, FOCUS Report Part IIA or FOGS Report Part I with inventory positions as of the end of the FOCUS or FOGS reporting period with two exceptions. The first

⁸ Department of the Treasury Form G-405.

⁹ 17 CFR 405.2; 17 CFR 240.17a-5.

¹⁰ The reference to FOCUS reports under FINRA Rule 4524 includes FOGS Reports required to be filed by government securities broker-dealers registered under Section 15C of the Act in lieu of FOCUS Reports.

¹¹ Firms that file FOCUS Report Part II CSE would not be subject to the proposed SIS. As part of FOCUS Report Part II CSE, the Aggregate Securities and OTC Derivative Positions schedule requires firms to provide information that is similar to the proposed SIS.

exception is for firms that have a minimum net capital or liquid capital requirement¹² of less than \$100,000. Such firms are not allowed to engage in dealer activities and are limited to 10 proprietary transactions per year. Further, such firms are not permitted to self-clear or carry customer accounts. The second exception is for firms that have inventory positions consisting only of money market mutual funds. Money market mutual funds limit their investments to short-term, high-quality debt securities and are permitted to sell and redeem shares at a stable price, typically at \$1.00 per share, without regard to small variations in the value of the funds' underlying securities.¹³ A firm with inventory positions consisting only of money market mutual funds would need to affirmatively indicate through functionality on the eFOCUS system that no SIS filing is required for the reporting period. FINRA believes that firms that meet either of these two criteria pose significantly less risk to customers and other market participants. These exceptions will not only minimize the burden on firms, but also will allow FINRA to focus its resources where the risk is most concerning.

The proposed SIS is intended to capture more details of a firm's long and short inventory positions than what is captured on the FOCUS Report Part II, FOCUS Report Part IIA and FOGS Report Part I. For example, FOCUS Report Part II, FOCUS Report Part IIA and FOGS Report Part I require total inventory of securities sold short to be reported in aggregate (Item 1620), providing no information on the types of securities

¹² Firms that file the FOCUS Report must comply with a minimum net capital requirement, while firms that file the FOGS Report must comply with a minimum liquid capital requirement.

¹³ See Securities Act Release No. 9408 (June 5, 2013), 78 FR 36834, 36835 (June 19, 2013) (Proposed Rule: Money Market Fund Reform; Amendments to Form PF).

sold short by firms. In addition, FOGS Report Part I requires that all long inventory be reported in aggregate (Item 850). Further, on FOCUS Report Part II and IIA, long inventory is reported in categories that aggregate securities with different market risk profiles (e.g., the Corporate Obligations category on the FOCUS Report Part II (Item 400) and Debt Securities category on the FOCUS Report Part IIA (Item 419) include single name corporate bonds, private-label mortgage-backed securities and foreign issuer debt obligations). The proposed SIS would enhance FINRA's ongoing surveillance monitoring of firms' financial condition by providing greater transparency into the market risk posed by a firm's inventory positions and the potential impact to a firm's net capital or liquid capital, as well as related funding and liquidity needs. In addition, the information provided by the proposed SIS would enable FINRA staff to perform more targeted examinations of firms' market risk exposure.

The proposed rule change will be effective upon Commission approval. FINRA will announce the implementation date of the proposed supplemental schedule in a Regulatory Notice to be published no later than 60 days following Commission approval. The due date for the first proposed schedule will be no later than 90 days following Commission approval of the proposed rule change.

2. Statutory Basis

FINRA believes that the proposed rule change is consistent with the provisions of Section 15A(b)(6) of the Act,¹⁴ 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

¹⁴ 15 U.S.C. 78q-3(b)(6).

interest. FINRA believes that the proposed rule change is consistent with the provisions of the Act noted above in that the proposed SIS will provide FINRA with greater insights into the types of securities held in inventory by firms and the related market risk associated with such inventory positions. In addition, the proposed SIS would enable FINRA staff to assess the related impact on firms' liquidity and funding needs. The information provided on the proposed SIS would be used by FINRA to monitor firms' financial condition and perform more targeted examinations of firms' market risk exposure. The proposed rule change also is consistent with Section 712(b)(3)(B) of the Dodd-Frank Wall Street Reform and Consumer Protection Act¹⁵ in that it is necessary to enable FINRA to more effectively examine for compliance with, and enforce, its rules on capital adequacy.

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

FINRA does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. FINRA believes that the economic and operational impact associated with completion of the proposed SIS would be minimal because the required information should be readily available to firms, as it is necessary for purposes of computing the haircut deductions required under SEA Rule 15c3-1.¹⁶ However, FINRA recognizes that there may be an initial one-time cost to map inventory positions to the line items on the proposed SIS. FINRA believes that any burden imposed by the proposed SIS would be outweighed by the benefit to firms in allowing the staff to better understand a firm's market risk, which will lead to more focused reviews during examinations. In addition,

¹⁵ Pub. L. No. 111-203, 124 Stat. 1376 (2010).

¹⁶ 17 CFR 240.15c3-1.

the proposal is narrowly tailored to capture those firms that pose the most risk to customers and other market participants. Firms with inventory positions as of the end of the FOCUS or FOGS reporting period will not have to file the proposed SIS if they: (1) have a minimum net capital or liquid capital requirement of less than \$100,000; or (2) have inventory positions consisting only of money market mutual funds. Based on FOCUS Report data, as of June 30, 2013, FINRA estimates that 2,830 out of 4,327 firms (65 percent) have a minimum net capital or liquid capital requirement of less than \$100,000.

As discussed in Item II.C. below, FINRA initially considered exempting from the SIS filing requirement those firms that had inventory positions consisting only of U.S. Treasury securities or money market mutual funds. However, three commenters questioned the U.S. Treasury exemption, noting among other factors the market risk posed by certain U.S. Treasury securities and the risks posed by concentrations in those securities. Alternatively, these commenters suggested exemptions based on a firm's level of excess capital and leverage, for short-term instruments and for small broker-dealers. In response to commenters' suggestions, FINRA is not proposing an exemption for U.S. Treasury securities. However, FINRA is proposing at this time to exempt from the SIS filing requirement those firms that have a minimum net capital or liquid capital requirement of less than \$100,000. FINRA believes that exempting such firms should serve to reduce the compliance burdens for many small firms while also ensuring that FINRA receives the SIS data from those firms that pose higher risk to customers and other market participants.

