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SEC Adopts Changes to Broker-Dealer Net Capital and Financial Responsibility Rules

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The US Securities and Exchange Commission recently adopted important changes to the financial responsibility rules for securities broker-dealers, including changes to the regulatory capital and regulatory reporting rules. The new rules include important regulatory capital changes in relation to acting as agent in securities lending, assumption of broker-dealer expenses, and important new recordkeeping and reporting rules relating to compliance with risk mitigation and financial responsibility.

Introduction

Summary of the Rule Changes

On July 30, 2013, the US Securities and Exchange Commission (the “SEC”) adopted changes to its financial responsibility rules for securities broker-dealers, and, in particular, adopted important changes to Rule 15c3-1, the “net capital rule.”¹ The net capital rule is the principal SEC rule governing regulatory capital requirements for securities broker-dealers in the United States.

The rule changes also amend Rule 15c3-3, which is known as the “customer protection rule.” The customer protection rule is the principal SEC rule requiring segregation of customer assets. While a number of highly technical changes are made to the customer protection rule, the most important modification to the customer protection rule involves the regulatory

¹ See “Financial Responsibility Rules for Broker-Dealers,” (SEC Release Nos. 34-70072, July 30, 2013) and “Broker-Dealer Reports,” (SEC Release 34-70073, July 30, 2013) (each an “Adopting Release”). SEC releases are available on the SEC’s Internet Website, www.sec.gov.

codification of existing SEC guidance regarding the treatment of proprietary accounts of broker-dealers that are held by other broker-dealers.

Finally, the rule changes require broker-dealers carrying over \$20 million in net capital to document their procedures for managing risk and maintaining liquidity.

Procedural History

The SEC first proposed the now-adopted rule changes on March 9, 2007.² In 2012, the SEC re-opened the public comment period. The rule changes, as adopted, become effective 60 days following publication in the Federal Register. The new reporting rules are generally effective during 2014. Attached at Appendix I to this note is a chart summarizing the effective dates of the various provisions. The new Form Custody, as included in the Adopting Release, is also included as an attachment to this note.

The changes to the net capital rule and customer protection rule are of necessity detailed and complex, and this summary will, similarly, necessarily be incomplete.

Overview of the Net Capital Rule and the Customer Protection Rule

Overview of the Net Capital Rule

The net capital rule, SEC Rule 15c3-1, is the principal rule by which the financial health of US broker-dealers is regulated and monitored. The net capital rule requires US broker-dealers to maintain “net capital” (i.e., capital in excess of liabilities) in specified amounts that are determined by the types of business conducted by the broker-dealer. The net capital rule is designed to ensure the ready availability of funds and securities to customers, and that a broker-dealer that is forced to liquidate will have sufficient assets to be able to return funds and securities promptly to creditors and customers.

The net capital rule is a highly detailed and technical rule that requires broker-dealers to compute net worth based on US generally accepted accounting principles (“GAAP”), as modified by the various provisions and interpretations of the rule. Broker-dealers must ensure that at all times net worth is maintained above a minimum required amount.

The net capital rule permits broker-dealers to follow either a “basic” method or an “alternative” method in order to comply with the rule. The “basic” method requires a broker-dealer to first compute its “aggregate indebtedness” and then generally limits such aggregate indebtedness to 800% of the broker-dealer’s net capital in its first year of business, and 1,500% thereafter. Under the “alternative” method, a broker-dealer may not permit its net capital to be less than the greater of (a) \$250,000 or (b) 2% of aggregate debit items, computed in accordance with the customer protection rule (described below). A broker-dealer must affirmatively elect to use the alternative method for computing net capital, and must notify its designated examining authority (usually FINRA) of that election.

The computation of net worth is subject to certain modifications, including for unrecognized profit and unrealized losses, marked-to-market value of securities, exclusion of subordinated debt, deduction for haircuts of securities (specified in the rule but subject to adjustment), money market instruments or options, deductions for “undue concentration” and deductions for “open contractual commitments” (a term that includes underwriting agreement commitments). In general, these modifications are very conservative (as compared to GAAP), and require deductions from net worth to account for

² See “Amendments to Financial Responsibility Rules for Broker-Dealers,” (SEC Release 34-55431, March 9, 2007) (the “Proposing Release”).

risk activities of the broker-dealer. Rules governing the inclusion of subordinated debt in the net capital computation, the amount of outstanding debt that can be held by a broker-dealer and the withdrawal of equity capital by owners of the broker-dealer, are also part of the net capital rule.

