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**FORM X-17A-5 PART II  
(FOCUS Report)**

**GENERAL INSTRUCTIONS**

This FOCUS Report (Form X-17A-5) constitutes the basic financial and operational report required of those brokers or dealers subject to any minimum net capital requirement set forth in Rule 15c3-1. The instructions issued from time-to-time must be used in preparing this report and are considered integral part of this report.

The report shall be filed with the regulatory organization designated as the Examining Authority for the broker or dealer. The name of the broker or dealer and date of report shall be repeated on each sheet of the report submitted. If no response is made to an item or subdivision on thereof it shall constitute a representation that the broker or dealer has nothing to report.

The designated Examining Authority may at any time or from time-to-time in the case of a particular broker or dealer, subject to applicable rules or regulations, prescribe more frequent filing requirements than those prescribed herein.

Foreign currency may be expressed in terms of United States dollars at the current rate of exchange and where carried in conjunction with the United States dollar balances for the same customer may be consolidated with United States dollar balances and the gross or net position reported in its proper classification, provided the foreign currency is not subject to any restriction as to conversion. If the foreign currency position so treated is substantial, some indication of its size shall be given.

Aggregate Indebtedness and Net Capital are defined terms, which must be referred to in the applicable capital requirements rule. Accompanying the FOCUS Report are instructions relating to specific items which must be followed. Any deviations from these specific instructions must be clearly explained in footnotes to the report.

If the broker or dealer is a sole proprietor, all securities owned and all accounts carried for it by other brokers, dealers, or others which contain money balances and/or securities shall be reported, as appropriate.

“Exempted Securities” are those securities defined as such under the provisions of Section 3(a)(12) of the Securities Exchange Act of 1934 other than securities designated for exemption by action of the Commission.

The term “contractual commitments” shall include underwriting, when issued, when-distributed and delayed delivery contracts, the writing or endorsement of puts and calls and combinations thereof, commitments in foreign currencies and spot (cash) commodity contracts, but shall not include future commodity contracts and un-cleared “regular way” purchases and sales of securities. A series of contracts of purchase or sale of the same security conditioned, if at all, only upon issuance may be treated as an individual commitment.

“Securities which are not readily marketable” shall be so designated. The term “securities not readily marketable” includes, but is not limited to: (a) securities for which there is no “ready market”; (b) securities, except “exempted securities,” for which there is no market on a securities exchange or no independent publicly quoted market; (c) securities which cannot be publicly offered or sold unless registration has been effected under the Securities Act of 1933 (or the conditions of an exemption, such as Regulation A, under Section 3(b) of such Act have been complied with); (d) securities which have cannot be publicly offered or sold because of statutory, regulatory or contractual arrangement or other restrictions.

The term “ready market” shall include a recognized established securities market in which there exists independent bona-fide offers to buy and sell so that a price reasonably related to the last sales price or current bona-fide competitive bid and offer quotations can be determined for a particular security almost instantaneously and where payment will be received in settlement of a sale at such price within a relatively short time conforming to trade custom.

A “ready market” shall also be deemed to exist where such securities have been accepted as collateral for a loan by a bank as defined in Section 3(a)(6) of the Securities Exchange Act of 1934 and where the broker or dealer demonstrates to its Examining Authority that such securities adequately secure such loans.

Indebtedness shall be deemed to be adequately collateralized or secured when the excess of the market value of the collateral over the amount of indebtedness is sufficient to make the loan acceptable as a fully secured loan to banks regularly making secured loans to brokers or dealers.

The term “Examining Authority” of a broker or dealer shall mean the national securities exchange or national securities association of which the broker or dealer is a member or, if the broker or dealer is a member of more than one such self-regulatory organization, the organization designated by the Commission as the Examining Authority for such broker or dealer, or if the broker or dealer is not a member of any such self-regulatory organization, the Regional Office of the Commission where such broker or dealer has its principal place of business.

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contained in this form are not required to respond unless the  
form displays a currently valid OMB control number.**

The term “customer” and “non-customer” is defined as set forth in Rule 15c3-1(c)(6) and (7).

In order to expedite the preparation of the financial data called for in the report, fractions *may be* dropped from the prices in determining *any* or *all-long* valuations. (No price should be used which is higher than the actual market price, i.e., 17 7/8 use 17 but not 18. However, if fractions are not used for *any* or *all short* valuations use the higher price, i.e., 18 1/8 use 18 but not 17. Money amounts should be expressed in whole dollars.

Financial statements shall be prepared in conformity with generally accepted accounting principles (except where otherwise requested) applied on a basis consistent with that of the preceding report and shall include, in the basic statement or accompanying footnotes, all informative disclosures necessary to make the statement a clear expression of the organization’s financial and operational condition. The broker or dealer must report all data after proper accruals have been made for income and expense not recorded in the books of account and adequate reserves have been provided for deficits in customer or broker accounts, unrecorded liabilities, security differences, dividends and similar items.