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 13-05 (January 2013) (the "Notice"). Four comments were received in response to the Notice.¹⁷ A copy of the Notice is attached as Exhibit 2a. A list of the comment letters received in response to the Notice is attached as Exhibit 2b. Copies of the comment letters received in response to the Notice are attached as Exhibit 2c. Below is a summary of the comments and FINRA's responses.

(a) Exemption for U.S. Treasury Securities

In the Notice, FINRA specifically requested comment on whether firms that have inventory positions consisting only of U.S. Treasury securities should be exempt from the filing requirement. One commenter believed that no securities, including U.S. Treasury securities, should be excluded from review as all securities pose certain risks especially if they are concentrated.¹⁸ As discussed further below, one commenter believed that the exemption is a poor match with regulatory objectives.¹⁹ Another commenter disagreed with the exemption and questioned "why FINRA would exempt from reporting a firm with a portfolio of longer-term, low coupon U.S. Government bonds that would be significantly more sensitive to market risk than many other debt instruments especially

¹⁷ See Letter from Pat Nelson, dated January 31, 2013 ("Nelson"); letter from Jim Nelson, dated February 7, 2013 ("Jim Nelson"); letter from Wendie L Wachtel, CCO, Wachtel & Co Inc, to Marcia E Asquith, Corporate Secretary, FINRA, dated February 12, 2013 ("Wachtel"); and letter from Howard Spindel, Senior Managing Director, and Cassondra E. Joseph, Managing Director, Integrated Management Solutions USA LLC, dated February 25, 2013 ("IMS").

¹⁸ Nelson.

¹⁹ Wachtel.

investment-grade ones of much shorter durations.”²⁰ The commenter believed that there should be an exemption for firms that invest their excess cash in short-term instruments such as money market mutual funds, short-term funds and high-grade debt instruments maturing in the short term.²¹

FINRA has considered these comments and agrees that a firm that has inventory positions consisting only of U.S. Treasury securities should be required to file the proposed SIS. FINRA, however, proposes to exempt from the filing requirement those firms that: (1) have a minimum net capital or liquid capital requirement of less than \$100,000; or (2) have inventory positions consisting only of money market mutual funds. In response to the comment for a short-term instrument exemption, FINRA notes that the proposal exempts firms with inventory positions consisting only of money market mutual funds. However, FINRA believes that firms with inventory positions in short-term funds or high-grade debt instruments maturing in the short term should not be exempted from the proposed SIS as those positions are subject to greater market risk. For example, the credit crisis showed that short-term debt instruments (e.g., auction rate securities) can suffer material losses, irrespective of their investment grade ratings.

(b) Exemption for Firms Based on Net Capital or Liquid Capital Requirement

In the Notice, FINRA specifically requested comment on whether there is a category of firms that should not be required to file the proposed SIS based upon a de minimis amount of inventory positions. One commenter believed there should be a de minimis cutoff and stated that FINRA should “not place undue burdens on the small

²⁰ IMS.

²¹ IMS.

broker dealer community.”²² The commenter suggested that “reporting should only be required by firms that pose a systemic risk to the financial markets.”²³ One commenter believed that an exemption should be focused on a firm’s level of excess capital and leverage.²⁴ FINRA has considered these comments and proposes that firms with inventory positions that have a net capital or liquid capital requirement of less than \$100,000 would not need to file the proposed SIS. These firms are prohibited from engaging in dealer activities, self-clearing or carrying customer accounts and, as such pose less risk to the financial markets than firms with higher net capital or liquid capital requirements. FINRA disagrees with the commenters that reporting should only be required by firms that pose systemic risk or that an exemption should be focused on a firm’s level of excess capital and leverage. Systemic risk is not the focus of the proposed SIS; rather, the proposal is intended to protect customers and other market participants who could be at risk if the firm’s financial condition deteriorates. As such, requiring only firms that pose systemic risk to report to FINRA would hinder the staff’s ability to identify and monitor the market, funding and liquidity risk of other firms whose inventory positions and dealer activities could result in harm to customers and other market participants. In addition, an exemption based on a firm’s high excess net capital or liquid capital without regard to the type of inventory positions held would exempt a number of firms that hold significant levels of complex securities in inventory and self-clear, carry customer accounts or engage in dealer activities. Further, an exemption

²² Jim Nelson and Nelson.

²³ Nelson.

²⁴ Wachtel.

based on leverage would exempt those firms that have a low leverage ratio without regard to other risk factors, such as a high concentration in a particular category of less liquid securities (e.g., high yield debt, private label collateralized mortgage obligations).

(c) Economic Impact

In the Notice, FINRA specifically requested comment on the economic impact of the proposed SIS. Two commenters believed that the proposed SIS would place an unjustified burden on firms.²⁵ One of these commenters stated that even though firms already have the requested inventory information, the data will have to be put in the required format.²⁶ The commenter suggested that FINRA should ask a firm for a copy of its inventory and then input the data.²⁷ One commenter believed that there would be significant cost with no benefit and the proposed SIS would increase the effort of monthly filing by 15%.²⁸ Further, the commenter requested that any new requirements be incorporated into the original FOCUS form rather than requiring separate schedules that entail burdensome duplication and reconciliations.²⁹ However, one commenter agreed that firms currently compile inventory information as it is needed to compute haircut deductions when calculating net capital and stated that the proposed SIS is not

²⁵ Jim Nelson and Nelson.

²⁶ Nelson.

²⁷ Nelson.

²⁸ Wachtel.