Overview of the Customer Protection Rule

SEC Rule 15c3-3, which is commonly known as the “customer protection rule,” is intended to protect customers’ funds held by their broker-dealers and prohibit broker-dealers from using customer funds and securities to finance any part of their business that is unrelated to servicing securities customers. The rule requires a broker-dealer that maintains custody of customer securities and cash to comply with two primary requirements. First, the rule requires broker-dealers to maintain physical possession or control over customers’ fully paid and excess margin securities. For purposes of the first requirement, physical possession or control means that the broker-dealer must hold fully paid and excess margin securities in certain specified locations and that the securities shall remain free of any liens or other security interests. One such permissible location is a US bank. A broker-dealer can establish possession and control for purposes of the customer protection rule by holding securities in non-US control locations (called “foreign control locations”); provided that the non-US custodian provides certain representations to the US broker-dealer regarding the status of the securities and the absence of liens.

Second, the broker-dealer must maintain a reserve of cash or qualified securities in an account at a bank that is at least equal in value to the net cash the broker-dealer owes to customers. The calculation of net cash set forth in the customer protection rule requires that the broker-dealer add all customer credit items (such as an amount equal to any free cash in customer securities accounts) and deduct from such credit items, any customer debit items (such as margin loans). The net amount by which customer credit items exceed customer debit items, if any, must be on deposit in the broker-dealer’s customer reserve account.

Deposits in the broker-dealer’s customer reserve account must take the form of cash or certain qualified securities. Generally, weekly computations of the reserve are required. As the reserve account is for the exclusive benefit of customers, funds may not be withdrawn unless an updated reserve formula calculation reflects that the reserve requirement has decreased.

Summary of the Net Capital Rule Changes

Amendments to Stock Lending Practices: Required Disclaimer of Principal Status and New Reporting Requirements

In light of certain broker-dealer failures, the SEC has shown concern that certain broker-dealers are both taking on excess leverage through stock lending, and also treating as agency transactions stock lending for which the broker-dealer holds principal risk.

The amended net capital rule therefore clarifies that broker-dealers providing securities lending and borrowing settlement services are deemed to be acting in a principal capacity for purposes of the net capital rule, and therefore subject to capital deductions in respect of such provisions. However, a broker-dealer can avoid these deductions if, as part of participation in a securities loan:

- the broker-dealer has fully disclosed the identity of each party to the other;
- each party has expressly agreed in writing that the obligations of the broker-dealer do not include a guarantee of performance by the other party; and

- the parties agree that their remedies in the event of a default by the other party do not include a right of setoff against obligations, if any, of the broker-dealer.

In order to identify broker-dealers that are highly leveraged as a result of stock lending activities, the SEC also adopted an amendment to reporting Rule 17a-11. This new provision requires a broker-dealer to notify the SEC if the total amount of money payable (as a principal liability) against all securities loaned or subject to a repurchase agreement, or the total contract value of all securities borrowed or subject to a reverse repurchase agreement, exceeds 2,500% of tentative net capital. Importantly, government securities (including Treasuries) are excluded from this calculation.

Assumption of Broker-dealer Liabilities by a Third Party

As amended, the net capital rule will now require a broker-dealer to take into account in its computation of regulatory net capital liabilities that are assumed by a third party, including an affiliated third party, if the broker-dealer cannot demonstrate that the third party has the resources – independent of the broker-dealer’s income and assets – to pay the liabilities.³ In response to comments, the SEC noted that a broker-dealer can demonstrate the capability of the third party to meet its obligations in this regard by maintaining records “such as the third party’s most recent (i.e., as of a date within the previous 12 months) audited financial statements, tax returns, or regulatory filings containing financial reports.”

Deduction from Net Capital of Any Capital Contributed to a Broker-dealer by a Person that Has the Option to Withdraw It
In the Adopting Release, the SEC states that it is concerned that capital contributions to broker-dealers should not be temporary in nature. Therefore, as amended, the net capital rule will now require broker-dealers to deduct from their computation of net capital:

- any capital contributed under an agreement that gives the contributor the right to withdraw the capital; and
- any capital contributed to the broker-dealer that is intended to be withdrawn within one year.

In addition, capital withdrawn within one year of having been contributed is now deemed to have been “intended” to be withdrawn within one year unless the broker-dealer receives written permission for the capital withdrawal from its designated examining authority.