The amount of terms (including commitment fees and the conditions under which lines may be withdrawn) of unused lines of credit for short-term financing shall be disclosed, if significant, in notes to the financial statements.

Retain for at least 3 years a copy of each FOCUS Report filed, along with all the working papers and memoranda used in the preparation of each FOCUS Report. (Refer to Rule 17a-4.) Working papers, etc. must be made available for review by a representative of the designated Examining Authority.

## **Filing Requirements for Part II**

Part II shall be filed quarterly by firms not clearing or carrying customer accounts, and those firms which are subject to the requirements of Rule 15c3-1(a)(2) and (3). Part II shall be filed monthly by such of these firms which receive written notice pursuant to Rule 17a-5(a)(2)(iv) that they have exceeded parameters set by the self-regulators.

## **STATEMENT OF FINANCIAL CONDITION**

### **Cash**

Cash in banks subject to withdrawal restrictions such as time deposits not subject to Regulation Q of the Federal Reserve System and deposits of foreign currency with exchange or transfer restrictions of funds held in escrow shall be shown as “Other assets – Non-Allowable.”

State separately (a) restricted deposits held as compensating balances against borrowing arrangements; (b) funds subject to repayment on call or immediately after the date of the balance sheet required to be files; and (c) other funds, the amounts of which are known to be subject to withdrawal or usage restrictions, e.g., special purpose funds. The general terms and nature of such repayment provisions in (b) and withdrawal or usage restrictions in (c) shall be described in a note referred to herein. In cases where compensating balance arrangements exist but are not agreements which restrict the use of cash amounts shown on the balance sheet, describe these arrangements and the amounts involved, if determinable, in the notes to the financial statements. Compensating balances that are maintained under an agreement to assure future credit availability shall be separately disclosed in the notes to the financial statements along with the amount and terms of such agreement.

Bank overdrafts are not to be netted against balances in unrelated bank depositories. They shall be included in “Bank loans payable” as “A. I. Liabilities.”

### **Cash segregated in compliance with federal and other regulations**

Include in the above category and cash segregated under the Commodity Futures Trading Commission Act, cash segregated under provisions of Rule 15c3-3 – Special Reserve Bank Account for the Exclusive Benefit of Customers and funds segregated pursuant to regulations of any agency of the federal government, any state and national securities exchange or national securities association.

See Rule 15c3-1(c)(2)(iv)(E) as to the proper classification of funds on deposit in a “segregated trust account” in accordance with Rule 27d-1 under the Investment Company Act of 1940.

### **Receivable from brokers or dealers and clearing organizations**

The following accounts carried by other brokers or dealers shall be included in “Omnibus accounts” in the appropriate subsection:

1. Accounts secured by, or containing collateral.
2. Receivables for regulated and non-regulated commodities futures’ accounts liquidating to a deficit on the respondent’s books of account.

Regarding item 2, the amount (receivable) included in the “Omnibus account” shall include net ledger balances and losses and gains on commodities future contracts.

Amounts receivable (net) from a clearing organization utilizing a continuous net settlement system shall be included in the category – “Clearing organizations” in the appropriate subsection.

### **Receivables from customers**

See the general instructions for definitions of the terms “customer” and “non-customer.” Receivables from those indicated, as “non-customers” shall be shown in their respective categories in the Statement of Financial Condition.

All accounts (other than regulated commodity accounts) of any one customer may be combined and reported under any appropriate classification other than cash accounts. Customers’ accounts related by bona-fide written guarantees may be combined.

Net ledger balances and losses and gains in commodity futures accounts liquidating to a deficit, rather than only ledger balance may be included in this section.

The amount reported as an allowable asset represents those portions of partly secured amounts which are deemed to be fully secured. The remaining portion of the ledger debit balance shall be considered as non-allowable. The haircuts on the long and/ or short securities in partly secured accounts are included in the Computation of Net Capital below “Haircuts on securities.”

Include in the allowable column the debit balance relative to secured commodity accounts with spot (cash) commodity positions which (a) resulted from a tender made on a futures contract within the past 90 days and (b) are evidenced by a warehouse receipt(s) issued by a warehouse licensed by a commodity exchange. Include the debit balance in the non-allowable column if there is any deviation from (a) or (b).

Partly secured accounts with spot (cash) commodity positions shall be reported in the manner described above for partly secured accounts except that haircuts on market values shall be included in the Computation of Net Capital in the following category – “Additional charge for customers’ and non-customers’ commodity accounts.”

### **Receivables from non-customers**

The amount reported as an allowable asset represents those portions of partly secured accounts which are deemed to be fully secured. The remaining portion of the ledger debit balance shall be considered as non-allowable. The haircuts on the long and/ or short securities in partly secured accounts are included in the Computation of Net Capital below “Haircuts on securities.”