²⁹ Wachtel.

nearly as burdensome as receiving questions from FINRA examiners or coordinators seeking to drill down into figures that are provided by the FOCUS Report.³⁰

Consistent with the discussion above, FINRA believes that the economic impact associated with completion of the proposed SIS would be minimal because the required information should be readily available to firms, as it is necessary for purposes of computing the haircut deductions required under SEA Rule 15c3-1.³¹ Moreover, FINRA believes the proposed SIS is an effective and timely way to obtain detail of the inventory positions held by firms. FINRA notes it consulted with its advisory committees to help inform this view. In regard to the comment that the proposed SIS would increase the effort of monthly filing by 15%, FINRA notes that the commenter did not provide any evidence, basis or context to support the assertion, and therefore FINRA is uncertain as to its reliability. With respect to incorporating new requirements into the original FOCUS form, Form X-17A-5, FINRA notes that it is an SEC form, and any changes to it must be proposed and adopted by the SEC. However, FINRA would support updates to Form X-17A-5 by the SEC that would incorporate this more detailed reporting, and, if such updates were made, FINRA staff would seek to reduce accordingly the requirement for firms to file the proposed SIS.

(d) Instructions and Recommended Changes

One commenter was concerned that there were no instructions provided for the proposed SIS and that key definitions such as “arbitrage” and “no ready market” are not

³⁰ IMS.

³¹ 17 CFR 240.15c3-1.

defined.³² In addition, the commenter believed that the term “Investments” is particularly confusing in the category for “Investments with no ready market” and suggested that “Securities” should be used.³³ In addition, the commenter believed that asking for a beginning date on the proposed SIS is meaningless information.³⁴ Furthermore, the commenter stated that the proposed SIS ignores financings such as repurchase agreements and loans, does not contain a line for securities lending, does not itemize derivatives by market bias and does not request a breakdown of the types of commodities actually being held.³⁵

In response to the commenter, FINRA has developed instructions for the proposed SIS, which are included in the attached Exhibit 3. The instructions include guidance, clarifications and definitions with respect to specific line items that FINRA believes should ameliorate the commenter’s concern. In addition, FINRA has amended the proposed SIS to state “Securities with no ready market” on line 13, instead of “Investments with no ready market,” to alleviate confusion and has removed the line item for a beginning period date. With regard to capturing information about repurchase agreements and securities lending, FINRA notes that the proposed SIS is an inventory schedule and, as such, is not intended to capture financing transactions. In response to the comment about itemizing derivatives exposures by market bias, FINRA has expanded the “Derivatives including Options” on line 11 to distinguish between centrally cleared

³² IMS.

³³ IMS.

³⁴ IMS.

³⁵ IMS.

derivatives and other derivatives and to require a limited breakdown of information for the two categories. In addition, FINRA notes that additional derivatives information is captured on the Derivatives and Other Off-Balance Sheet Schedule. Finally, in response to the request for a breakdown of the types of commodities actually being held, FINRA believes, at this time, that the proposed SIS captures the information that is needed to enable FINRA staff to assess the related market risk and impact on firms' liquidity and funding needs arising from inventory holdings.

(e) Alternatives to Proposed SIS

One commenter offered an alternative to the proposed SIS.³⁶ The commenter suggested that "FINRA should offer firms the ability to report the dollar amounts to which each haircut category applies."³⁷ The commenter believed that "[t]he haircut category is so much more relevant than the issuer type or even whether the haircut is on a long or short position."³⁸ FINRA disagrees with the commenter and believes that for purposes of understanding market risk associated with firms' inventory positions, issuer type is more appropriate than haircut category. For example, an equity security has different market risk than certain high-yield bonds; however, both types of securities can be in the same haircut category. Therefore, FINRA believes that obtaining information regarding the actual makeup of a firm's inventory positions is best achieved through the proposed SIS.

³⁶ IMS.

³⁷ IMS.

³⁸ IMS.

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

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

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

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

IV. Solicitation of Comments

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

Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-FINRA-2014-025 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-2014-025. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The

Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10 a.m. and 3 p.m. Copies of such filing also will be available for inspection and copying at the principal office of FINRA. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-FINRA-2014-025 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.³⁹

Secretary

³⁹ 17 CFR 200.30-3(a)(12).

Regulatory Notice

13-05

Supplemental FOCUS Information

FINRA Requests Comment on a Proposed Supplemental Schedule for Inventory Positions

Comment Period Expires: February 25, 2013

Executive Summary

FINRA Rule 4524 (Supplemental FOCUS Information) requires each firm, as FINRA shall designate, to file such additional financial or operational schedules or reports as FINRA may deem necessary or appropriate for the protection of investors or in the public interest as a supplement to the FOCUS Report. FINRA requests comment on one such proposed schedule, a supplemental schedule for inventory positions.

The text of the proposed supplemental schedule can be found at www.finra.org/notices/13-05.

Questions concerning this *Notice* should be directed to:

- ▶ Kris Dailey, Vice President, Risk Oversight & Operational Regulation, at (646) 315-8434; or
- ▶ Matthew E. Vitek, Assistant General Counsel, Office of General Counsel, at (202) 728-8156.

Action Requested

FINRA encourages all interested parties to comment on the proposal. Comments must be received by February 25, 2013.

Comments must be submitted through one of the following methods:

- ▶ emailing comments to pubcom@finra.org; or
- ▶ mailing comments in hard copy to:

Marcia E. Asquith
Office of the Corporate Secretary
FINRA
1735 K Street, NW
Washington, DC 20006-1506

January 2013

Notice Type

- ▶ Request for Comment

Suggested Routing

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

Key Topics

- ▶ FOCUS Reporting

Referenced Rules & Notices

- ▶ Rule 4524

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 Securities and Exchange Commission (SEC) by the FINRA Board of Governors, and then must be filed with the SEC pursuant to Section 19(b) of the Securities Exchange Act of 1934 (SEA).²

Background & Discussion

Pursuant to SEA Rule 17a-5, firms are required to file with FINRA reports concerning their financial and operational status using SEC Form X-17A-5, Financial and Operational Combined Uniform Single (FOCUS) Report. In general, SEA Rule 17a-5 requires firms that clear transactions or carry customer accounts to file a FOCUS Report Part II, and requires firms that do not clear transactions or carry customer accounts to file a FOCUS Report Part IIA. However, firms that calculate net capital using Appendix E to SEA Rule 15c3-1 file a FOCUS Report Part II CSE, rather than FOCUS Report Part II.