Broker-dealer Solvency Requirement

Under the rule as amended, a broker-dealer must be “solvent.” Broker-dealers that are not solvent must cease securities operations. Under the rule, a broker-dealer will not be solvent if it:

- is placed in a voluntary or involuntary bankruptcy or similar proceeding;
- has a trustee, receiver, or similar official appointed;
- makes a general assignment for the benefit of its creditors;
- makes an admission of insolvency; or
- is unable to make computations necessary to establish compliance with the net capital rule.

³ This amendment is in addition to strict rules that are imposed by the SEC and FINRA relating to assumption of broker dealer liabilities. In this regard, see NASD Notice to Members 03-63 (“SEC Issues Guidance on the Recording of Expenses and Liabilities by Broker/Dealers”). NASD Notices to Members are available on FINRA’s Internet Website, www.finra.org.

Changes to the Customer Protection Rule

Changes to the Regulation of Proprietary Accounts of Introducing Brokers

Under existing SEC guidance (called the “PAIB letter”), a broker-dealer is not required to take a capital deduction for funds held with another broker-dealer (usually referred to as a “carrying” broker); provided that the carrying broker maintains cash or qualifying securities in a special, segregated account.

The amendments codify the PAIB letter, and require carrying broker-dealers to: (i) perform a separate reserve computation for proprietary accounts of other brokers (called “PAB” accounts) in addition to the customer reserve computation currently required for Rule 15c3-3 customer accounts; (ii) establish and fund a separate reserve bank account for the benefit of PAB account holders; and (iii) obtain and maintain physical possession or control of non-margin securities carried for PAB accounts. Under the rule amendments, a carrying broker may use PAB account securities for its own purposes, provided that it informs the PAB account holder that it intends to do so and provides the PAB account holder with the opportunity to object to such use. If the carrying broker complies with these requirements, the PAB account holder will not be required to deduct the value of the PAB account from its net capital under the net capital rule.

Limitations on Holding Customer or PAB Reserve Accounts at Certain Banks

In order to limit the possibility that customer or PAB funds will not be available as a result of the insolvency of the bank holding these accounts, the customer protection rule has been amended to state that customer and PAB reserve accounts may not be held at:

- a bank affiliated with the broker dealer holding the PAB account; or
- a bank, to the extent that the amount of cash deposited in the reserve account exceeds 15% of the bank’s equity capital (based on the bank’s most recently filed Call Report or Thrift Financial Report).

Further, under the customer protection rule, a broker-dealer must obtain a written agreement from the bank in which the bank agrees not to re-lend or hypothecate securities deposited into a broker-dealer reserve account. The SEC’s rationale is that this “provides a measure of protection by requiring that the securities will be available to the broker-dealer if the bank falls into financial difficulty.”

Recordkeeping and Notice Requirements

Documentation of Risk

Among the important changes adopted by the SEC is a change to the broker-dealer record-keeping requirements under SEC Rule 17a-3, which will require broker-dealers over a certain size to make and keep current records showing: “the credit, market, and liquidity risk management controls established and maintained by the broker-dealer to assist it in analyzing and managing the risks associated with its business activities.”

This documentation requirement applies only to broker-dealers that have more than:

- \$1,000,000 in aggregate credit items as computed under the customer reserve formula of Rule 15c3-3; or
- \$20,000,000 in capital, including subordinated debt that is considered good capital in accordance with Appendix D to Rule 15c3-1.

New Forms for Broker-dealers that Hold Custody of Funds and Securities

Among the important changes adopted by the SEC are a number of new notice filings and forms that are required to be submitted by broker-dealers, and in particular by broker-dealers that hold custody of funds and securities. These forms are:

