

## OMB APPROVAL

OMB Number: 3235-0045  
 Estimated average burden  
 hours per response.....38

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of \* 10

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

File No.\* SR - 2014 - \* 025

Amendment No. (req. for Amendments \*) 1

Filing by Financial Industry Regulatory Authority

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

Initial *	Amendment *	Withdrawal	Section 19(b)(2) *	Section 19(b)(3)(A) *	Section 19(b)(3)(B) *
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Rule

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

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

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

Section 806(e)(1) *	Section 806(e)(2) *
<input type="checkbox"/>	<input type="checkbox"/>

Section 3C(b)(2) \*  
☐

Exhibit 2 Sent As Paper Document



Exhibit 3 Sent As Paper Document



## Description

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

## 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 09/22/2014

Senior Vice President and Deputy General Counsel

By Patrice Gliniecki

(Name \*)

Patrice Gliniecki,

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

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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

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

Add Remove View

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

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

Add Remove View

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

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

Add Remove View

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

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

Add Remove View

Exhibit Sent As Paper Document

☐

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

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

Add Remove View

Exhibit Sent As Paper Document

☐

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

**Exhibit 4 - Marked Copies**

Add Remove View

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

**Exhibit 5 - Proposed Rule Text**

Add Remove View

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

**Partial Amendment**

Add Remove View

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

On June 16, 2014, FINRA filed with the Securities and Exchange Commission (“SEC” or “Commission”) SR-FINRA-2014-025, a proposed rule change to adopt a supplemental schedule for inventory positions (“SIS”) pursuant to FINRA Rule 4524 (Supplemental FOCUS Information). On June 26, 2014, the Commission published the proposed rule change for notice and comment in the Federal Register<sup>1</sup> and received three comment letters.<sup>2</sup> FINRA is filing this Partial Amendment No. 1 to respond to the main issues that were raised by commenters and to propose three changes to the filing.

One commenter opposed the definition of “arbitrage” in the instructions for the SIS and questioned why the definition was limited to firms that have a separate arbitrage trading desk.<sup>3</sup> The commenter stated that the SIS should take into account arbitrage strategies and recommended amending the SIS to allow firms “to indicate how much of the gross market value reported in the long or short columns represented positions that were offsets or related to other positions, directly or indirectly.”<sup>4</sup> In addition, the commenter recommended eliminating line 10 (Arbitrage) and the parenthetical description on line 9 (Stocks and Warrants (other than arbitrage positions)) on the SIS on the grounds that they would become redundant if the columns for offsets were added.<sup>5</sup> Finally, the commenter suggested the definition of “arbitrage” in the instructions “be changed to indicate something to the effect that arbitrage is whatever the reporting firm thinks it is.”<sup>6</sup>

In response to the commenter’s concern regarding the definition of “arbitrage,” FINRA agrees that the definition should not be limited to firms that have a separate arbitrage trading desk and is proposing to amend the instructions to provide that firms would report the market value of all securities that are part of a “bona fide arbitrage.” For purposes of the SIS, a security would be considered part of a “bona fide arbitrage” if a security is convertible into or exchangeable for another security within a period of 90 days, subject to no conditions other than the payment of money, and the other securities into which such security is convertible or for which it is exchangeable, are short in the accounts of such broker or dealer. The definition of “bona fide arbitrage” is substantially similar to the provision in SEA Rule 15c3-1(c)(2)(vi)(J)(I). With respect to the additional changes requested by the commenter, FINRA believes, at this

---

<sup>1</sup> See Securities Exchange Act Release No. 72444 (June 20, 2014), 79 FR 36357 (June 26, 2014) (Notice of Filing of Proposed Rule Change; SR-FINRA-2014-025).

<sup>2</sup> See Letter from Suzanne Shatto, dated September 7, 2014 (“Shatto”); Letter from Holly H. Smith, Sutherland Asbill & Brennan LLP, to Elizabeth M. Murphy, Secretary, SEC, dated July 17, 2014 (“Sutherland”); Letter from Howard Spindel, Senior Managing Director, and Cassondra E. Joseph, Managing Director, Integrated Management Solutions USA LLC, to Elizabeth M. Murphy, Secretary, SEC, dated July 17, 2014 (“IMS”).