Proposal

FINRA Rule 4524 (Supplemental FOCUS Information) requires each firm, as FINRA shall designate, to file such additional financial or operational schedules or reports as FINRA may deem necessary or appropriate for the protection of investors or in the public interest as a supplement to the FOCUS Report. Pursuant to Rule 4524, FINRA is proposing to adopt a supplemental schedule to the FOCUS Report that would provide more detailed information of inventory positions held by firms. The proposed Supplemental Inventory Schedule (SIS) is identical to the Aggregate Securities and OTC Derivative Positions schedule from the FOCUS Report Part II CSE.

The proposal requires the SIS to be filed by all firms with inventory positions as of the end of the FOCUS Report reporting period, except for firms that: (1) have inventory positions consisting only of U.S. Treasury securities or money market mutual funds; or (2) file FOCUS Report Part II CSE. A firm that has inventory positions consisting only of U.S. Treasury securities or money market mutual funds would need to affirmatively indicate through functionality on the eFOCUS system that no filing is required for the reporting period. The proposed SIS would be due 20 business days after the end of a firm's FOCUS reporting period.

The proposed SIS is intended to capture more details of a firm's long and short inventory positions than what is captured on the FOCUS Report Part II and IIA. For example, FOCUS Report Part II and IIA require total inventory of securities sold short to be reported in aggregate, providing no information on the types of securities sold short by firms. In addition, long inventory is reported in categories that aggregate securities with different market risk profiles (e.g., the Corporate Obligations category on the FOCUS Report Part II and Debt Securities on the FOCUS Report Part IIA includes single name corporate bonds, private label mortgage-backed securities and foreign debt holdings). The proposed SIS would provide FINRA with greater insights into the market risk associated with firms' inventory positions, and would enable FINRA staff to assess the related impact on firms' liquidity and funding needs.

Request for Comment

In addition to generally requesting comments, FINRA specifically requests comment on:

- ▶ whether firms that have inventory positions consisting only of U.S. Treasury securities should be exempt from the filing requirement; and
- ▶ whether there is a category of firms that should not be required to file the proposed SIS based upon a *de minimis* amount of inventory positions.

FINRA believes that the economic impact associated with completion of the proposed SIS would be minimal because the required information should be readily available to firms, as it is necessary for purposes of computing the haircut deductions required under the SEC's net capital rule. FINRA also believes that any operational burden imposed by the proposed SIS would be outweighed by the benefit to firms in allowing the staff to better understand a firm's market risk, which will lead to more focused and effective examinations. FINRA, however, specifically seeks comment on the economic impact of the proposed SIS, including costs incurred by a firm in determining whether it must file the SIS for each reporting period, completing the SIS and filing the schedule with FINRA. We request quantified comments where possible.

Following FINRA's receipt of comments on the proposed SIS in response to this *Notice*, in accordance with the requirements of Rule 4524, FINRA will file the proposed SIS with the SEC pursuant to Section 19(b) of the SEA.

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 [Notice to Members 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.

FINRA
FORM
SIS

SUPPLEMENTAL SCHEDULE TO FOCUS REPORT
Supplemental Inventory Schedule
(Please read instructions before completing Form)

NAME OF BROKER-DEALER	13	SEC FILE NO.	14
ADDRESS OF PRINCIPAL PLACE OF BUSINESS	20	FIRM ID NO.	15
(No. and Street)		FOR PERIOD BEGINNING (MM/DD/YY)	24
(City)	21	AND ENDING (MM/DD/YY)	25
(State)	22		
(Zip Code)	23		
NAME OF PERSON COMPLETING THIS REPORT		11290	
TELEPHONE NO. OF PERSON COMPLETING THIS REPORT		11291	

Aggregate Securities and Commodities Positions

	LONG		SHORT	
1. U.S. Treasury securities.....	\$	8200	\$	8201
2. U.S. Government agency and government sponsored entities.....	\$	8210	\$	8211
3. Securities issued by states and political subdivisions in the U.S....	\$	8220	\$	8221
4. Foreign securities:				
a. Debt securities.....	\$	8230	\$	8231
b. Equity securities.....	\$	8235	\$	8236
5. Money Market Instruments.....	\$	8240	\$	8241
6. Private Label Mortgage Backed Securities.....	\$	8250	\$	8251
7. Other Asset Back Securities.....	\$	8260	\$	8261
8. Corporate obligations.....	\$	8270	\$	8271
9. Stocks and warrants (other than arbitrage positions).....	\$	8280	\$	8281
10. Arbitrage.....	\$	8290	\$	8291
11. Derivatives including Options:	\$	8295	\$	8296
12. Spot Commodities.....	\$	8330	\$	8331
13. Investments with no ready market :				
a. Equity.....	\$	8340	\$	8341
b. Debt.....	\$	8345	\$	8346
c. Other (include limited partnership interests).....	\$	8350	\$	8351
14. Other securities or commodities.....	\$	8360	\$	8361
15. Total.....	\$	8370	\$	8371

Exhibit 2b

Alphabetical List of Written Comments

1. Letter from Jim Nelson (February 7, 2013)
2. Letter from Pat Nelson (January 31, 2013)
3. Letter from Howard Spindel and Cassondra E. Joseph, Integrated Management Solutions USA LLC (February 25, 2013)
4. Letter from Wendie L Wachtel, Wachtel & Co Inc (February 12, 2013)

I wanted to reinforce comments made by Pat Nelson. I understand the importance of having sufficient capital and believe that rules should be developed and adjusted as investments change. I do not feel that being overburdened by continued increased reporting is the answer to ensuring that sufficient capital is maintained by the broker. We are already required to file information surrounding our capital in our FOCUS filings, as well as being audited annually by our external auditors, and routinely by FINRA and the SEC.

Thank you,

Jim Nelson

Passing rule 4524 placed a large burden on the membership. When will it stop? I think it is interesting that FINRA doesn't think this is a burden because the firm already has the information in order to perform their haircuts. While it is true the information is available, what about now massaging the data to put it in the format FINRA will require. What about actually filling out the form? Sure as an isolated requirement, maybe it is not so burdensome but these things should be considered in the aggregate. Why can't FINRA just ask a firm for a copy of their inventory and then input their own data? The present SSOI has already become a burden. And now this comes on top of that. This shifting of information burdens on to the membership is just like an additional assessment in disguise. FINRA gets the information electronically, it is evaluated by some computer program with no manpower by FINRA. The burden of the work falls on the firm. It should also be considered that these additional burdens fall much harder on the small firm than the large firms and it is the large firms and it is the large firms that pose the biggest risks to the financial markets. This regulatory trend actually favors the firms that pose the greatest risk to the capital markets. FINRA should concentrate there resources there and not place undue burdens on the small broker dealer community.