- **Compliance Report**. For broker-dealers that hold custody of securities, a “Compliance Report” that states, among other things, that the broker-dealer has maintained a system of internal controls to provide the broker-dealer with reasonable assurance that any instances of non-compliance with financial responsibility rules has been prevented or detected. The Compliance Report must also assert (i) compliance with financial responsibility rules at year-end (or lack thereof); (ii) whether the information used to make the assertion noted at item (i) was derived from the books and records of the broker-dealer; and (iii) whether internal controls were effective during the immediately preceding year such that there were no material weaknesses. The broker-dealer’s public accountant must participate in the preparation of certain portions of the Compliance Report.
- **Exemption Report**. For broker-dealers that do not carry funds or securities, an “Exemption Report” stating the same and identifying the provisions of 15c3-3(k) giving rise to such exemption.
- **Form Custody**. Form Custody, which will be required on a quarterly basis by all broker-dealer, is comprised of nine line items that are intended to “elicit information about a broker-dealer’s custodial activities.” A copy of Form Custody is appended to this note. The nine required line items cover the following information:
 - whether the broker-dealer introduces customer accounts on a fully-disclosed or omnibus basis to another broker-dealer;
 - whether the broker-dealer carries securities accounts for customers or non-customers;
 - the US and non-US locations used by the broker-dealer to hold securities that it carries, and the frequency with which the broker-dealer performs a reconciliation between the information on its stock record and information about securities provided by the location;
 - the types and approximate market value of securities that are carried by the broker-dealer for the account of customers and non-customers;
 - whether the broker-dealer has recorded all securities it carries for the accounts of customers and non-customers on its stock record;
 - the process used by the broker-dealer with respect to free credit balances in cash accounts its holds for customers and in securities accounts of non-customers;
 - whether the broker-dealer carries customer accounts for another broker-dealer on a fully disclosed or omnibus basis;
 - whether the broker-dealer sends trade confirmations and account statements directly to customers and other accountholders;
 - whether the broker-dealer provides customers and other account holders with electronic access to information about the securities and cash positions in their accounts; and
 - whether the broker-dealer is also a registered investment adviser or an affiliate of a registered investment adviser, and related information regarding the custody of investment adviser client assets.

Conclusion

The changes to the net capital rule, customer protection rule, and recordkeeping and reporting rules are both surprisingly comprehensive and highly detailed. Specifically, while changes to the various computations and calculations required by the net capital rule and customer protection rule are highly detailed, and in many cases applicable only to a small number of broker-dealers, the reporting and recordkeeping requirements are both comprehensive in their requirements and broad in their application. All broker-dealers will now have significant additional reports and records to add to their compliance calendar, and accordingly broker-dealer compliance and management teams should be working to ensure that these new reports and records form part of the broker-dealer's compliance program.

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This memorandum is intended only as a general discussion of these issues. It should not be regarded as legal advice. We would be pleased to provide additional details or advice about specific situations if desired.

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APPENDIX I

Effective Dates of New Broker-Dealer Financial Responsibility and Reporting Requirements

Substantive Requirement	Implementation Timing
I. Amendments to Customer Protection Rules	
Definition of “PAB” Account of broker-dealers	Effective 60 days after the publication of the final rules in the Federal Register, which has not occurred as of August 19, 2013.
Written permission to use “PAB” Account securities	
PAB Reserve Bank Accounts	
Net capital treatment of subordinated PAB Account securities	
Banks where special reserve deposits may be held	
Allocation of customers’ fully paid and excess margin securities to short positions	
Treatment of customer free credit balances	
Treatment of proprietary accounts under the Commodity Exchange Act	
II. Portfolio Margining and Treatment of Futures Positions in Securities Accounts in Accordance with Segregation Requirements	
III. Amendments with Respect to Securities Lending and Borrowing and Repurchase/Reverse Repurchase Transactions	
Deductions from net capital for broker-dealers providing securities lending settlement services	Effective 60 days after the publication of the final rules in the Federal Register, which has not occurred as of August 19, 2013.
Notification requirements for certain highly-leveraged securities lending books	

Substantive Requirement	Implementation Timing
IV. Documentation of Risk Management Procedures	Effective 60 days after the publication of the final rules in the Federal Register, which has not occurred as of August 19, 2013.
V. Amendments to the Net Capital Rule	
Requirements to deduct from net worth certain liabilities or expenses assumed by third parties	Effective 60 days after the publication of the final rules in the Federal Register, which has not occurred as of August 19, 2013.
Requirements to deduct from net worth certain non-permanent capital contributions	
Requirement to deduct the amount by which a fidelity bond exceeds SRO limits	
Requirement to cease conducting a securities business if certain insolvency events were to occur	
Amendment to rule governing orders restricting withdrawal of capital from a broker-dealer	
Amendment to Rule 15c3-1 Appendix A (inputs for options pricing models)	
VI Broker-Dealer Report Requirements	
The financial report	Amendments effective June 1, 2014; first filing due 60 days after the end of the fiscal year.
The compliance report	
The exemption report	
Annual reports	
Form Custody	Effective December 31, 2013; first filing due 17 business days after the calendar quarter or fiscal year, as applicable.