<sup>3</sup> IMS.

<sup>4</sup> IMS.

<sup>5</sup> IMS.

<sup>6</sup> IMS.

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.

Another commenter had concerns "with FINRA's piecemeal approach to requesting supplemental financial and operational information" and recommended "that FINRA coordinate with the SEC to propose an amended FOCUS report that requests all of the information FINRA is collecting or plans to collect from firms via supplementary schedules or reports."<sup>7</sup> In addition, the commenter requested that FINRA: (1) "define the term 'inventory' by reference to specific reporting lines of the FOCUS report, so that member firms know exactly what FOCUS line items are required to be dis-aggregated for the SIS"; (2) confirm that "investments held by member firms for the purpose of funding employee benefit plans for a member firm's associated persons" would not be considered inventory under the SIS; and (3) publish general directions for firms with nothing to report because they have no inventory.<sup>8</sup>

In response to the commenter's recommendation that FINRA coordinate with the SEC to propose an amended FOCUS report, FINRA proposed the SIS pursuant to FINRA Rule 4524, which, subject to FINRA meeting the requirements of Section 19(b)(1) of the Exchange Act<sup>9</sup> and Rule 19b-4 thereunder,<sup>10</sup> provides an independent basis for FINRA to supplement information provided on FOCUS reports filed pursuant to Exchange Act Rule 17a-5 and FINRA Rule 2010.<sup>11</sup> In response to this commenter, FINRA further notes that Form X-17A-5 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 more detailed reporting, and, if such updates were made, FINRA staff would seek to reduce accordingly the requirement for firms to file supplemental information. With respect to the term "inventory," for purposes of the SIS, FINRA is proposing to define the term "inventory positions" to mean securities or commodities positions (long, short or both) which are required to be reported on the balance sheet pursuant to GAAP. Consequently, if "investments held by member firms for the purpose of funding employee benefit plans for a member firm's associated persons" fall within the term "inventory positions," as defined in the proposed SIS, then such investments would be required to be reported. Finally, in regard to firms with nothing to report, the eFOCUS system would not require an affirmative indication from the firm that no filing is required for the reporting period.

---

<sup>7</sup> Sutherland.

<sup>8</sup> Sutherland.

<sup>9</sup> 15 U.S.C. 78s(b)(1).

<sup>10</sup> 17 CFR 240.19b-4.

<sup>11</sup> Securities Exchange Act Release No. 66364 (Feb. 9, 2012), 77 FR 8938 (Feb. 15, 2012) (Order Granting Accelerated Approval of SR-FINRA-2011-064).

A third commenter raised a number of issues that are outside the scope of the proposal.<sup>12</sup> This commenter, however, also suggested daily reporting for the proposed SIS.<sup>13</sup> FINRA believes daily reporting for the proposed SIS would be overly burdensome on firms without a concomitant benefit to FINRA regarding its understanding of a firm's market risk.

In addition to the changes proposed in response to some of the comments the SEC received, discussed above, FINRA is proposing to clarify that the capital exception for filing the proposed SIS is based on the minimum dollar net capital requirement or liquid capital requirement. Firms that have a minimum dollar net capital or liquid capital requirement, as applicable, of less than \$100,000 would not have to file the proposed SIS.

FINRA is including with this Partial Amendment No. 1 an Exhibit 3 that contains the proposed instructions to the SIS and the proposed SIS.

---

<sup>12</sup> Shatto.

<sup>13</sup> Shatto.

Exhibit 3

Below are the instructions to the SIS and the SIS. Proposed new language is double underlined; deletions are in brackets.

**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 (i.e., securities or commodities positions (long, short or both) which are required to be reported on the balance sheet pursuant to GAAP) as of the end of the reporting period, except for firms that:

- (1) have a minimum dollar 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] considered part of a "bona fide arbitrage." For purposes of the SIS, a security is considered part of a "bona fide arbitrage" if a security is convertible into or exchangeable for another security within a period of 90 days, subject to no conditions other than the payment of money, and the other securities into which such security is convertible or for which it is exchangeable, are short in the accounts of such broker or dealer.

**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  
(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)

21

22

23

(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)

LONG

SHORT

## 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