I think there should certainly be a de minimus cutoff here. This type of reporting should only be required by firms that pose a systemic risk to the financial markets. By requiring every firm to report this information will cause FINRA staff to spend too much time on firms where it would be sufficient to review inventory during routine exams, audits, and spot checking by requesting a copy of inventory.

I don't think any security should be excluded from a review. All securities pose certain risks especially if they are concentrated. To exclude any bonds would be foolish because interest rates have no where to go but up and bond inventories could lose value quickly. And as far as money market funds go, didn't Mary Shapiro think that market could be the root of the next big financial crisis? All securities pose some sort of risk and that is what the haircut rule is about. If you are concerned about the risk in any given inventory, make sure the haircut rates are reasonable and applied correctly.

Pat Nelson
212-425-7790
212-425-1165 (Fax)



39 Broadway, Suite 3300, New York, New York 10006-3019

Via email: pubcom@finra.org

February 25, 2013

RE: RN 13-05: Supplemental FOCUS
Information - Inventory Positions

Integrated Management Solutions USA LLC (“IMS”) is pleased to comment on RN 13-05, Supplemental FOCUS Information for Inventory Positions (the “Proposed Schedule”), to detail the inventory positions held by firms, as authorized under FINRA Rule 4524 (Supplemental FOCUS Information). The Proposed Schedule is intended to provide FINRA “...with greater insights into the market risk associated with firms’ inventory positions[, enabling it]...to assess the related impact on firms’ liquidity and funding needs.”¹ FINRA correctly notes that firms currently compile this information as it is needed to compute haircut deductions when calculating net capital.²

IMS is one of the largest providers of financial accounting and compliance consulting services to the securities industry, providing such services to about 100 FINRA members.³ We prepare and/or file FOCUS Reports routinely on behalf of our clients and have been doing so for

¹ RN 13-05, p. 3.

² FINRA also notes that the information to be provided on the Proposed Schedule is “identical” to the Aggregate Securities and OTC Derivative Positions schedule from the FOCUS Report Part II CSE. FINRA proposes to exempt firms that already file this particular FOCUS Report from also filing the Proposed Schedule. RN 13-05, p. 2.

³ The statements in this comment letter incorporate the views of IMS, not those of our clients.

many years. In addition, we interface with FINRA examiners and coordinators whose efforts to gain adequate knowledge about firms that they regulate are frustrated by the relative lack of significant data reported in the FOCUS Report, which is essentially a format that is, at least theoretically, the design of the SEC⁴. We previously commented to FINRA with respect to RN 10-33 when Rule 4524 was first being proposed along with the Supplemental Statement of Income (“SSOI”). We also sent comments to the SEC regarding the issues that were posed earlier. We believe that our regular daily experience with the FINRA reporting scheme and how it is used by FINRA itself provides a perspective that enables us to assess the impact of the Proposed Schedule on FINRA member firms from both a regulatory and business perspective.

Overall Concerns

A. Failure to Provide Instructions

The Proposed Schedule states, at the top center, the instructions should be read before completing the form. However, no sample instructions are provided by FINRA in RN 13-05 or elsewhere and we are unable to comment on whether FINRA’s instructions are helpful, accurate or complete. As it happens, we commented similarly in the past regarding the SSOI.

B. Failure to Define Key Terms

Although the reporting of “Arbitrage” is provided, and the term is used in items 9 and 10 of the Proposed Schedule, it is not defined. We note that combining financial instruments of different types as “arbitrage” is somewhat useful but would tend to cause a good deal of the information that FINRA would probably wish to know to be buried within large numbers thus, necessarily, limiting their usefulness. For example, how might a firm report a portfolio of

⁴ The FOCUS Report itself is largely unchanged over the past 35 or more years even though the markets and technological changes have metamorphasized radically. For example, today we have algorithmic trading where products that are defined on different lines on the proposed schedule are traded as offsets or in relationship to each other.

covered calls? Would they report the short calls on line 11, “Derivatives including options,” and the long stock on line 9, “Stocks and warrants”? Or would they report both the long and short positions on the same line as number 10 “Arbitrage”?

Nor are the criteria that establish that an investment has “no ready market” defined.⁵ Perhaps those definitions are included in the “missing” instructions?

C. Request for Irrelevant Information

The Proposed Schedule requests a beginning date, information that is meaningless. A firm holds a position as of a certain date, which is the ending date.

Specific Recommendations

A. Proposed Exemption for Firms whose Inventory Consists Only of U.S. Treasury Securities or Money Market Mutual Funds

FINRA proposes to exempt those firms whose inventory positions are solely in U.S. Treasury securities from filing the Proposed Schedule. This knee-jerk distinction is senseless if the regulators truly want to assess not only market risk, but also a firm’s liquidity and funding positions. There are corporates that carry a AAA rating, while our government currently has a AA rating. In fact, FINRA itself recognizes that bonds can be very risky investments in general. See <http://www.finra.org/Investors/ProtectYourself/InvestorAlerts/Bonds/P204318> for an article in the Investors section of the FINRA website entitled “Duration-What an Interest Rate Hike Could Do to Your Bond Portfolio,” which explains the risk of owning bonds in the current low interest rate environment. We do not understand why FINRA would exempt from reporting a firm with a portfolio of longer-term, low coupon U.S. Government bonds that would be significantly more sensitive to market risk than many other debt instruments especially investment-grade ones of much shorter durations.

⁵ Investment positions with “no ready market” raise additional concerns, discussed below.

An exemption for firms that simply invest their excess cash in short term instruments is, in our view, appropriate. Money market funds, short-term funds and high-grade debt instruments maturing within the short term are demonstrably non-risky and should be exempt from the filing requirement.