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

**FORM CUSTODY
For Broker-Dealers**

(Please read instructions before preparing Form.)

Name of Broker/Dealer As of (Month/Day/Year)

8-
SEC File No. CRD No.

Address of Principal Place of Business

(No. and Street) (City) (State) (Zip Code)

INSTRUCTIONS

GENERAL INSTRUCTIONS

- A. Answer questions applicable to the broker-dealer's business activities and all "Yes" or "No" questions. Questions that cannot be answered because the broker-dealer does not engage in a particular activity do not need to be answered. For example, a broker-dealer that does not hold customer and non-customer funds or securities does not need to answer Items 3.C-3.E.
- B. Definitions: for purposes of this Form:
1. "Affiliate" means any person who directly or indirectly controls the broker-dealer or any person who is directly or indirectly controlled by or under common control with the broker-dealer. Ownership of 25% or more of the common stock of an entity is deemed prima facie evidence of control.
 2. "Bank" has the same meaning as in 15 U.S.C. 78c(a)(6).
 3. "Broker" has the same meaning as in 15 U.S.C. 78c(a)(4).
 4. "Dealer" has the same meaning as in 15 U.S.C. 78c(a)(5).
 5. "Carrying broker-dealer" means a broker-dealer that carries customer or broker or dealer accounts and receives or holds funds or securities for those customers.
 6. "Clearing broker-dealer" means a broker-dealer that clears transactions for itself or accounts of other broker-dealers either on a fully disclosed or omnibus basis.
 7. "Customer" has the same meaning as in 17 CFR 240.15c3-3(a)(1).
 8. "Free credit balance" means any liabilities of a broker-dealer to customers and non-customers that are subject to immediate cash payment to customers and non-customers on demand, whether resulting from

sales of securities, dividends, interest, deposits, or otherwise, excluding, however, funds in commodity accounts that are segregated in accordance with the Commodity Exchange Act or in a similar manner.

9. "Money Market Fund" means any security issued by an investment company registered under section 8 of the Investment Company Act of 1940 that is considered a money market fund under Investment Company Act Rule 2a-7.
10. "Omnibus account" means an account carried and cleared by another broker-dealer and containing accounts of undisclosed customers on a commingled basis that are carried individually on the books of the broker-dealer introducing the accounts.
11. "Private Fund" means an issuer that would be an investment company as defined in section 3 of the Investment Company Act of 1940 but for section 3(c)(1) or 3(c)(7) of that Act.
12. "Structured debt" means any security or money market instrument issued by an asset pool or as part of any asset-backed or mortgage-backed securities transaction. Structured debt is a broad category of financial instrument and includes, but is not limited to, asset-backed securities such as residential mortgage-backed securities ("RMBS") and other types of structured debt instruments such as collateralized debt obligations ("CDOs"), including synthetic and hybrid CDOs, or collateralized loan obligations ("CLOs").

INSTRUCTIONS FOR SPECIFIC LINE ITEMS

- Item 1.A Answer the question by checking the appropriate box. A broker-dealer must check "Yes" if it introduces any customer accounts to another broker-dealer on a fully disclosed basis. A broker-dealer that carries customer accounts and/or introduces customer accounts on an omnibus basis must check "Yes" if it also introduces one or more customer accounts to another broker-dealer on a fully disclosed basis.
- Item 1.B Item 1.B applies to broker-dealers that introduce customer accounts on a fully disclosed basis to one or more other broker-dealers. If Item 1.B applies, identify each broker-dealer to which customer accounts are introduced on a fully disclosed basis.
- Item 2.A Answer the question by checking the appropriate box. A broker-dealer must check "Yes" if it introduces any customer accounts to another broker-dealer on an omnibus basis. A broker-dealer that carries customer accounts (other than those introduced on an omnibus basis) and/or introduces customer accounts on a fully disclosed basis must check "Yes" if it also introduces one or more customer accounts to another broker-dealer on an omnibus basis.
- Item 2.B Item 2.B applies to broker-dealers that introduce customer accounts on an omnibus basis to one or more other broker-dealers. If Item 2.B applies, identify each broker-dealer to which customer accounts are introduced on an omnibus basis.
- Item 3.A Answer the question by checking the appropriate box. A broker-dealer that introduces customer accounts to another broker-dealer on an omnibus basis is a carrying broker-dealer with respect to those accounts under the Commission's broker-dealer financial responsibility rules. If those accounts are the only accounts carried by the broker-dealer, check "No" in Item 3.A, as those accounts are addressed in Items 2.A and 2.B.
- Item 3.B Answer the question by checking the appropriate box. Answer "Yes" if accounts are carried by the broker-dealer for persons that are not "customers" as that term is defined in Rule 15c3-3 under the Securities Exchange Act of 1934. Examples of persons that are not customers of a broker-dealer include general partners, directors, or principal officers – such as the president, executive vice presidents, treasurer, secretary or any person performing similar functions – of the broker-dealer and accountholders that are themselves broker-dealers (unless such broker-dealer accountholders are required to be treated as customers under Rule 15c3-3).

- Item 3.C Identify the types of locations where the broker-dealer holds securities. Only identify types of locations where the broker-dealer holds securities directly in the name of the broker-dealer (*i.e.*, do not identify a type of location if the broker-dealer only holds securities at the location through an intermediary). A location holds securities directly in the name of the broker-dealer if the location is aware of the identity of the broker-dealer and acts directly upon the broker-dealer's instructions. A location holds securities through an intermediary if the location is not aware of the identity of the broker-dealer or will not act on instructions directly from the broker-dealer (*i.e.*, the location holding securities for the broker-dealer would only act on instructions relating to the broker-dealer's securities from the broker-dealer's intermediary). The information required by Items 3.C.i-iii is intended to identify all locations used by the broker-dealer to hold securities listed on the broker-dealer's stock record, and to elicit information concerning the frequency with which the broker-dealer performs reconciliations between the information on its stock record and information about the securities provided by the location. In Item 3.C.i, check all applicable boxes, and in Items 3.C.i-iii provide all applicable information as specified for each Item.
- Item 3.D Answer the questions in Items 3.D.i-iii by checking appropriate boxes and entering appropriate financial information, where applicable, and by providing explanations as requested. In Item 3.D.i, check "Other" if a type of security carried by the broker-dealer for customers is not listed on the chart, and for each category of security, indicate by checking the approximate box for the approximate U.S. dollar market value of the securities.
- Item 3.E Answer the questions in Items 3.E.i-iii by checking appropriate boxes and entering appropriate financial information, where applicable, and by providing explanations as requested. In Item 3.E.i, check "Other" if a type of security carried by the broker-dealer for persons that are not customers is not listed on the chart, and for each category of security, indicate by checking the appropriate box the approximate U.S. dollar market value of the securities.
- Item 4 Answer the questions in Items 4.A.i-iii and 4.B.i-iii by checking appropriate boxes and, if applicable, providing requested information.
- Item 5 Answer the questions in Items 5.A and 5.B by checking the appropriate box and, if applicable, providing requested information. A broker-dealer should respond to Item 5.A by checking "Yes" if it employs a vendor to send trade confirmations to customers on its behalf because the broker-dealer is ultimately responsible for complying with its trade confirmation obligations, not the vendor.
- Item 6 Answer the questions by checking the appropriate boxes and, if applicable, providing requested information. In Item 6.C, check "Yes" if (i) a broker-dealer sends account statements to persons other than the beneficial owner of the account; or (ii) if a broker-dealer sends account statements to the beneficial owner of an account and duplicate account statements to persons other than the beneficial owner of the account.
- Item 7 Answer the question by checking the appropriate box.
- Item 8 Answer the questions in Item 8 by checking appropriate boxes and, if applicable, providing requested information.
- Item 9 Answer the questions in Item 9 by checking appropriate boxes and, if applicable, providing requested information.

Item 1. A. Does the broker-dealer introduce customer accounts on a fully disclosed basis to another broker-dealer?

Yes No

B. If the answer to question 1.A is “yes,” identify below the broker-dealer(s) (by name, SEC No., and CRD No.) to which the customer accounts are introduced on a fully disclosed basis:

Item 2. A. Does the broker-dealer introduce customer accounts to another broker-dealer on an omnibus basis?

Yes No

B. If the answer to question 2.A is “yes,” identify below the broker-dealer(s) (by name, SEC No., and CRD No.) to which the customer accounts are introduced on an omnibus basis:

Item 3. A. Does the broker-dealer carry securities accounts (*i.e.*, accounts that are not introduced on a fully disclosed basis to another broker-dealer) for customers?

Yes No

B. Does the broker-dealer carry securities accounts (*i.e.*, accounts that are not introduced on a fully disclosed basis to another broker-dealer) for non-customers?