B. Inventory with “No Ready Market”

Aside from definitional concern, noted above, the Proposed Schedule provides a category for “Investments with no ready market” (Item 13, with 3 sub-categories for “equity,” “debt” and “other (include limited partnership interests)”), but nothing for trading positions with no ready market. We believe that that the term “Investments” is particularly confusing. Perhaps FINRA could use a simple term like “Securities” to indicate the data it wishes to capture?

C. Derivatives

Derivatives, including options, are to be reported at their market value as of the reporting date. There is no differentiation among types of derivatives or their duration. For example, wouldn't itemizing derivatives by market bias; e.g., a long put is really a short position, provide valuable information as to market risk and firm liquidity?

D. Repos and Loans

The Proposed Schedule ignores financings such as repurchase agreements and loans. For a Schedule that purports to provide FINRA with better tools to assess a firm's liquidity and financing needs, that omission is startling. This information can be quite relevant especially to the extent that repurchase agreements are part of the trading strategy of firms.

Have the lessons of the over-leveraging of firms that were supposedly too big to fail but failed anyway been so quickly forgotten?

Securities lending is another business line that affects a firm's inventory positions, as well as its bottom line. Wouldn't such disclosure assist FINRA in assessing a firm's liquidity status?

E. Spot Commodities

The Proposed Schedule requests no breakdown of the types of commodities actually being held. Isn't that information relevant? Is gold the same as pork bellies?

F. Short Positions

Currently, "shorts" merit one line on the FOCUS report, hardly commensurate with the degree of risk they possibly pose. In addition, a FOCUS Report does not clearly reflect the fact that, in many instances, derivatives serve as hedges to the risks posed by long positions, especially when they are directly related to specific long positions. The fact that FINRA will now receive the same information for short positions as for long positions is a major improvement.

Some Good News

A. Tax considerations are ignored

When FINRA initially proposed the SSOI Schedules, in November of 2011, categories were based on taxability considerations even though, we believe, such considerations do not reflect the business realities of the business lines firms use in their books and records, how firms record transactions or always comport with GAAP. Regrettably, the tax code classifications remain in FINRA Rule 4524. Laudably, the Proposed Schedule makes no attempt to separate positions by their taxability considerations, nor should it since it is irrelevant.

B. Important granular information can be provided consistently

There are many naysayers who regard reporting as burdensome. It is not nearly as burdensome as receiving questions from FINRA examiners or coordinators seeking to drill down into the figures that are provided by the FOCUS Report. At best, the FOCUS Report is a slight hint as to what firms are doing. There is a benefit to the entire FINRA community when FINRA is able to know what is transpiring at each firm without separately generating an inquiry phone call or email. There's no reason to keep FINRA guessing. FINRA will derive the information in a less consistent manner if the status quo persists. Our hope is that FINRA won't bother obtaining the information from firms where there is clearly no risk, such as those holding low duration, high-grade debt instruments⁶ or money market funds.

Our Alternative Recommendation

As a simple optional alternative to providing the information in the format of the SIS, we believe that FINRA should offer firms the ability to report the dollar amounts to which each haircut category applies. Generally, the haircuts on riskier positions are much higher than those on less risky positions. Thus, for example, a firm with an entire portfolio subject to, say, a 3% haircut would not need to consider whether the asset is a municipal bond, a U.S. Government bond or a corporate bond subject to that kind of haircut or whether it part of an arbitrage position. All 3% haircut category financial instruments are somewhat similar from a regulatory concern standpoint. All 15% haircut securities are considerably more volatile and risky.

This alternative is not so far-fetched because most firms that have portfolios of any significant size use computer programs that can sort data in many different ways. The haircut category is so much more relevant than the issuer type or even whether the haircut is on a long or short position. The proposed form does not discriminate at all in terms of risk. The categories

⁶ Commercial paper, bonds maturing in less than two years, etc. are all good examples.

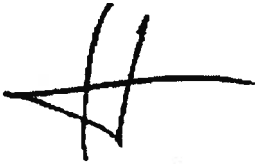
don't make that much sense to us. We truly question the form's usefulness as a regulatory tool when there is a better method available.

We realize that there may be some merit to categorizing by sub-category certain items. For example, we see merit in separating a 15% stock from a 15% bond because they tend to fluctuate very differently.

* * * * *

Thank you for the opportunity to comment on the Proposed Schedule. Should you have any further questions, please feel free to call Howard Spindel at 212-897-1688 or Cassandra Joseph at 212-897-1687, or contact us by e-mail at hspindel@intman.com or cjoseph@intman.com, respectively.

Very truly yours,



Howard Spindel
Senior Managing Director



Cassandra E. Joseph
Managing Director

Wachtel & Co Inc
1101-14th Street, NW #800
Washington, DC 20005

February 12, 2013

Marcia E Asquith
Office of the Corporate Secretary
FINRA
1735 K Street, NW
Washington, DC 20006

Re: FINRA Rule 4524 - Proposed Supplemental Schedule for Inventory Positions

Dear Ms. Asquith:

This comment is submitted by Wachtel & Co Inc, a small self-clearing broker dealer.

We encourage FINRA to take appropriate steps to reduce the burden on firms—and particularly small self clearing firms—that this proposal would entail. We believe FINRA’s stated objectives will best be served if additional financial reporting is limited to those firms where such reporting will meaningfully impact regulatory risk analysis. Such recognition presumably underlies the staff suggestion that firms which solely own US Treasury securities would be exempt from the new requirement. However, that exemption we believe is a poor match with regulatory objectives. A different exemption— one focused on a firm’s level of excess capital and leverage— will meet the desired criteria.

Let’s start with the purpose of this proposal: “to provide FINRA with greater insights into the market risk associated with firms’ inventory positions, ... and enable FINRA staff to assess the related impact on firm’s liquidity and funding needs.” Consider in this connection the situation of two firms. Firm A carries only Treasury securities of mixed duration in amounts sufficient to slightly exceed required net capital. Firm B carries a mix of marketable debt and equity (revealed by category on monthly Focus forms) but with a value that exceeds net capital requirements by a factor of five. Which firm is in a more precarious financial position requiring escalated regulatory attention and filing? Firm A will be out of ratio on any significant rise in interest rates, victim to what some current observers have described as a bond bubble. Firm B on the other hand has a cushion to withstand an 80% decline in the markets – a collapse exceeding 2008. We submit that by any sensible regulatory analysis, Firm A should be subject to additional scrutiny and burdens, Firm B should be exempt. If Firm A is levered and Firm B is not, that result is even more stark.