Yes No

C. Location of Securities (if the answer to question 3.A and/or 3.B is “yes”)

i. Indicate in the chart below the types of U.S. locations used by the broker-dealer to hold securities that it carries by checking each box in the first column that applies. For each type of location selected, indicate in the third column the frequency (*e.g.*, daily, weekly, monthly, quarterly, semi-annually, annually) with which the broker-dealer performs a reconciliation between the information on its stock record and information about the securities provided by the location:

	Location	Reconciliation Frequency
<input type="checkbox"/>	The broker-dealer’s vault	
<input type="checkbox"/>	U.S. broker-dealer(s)	
<input type="checkbox"/>	The Depository Trust Company	
<input type="checkbox"/>	The Options Clearing Corporation	
<input type="checkbox"/>	U.S. bank(s)	
<input type="checkbox"/>	Transfer agents of mutual fund(s) under the Investment Company Act	

ii. Indicate in the chart below the types of U.S. locations not identified in Item 3.C.i used by the broker-dealer to hold securities that it carries by describing the type of entity in the first column. For each type of location, indicate in the second column the frequency (*e.g.*, daily, weekly, monthly, quarterly, semi-annually, annually) with which the broker-dealer performs a reconciliation between the information on its stock record and information about the securities provided by location:

Other Types of U.S. Locations	Reconciliation Frequency

iii. Indicate in the chart below the types of foreign locations used by the broker-dealer to hold securities that it carries by describing the type of location in the first column. For each type of location indicate in the second column the frequency (e.g., daily, weekly, monthly, quarterly, semi-annually, annually) with which the broker-dealer performs a reconciliation between the information on its stock record and information about the securities provided by the location:

Non-U.S. Locations	Reconciliation Frequency

D. Securities and Cash Carried for the Accounts of Customers (if the answer to question 3.A is “yes”)

i. Indicate by checking the appropriate boxes on the chart below the types and approximate market value of securities that are carried by the broker-dealer for the accounts of customers:

Type of Securities	\$50 million or less	Greater than \$50 million to \$100 million	Greater than \$100 million to \$500 million	Greater than \$500 million to \$1 billion	Greater than \$1 billion to \$5 billion	Greater than \$5 billion
<input type="checkbox"/> U.S. Equity Securities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/> Foreign Equity Securities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/> U.S. Listed Options	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/> Foreign Listed Options	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/> Domestic Corporate Debt	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/> Foreign Corporate Debt	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/> U.S. Public Finance Debt	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/> Foreign Public Finance Debt	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/> U.S. Government Debt	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/> Foreign Sovereign Debt	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/> U.S. Structured Debt	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/> Foreign Structured Debt	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/> U.S. Mutual Funds	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/> Foreign Mutual Funds	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/> U.S. Exchange Traded Funds	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/> Foreign Exchange Traded Funds	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/> U.S. Private Funds	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/> Foreign Private Funds	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/> Other	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

- ii. Has the broker-dealer recorded all securities it carries for the accounts of customers on its stock record?

Yes No

If the answer is “no,” explain in the space provided why the broker-dealer has not recorded such securities on its stock record and provide the approximate U.S. dollar market value of such unrecorded securities:

- iii. Indicate in the chart below each process used by the broker-dealer with respect to free credit balances in cash accounts it holds for customers by checking all the boxes that apply and providing applicable information:

Process	
<input type="checkbox"/>	Included in a computation under Rule 15c3-3(e)
<input type="checkbox"/>	Held in a bank account under Rule 15c3-3(k)(2)(i)
<input type="checkbox"/>	Swept to a U.S. bank
<input type="checkbox"/>	Swept to a U.S. money market fund
<input type="checkbox"/>	Other (Briefly describe in the space provided below)
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E. Securities and Cash Carried for the Accounts of Non-customers (if the answer to question 3.B is “yes”)

- i. Indicate by checking the appropriate boxes on the chart below the types and approximate market value of securities that are carried by the broker-dealer for the accounts of non-customers:

Type of Securities	\$50 million or less	Greater than \$50 million to \$100 million	Greater than \$100 million to \$500 million	Greater than \$500 million to \$1 billion	Greater than \$1 billion to \$5 billion	Greater than \$5 billion
<input type="checkbox"/> U.S. Equity Securities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/> Foreign Equity Securities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/> U.S. Listed Options	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/> Foreign Listed Options	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/> Domestic Corporate Debt	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/> Foreign Corporate Debt	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/> U.S. Public Finance Debt	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/> Foreign Public Finance Debt	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/> U.S. Government Debt	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/> Foreign Sovereign Debt	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/> U.S. Structured Debt	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/> Foreign Structured Debt	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