Any reader familiar with this firm will recognize the outline of our business in the example

presented above. This firm does not use leverage, carries no margin accounts or short positions, and holds excess net capital of more than ten times our regulatory requirement. We can speculate on the cost of compliance with FINRA's proposal, but no speculation is necessary to assess the regulatory benefit. That benefit will be zero, because our financial risk is negligible.

We have raised these points several times in the past with respect to other filing requirements, and are quite frustrated with FINRA's apparent unwillingness to experiment with exemptions based on the **real** risk factors in the industry: undercapitalization and leverage. Were new exemptions to be introduced, many small firms might choose to increase their capital to reduce the burden of filing requirements. We know the high caliber and creativity of the FINRA rule designers. Please make an effort in this direction!

We now turn to the cost of compliance with the proposed rule. At this firm, it will not be "minimal" as FINRA suggests. Every such rule requires the following actions: review of requirements, research of ambiguous provisions; development of new worksheets, completion of form with special focus on rounding errors which are ubiquitous in FINRA filings because of the requirement to reconcile to the nearest dollar (an extraordinarily burdensome requirement); double check for accuracy, input to computer and correct any human error in the input process. Finally, spend hours responding to multiple regulators to explain the responses on the form. We estimate that the new form will increase the effort of monthly filing by 15%, only slightly less than the 20% increase we have experienced with the new income schedule (SSOI). In short, the burden is significant. And strictly as a practical matter, we request that any new requirements be incorporated into the original Focus form-- rather than requiring separate schedules that entail burdensome duplication and reconciliations.

In summary, with respect to this firm, the proposed schedule--like its income counterpart--entails significant costs with no benefit. The cumulation of such requirements threatens the viability of this and all similar small firms. We strongly suggest that such firms should be exempt from both requirements.

Sincerely yours,

Wachtel & Co Inc

Wendie L Wachtel, COO

SUPPLEMENTAL SCHEDULE TO FOCUS REPORT OR FOGS REPORT, AS APPLICABLE
SUPPLEMENTAL INVENTORY SCHEDULE

GENERAL INSTRUCTIONS

The Supplemental Inventory Schedule (SIS) is to be filed within 20 business days after the end of each firm's FOCUS reporting period by all FOCUS Part II, FOCUS Part IIA, and FOGS Part I filers with inventory positions as of the end of the reporting period, except for firms that:

- (1) have a minimum net capital or liquid capital requirement, as applicable, of less than \$100,000; or
- (2) have inventory positions consisting only of money market mutual funds.

A firm with inventory positions consisting only of money market mutual funds must affirmatively indicate through functionality on the eFOCUS system that no filing is required for the reporting period.

Note: Report the gross long and short market values of all inventory positions as defined for each line item.

Note: Securities defined within the categories specified in lines 3 through 11 that are deemed to be "non-marketable," "not readily convertible to cash" or where "a ready market" is deemed not to exist with respect to such securities under SEA Rule 15c3-1 and the respective interpretations thereunder, are to be reported on line 13.a., b. or c. (Securities with No Ready Market).

SPECIFIC INSTRUCTIONS

Aggregate Securities and Commodities Positions

1. U.S. Treasury Securities

Report the market value of all securities issued by and guaranteed as to principal or interest by the United States government (i.e., 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.

2. U.S. Government Agency and U.S. Government-Sponsored Enterprises

a. Mortgage-Backed Securities issued by U.S. Government Agency and U.S. Government-Sponsored Enterprises

Report the market value of all securities that include, but are not limited to, mortgage-backed securities issued or guaranteed by, or which are the obligation of a United States federal agency, or a United States government-sponsored enterprise, including participation certificates, pass-through securities, CMOs, REMICS, and IOs or POs. For examples of securities issued by U.S. government agency and U.S. government-sponsored enterprises, see /01 and /011 of SEA Rule 15c3-1(c)(2)(vi)(A) in the *FINRA Interpretations of Financial and Operational Rules*.

b. Debt Securities issued by U.S. Government Agency and U.S. Government-Sponsored Enterprises

Report the market value of all debt securities issued or guaranteed as to principal or interest by any agency of the United States government including securities that are issued by, guaranteed by, or are the direct obligation of a United States federal agency or a United States government-sponsored enterprise except mortgage-backed securities issued by such entities. For examples of securities issued by U.S. government agency and U.S. government-sponsored enterprises, see /01

and /011 of SEA Rule 15c3-1(c)(2)(vi)(A) in the *FINRA Interpretations of Financial and Operational Rules*.

3. Securities issued by States and Political Subdivisions in the U.S.

Report the market value of all securities issued by states (and political subdivisions thereof) of the United States including the District of Columbia, as well as counties, municipalities, school districts, irrigation, drainage and sewer districts. Also include securities issued by the government of Puerto Rico and of the U.S. territories and possessions and their political subdivisions. Include general obligations, revenue obligations, industrial development and similar obligations.

4. Foreign securities

Report the market value of all debt (line 4.a.) and equity (line 4.b.) securities issued or guaranteed as to principal or interest by a foreign sovereign government. In addition, report the market value of all securities issued by entities established under the laws of a foreign country (i.e., legally incorporated in a foreign country or issued by international organizations, even if these organizations are located in the United States) including ADRs, Eurodollar bonds as well as any structured products such as ETNs and ETFs that are issued by foreign entities as well as ETNs and ETFs whose underlying holdings are predominantly securities issued by foreign entities.

5. Money Market Instruments

Report the market value of all money market securities issued by entities established in the United States, which include but are not limited to banker's acceptances, bank certificates of deposit, commercial paper and money market mutual funds.

6. Private-Label Mortgage-Backed Securities

Report the market value of all mortgage-backed securities including residential and commercial mortgage-backed securities issued by any private issuer (i.e., any entity that is not a U.S. government agency or U.S. government-sponsored enterprise).