<input type="checkbox"/>	U.S. Mutual Funds	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	Foreign Mutual Funds	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	U.S. Exchange Traded Funds	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	Foreign Exchange Traded Funds	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	U.S. Private Funds	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	Foreign Private Funds	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	Other	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

ii. Has the broker-dealer recorded all securities it carries for the accounts of non-customers on its stock record?

Yes No

If the answer is “no,” explain in the space provided why the broker-dealer has not recorded such securities on its stock record and provide the approximate total U.S. dollar market value of such unrecorded securities:

iii. Indicate in the chart below each process used by the broker-dealer with respect to free credit balances in the securities accounts of non-customers by checking all the boxes that apply and providing applicable information:

	Process
<input type="checkbox"/>	Included in a reserve computation
<input type="checkbox"/>	Swept to a U.S. bank
<input type="checkbox"/>	Swept to a U.S. money market fund
<input type="checkbox"/>	Other (Briefly describe in space provided below)
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Item 4. Acting as a Carrying Broker-Dealer for Other Broker-Dealers

A. On a fully disclosed basis

i. Does the broker-dealer carry customer accounts for another broker-dealer(s) on a fully disclosed basis?

Yes No

ii. If the answer to question 4.A.i is “yes,” indicate the number of broker-dealers:

_____.

iii. If the answer to question 4.A.i is “yes,” identify any of these broker-dealers that are affiliates of the broker-dealer by name and “SEC File No.”:

B. On an omnibus basis

- i.** Does the broker-dealer carry customer accounts for another broker-dealer(s) on an omnibus basis?

Yes No

- ii.** If the answer to question 4.B.i is “yes,” indicate the number of broker-dealers:

_____.

- iii.** If the answer to question 4.B.i is “yes,” identify any of these broker-dealers that are affiliates of the broker-dealer by name and “SEC File No.”:

- Item 5. A.** Does the broker-dealer send trade confirmations directly to customers and other accountholders?

Yes No

- B.** If the answer to question 5.A is “no,” who sends the trade confirmations to customers and other accountholders? :_____.

- Item 6. A.** Does the broker-dealer send account statements directly to customers and other accountholders?

Yes No

- B.** If the answer to question 6.A is “no,” who sends the account statements to customers and other accountholders? :_____.

- C.** Does the broker-dealer send account statements to anyone other than the beneficial owner of the account?

Yes No

- Item 7.** Does the broker-dealer provide customers and other accountholders with electronic access to information about the securities and cash positions in their accounts?

Yes No

- Item 8. A.** Is the broker-dealer also registered as an investment adviser:

- i.** With the SEC under the Investment Advisers Act of 1940?

Yes No

- ii.** With one or more U.S. states under the laws of the state?

Yes No

If the answer to question 8.A.i or 8.A.ii is “yes,” answer each of the following items:

B. Provide the number of investment adviser clients:_____.

C. Complete the following chart concerning the custodians of investment adviser client assets if any (including, if applicable, the broker-dealer):

- Column 1:** The name of the custodian
- Column 2:** The identity of the custodian by SEC File No. or CRD No. (if applicable)
- Column 3:** Whether the broker-dealer/investment adviser has the authority to effect transactions in these advisory client accounts at the custodian
- Column 4:** Whether the broker-dealer/investment adviser has the authority to withdraw funds and securities out of any accounts at the custodian
- Column 5:** Whether the custodian sends account statements directly to the investment adviser clients
- Column 6:** Whether the investment adviser client assets are on the broker-dealer's stock record

1	2	3	4	5	6
		Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>
		Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>
		Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>
		Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>
		Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>
		Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>
		Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>
		Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>
		Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>
		Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>

Item 9. A. Is the broker-dealer an affiliate of an investment adviser?

Yes No

B.i. If the answer to Item 9.A is “yes,” does the broker-dealer have custody of client assets of the adviser?

Yes No

B.ii. If the answer to Item 9.B.i is “yes” indicate the approximate U.S. dollar market value of the adviser client assets of which the broker-dealer has custody: _____.

By the Commission.

Elizabeth M. Murphy
Secretary

Date: July 30, 2013