7. Other Asset-Backed Securities

Report the market value of all asset-backed securities issued by any private issuer (i.e., any entity that is not a U.S. government agency or U.S. government-sponsored enterprise) other than mortgage-backed securities reported on line 6 (Private-Label Mortgage-Backed Securities). Asset-backed securities include but are not limited to securities backed by credit card receivables, automobile loans and leases.

8. Corporate Obligations

Report the market value of all U.S. dollar-denominated debt securities issued by any corporations incorporated in the 50 states of the United States and the District of Columbia. Corporate obligations include but are not limited to non-convertible, convertible, floating rate debt securities and ETNs that are issued by a domestic issuer, as well as ETNs that are predominantly composed of debt securities issued by a domestic issuer.

9. Stocks and Warrants (other than arbitrage positions)

Report the market value of preferred and common stocks, warrants and ETFs issued by any domestic issuer and that are not traded on the firm's arbitrage trading desk.

10. Arbitrage

Report the market value of all securities that are traded on the firm's arbitrage trading desk, provided the firm has a separate arbitrage trading desk.

11. Derivatives including Options

Reporting on lines 11.a.1.-5. and 11.b.1.-4. is required when either the total long or total short of all items under line 11) is greater than 10% of the total long or total short amounts reported on line 15 (Total) after excluding long and short amounts reported on line 1 (U.S. Treasury Securities) and line 2. (U.S. Government Agency and U.S. Government – Sponsored Enterprises). Otherwise, firms need only report the total of all long and short amounts of Derivatives including Options on line 11.

Note: Firms should net offsetting intracompany securities or swaps transactions between desks. No other netting should be done for purposes of reporting in this section, even if transactions are subject to bilateral netting agreements. When reporting mark-to-market receivables and payables, receivables should be reported in the long column and payables in the short column.

a. Centrally Cleared

1. Report the market value of all centrally cleared options.
2. Report the gross mark-to-market receivables and payables on all centrally cleared forward settling and delayed delivery transactions (including TBAs).
3. Report the gross mark-to-market receivables and payables on all centrally cleared security-based swaps and swaps transactions.
4. Report the gross mark-to-market receivables and payables on all futures transactions.
5. Report the gross mark-to-market receivables and payables on all other centrally cleared derivatives.

b. All Other

1. Report the market value of all options not otherwise reported on line 11.a.1, including the mark-to-market receivables or payables on swaptions contracts.
2. Report the gross mark-to-market receivables and payables on forward settling and delayed delivery transactions not otherwise reported on line 11.a.2 (including TBAs).
3. Report the gross mark-to-market receivables and payables on security-based swaps and swaps transactions not otherwise reported on line 11.a.3.
4. Report the gross mark-to-market receivables and payables on all other non-centrally cleared derivatives.

12. Spot Commodities

Report the market value of spot commodities.

13. Securities with no ready market

Report the value of securities for which there is no "ready market," as defined in SEA Rule 15c3-1 and the respective interpretations thereunder. Include securities that are subject to marketplace blockage, and securities that cannot be publicly offered or sold because of statutory, regulatory, or contractual arrangements, or because of other restrictions.

14. Other Securities or Commodities

Report the market value of all other marketable securities not reported in lines 1 through 13.

FINRA FORM SIS	SUPPLEMENTAL SCHEDULE TO FOCUS REPORT OR FOGS REPORT, AS APPLICABLE			
Supplemental Inventory Schedule <i>(Please read instructions before completing Form)</i>				
NAME OF BROKER-DEALER			SEC FILE NO.	
			13	
ADDRESS OF PRINCIPAL PLACE OF BUSINESS			FIRM ID NO.	
			20	
(No. and Street)	(City)	(State)	(Zip Code)	FOR PERIOD ENDING (MM/DD/YY)
				25
NAME OF PERSON COMPLETING THIS REPORT			11290	
TELEPHONE NO. OF PERSON COMPLETING THIS REPORT			11291	

Aggregate Securities and Commodities Positions

	LONG		SHORT	
1. U.S. Treasury Securities	\$	8200	\$	8201
2. U.S. Government Agency and U.S. Government – Sponsored Enterprises	\$	8210	\$	8211
	LONG		SHORT	
a. Mortgage-Backed Securities Issued by U.S. Government Agency and U.S. Government-Sponsored Enterprises	\$	18001	\$	18002
b. Debt Securities Issued by U.S. Government Agency and U.S. Government-Sponsored Enterprises	\$	18003	\$	18004
3. Securities Issued by States and Political Subdivisions in the U.S.	\$	8220	\$	8221
4. Foreign securities:				
a. Debt securities	\$	8230	\$	8231
b. Equity securities	\$	8235	\$	8236
5. Money Market Instruments	\$	8240	\$	8241
6. Private-Label Mortgage-Backed Securities	\$	8250	\$	8251
7. Other Asset-Backed Securities	\$	8260	\$	8261
8. Corporate Obligations	\$	8270	\$	8271
9. Stocks and Warrants (other than arbitrage positions)	\$	8280	\$	8281
10. Arbitrage	\$	8290	\$	8291
11. Derivatives Including Options:				
a. Centrally Cleared (See Instructions)				
1. Options	\$	18005	\$	18006
2. Forward Settling and Delayed Delivery Transactions	\$	18007	\$	18008
3. Security Based Swaps and Swaps	\$	18009	\$	18010
4. Futures	\$	18011	\$	18012
5. Other	\$	18013	\$	18014
b. All Other (See Instructions)				
1. Options	\$	18100	\$	18101
2. Forward Settling and Delayed Delivery Transactions	\$	18102	\$	18103
3. Security Based Swaps and Swaps	\$	18104	\$	18105
4. Other	\$	18106	\$	18107
12. Spot Commodities	\$	8330	\$	8331
13. Securities with no ready market:				
a. Equity	\$	8340	\$	8341
b. Debt	\$	8345	\$	8346
c. Other (Include limited partnership interests)	\$	8350	\$	8351
14. Other Securities or Commodities	\$	8360	\$	8361
15. Total	\$	8370	\$	8371