Partly secured accounts with spot (cash) commodity positions shall be reported in the manner described above for partly secured accounts except that haircuts on market values shall be included in the Computation of Net Capital in for following category – “Additional charge for customers’ and non-customers commodity accounts.”

### **Securities purchased under agreement to resell**

Report in this section reverse repurchase agreements for securities. Report the cost of securities which have been purchased as principal under an agreement to resell securities to the seller. These transactions result in the broker or dealer having a secured receivable from the borrower of funds from him and the net capital treatment is to deduct the deficiency, if any, in the security collateralizing the receivable.

### **Securities and spot commodities owned, at market value**

Security and spot (cash) commodity valuations as well as losses and gains in future commodity contracts shall be based upon market prices as at the date of the statement of financial condition; fractions and accrued interest with respect to securities may be omitted except where such procedure in the case of short positions would have a material effect on Net Capital.

For the purpose of this report securities sold as principal: under a repurchase agreement shall be deemed to be securities owned by the broker or dealer and the market value shall be included in this section. The proceeds of sale shall be included as a credit in the Statement of Financial Condition under “Securities sold under repurchase agreements.”

Joint trading and investment accounts in which the reporting broker or dealer has an interest shall be reported as follows:

- a) Accounts carried by the reporting broker or dealer – For those accounts carried by the reporting broker or dealer include its applicable portion of the market value or marketable securities and spot commodities, in the appropriate item. The reporting broker or dealer’s related portion of unrealized gain or loss shall be reflected in the appropriate statements. The other participant(s)’ interest in the joint account shall be treated as a non-customer’s account and included as a receivable from or payable to non-customer as applicable. A margin deposit by the other participant shall be included when determining the other participant(s)’ interest. If the other participant(s)’ interest is in deficit, then the same treatment given to all partly secured or unsecured non-customer accounts in the Computation of Net Capital shall apply. If the other participant(s)’ equity is not sufficient to meet margin requirements and no exemption has been granted by the designated Examining Authority, the amount of the cash margin deficiency shall be included as a charge in the determination of Net Capital. The other participant(s)’ interest in realized gains and losses and miscellaneous income and expense items related to the joint account are not to be reflected in the reporting broker or dealer’s profit and loss accounts but should be reflected as due to or due from the other participant(s).

- b) Accounts carried by others – For those accounts carried by others, the reporting broker or dealer will include his portion of the market value of marketable securities and spot commodities in the appropriate item. A margin deposit by the reporting broker or dealer is an allowable asset in the computation of Net Capital. The reporting broker or dealer’s portion of all realized gains and losses and miscellaneous income and expense items, related to the joint account shall be reflected in the appropriate statement with the contra being due to or due from the other participant(s). The interest of other participant(s) should not be included in this report.
- c) Joint foreign and domestic arbitrage accounts in which the reporting broker or dealer has an interest – Money balances and securities positions carried by the reporting broker or dealer and by a participant shall be combined and considered on a net basis (offsetting positions in the same security shall be netted). Adjustments may be made where different clearance dates apply to transactions made on the same day in the same security.

The reporting broker’s or dealer’s portion of any net debit or credit balance shall be considered in determining losses or gains and in marking positions to the market. The reporting broker or dealer’s interest in any long and/or short security positions should be at market value. However, consideration should be given to setting up an appropriate reserve for any deficit in the participant’s interest. The participant’s share of any credit balances carried on the respondent’s books for these accounts is to be included in Aggregate Indebtedness.

- d) If the joint account nets a credit balance or is a free credit balance, include in “Payable to non-customers” (A. I. Liabilities) the amount of such balance multiplied by the participant’s percentage of the account. Any margin deposits received regarding the above would be included in “Payable to brokers or dealers – Other” (A. I. Liabilities).
- e) If the joint accounts nets to a secured debit balance and the participant’s percentage times such balance equals an amount less than the participant’s margin deposit, then the difference (amount) between the two shall be included in “Payable to brokers or dealers – Other” (A. I. Liabilities) and the remainder of the deposit shall be included as a non-A. I. Liabilities. The participant’s portion of the net debit balance in the joint account shall be included in “Receivables non-customers.”

Include in the “Options” category the market value of all long listed options. The market value of all short listed options shall be included in the liability section in “Securities sold not yet purchased at market value.” Unrealized gains and/or losses shall be reflected in the appropriate statement since all such positions shall be marked-to-the- market.

Regarding unlisted options, the following treatment for financial statement purposes is to be followed:

*Unlisted call options* – regarding such long options include unrealized profits where the market value of the underlying security exceeds the exercise value of the respective option. For such short options, include unrealized losses where the market value of the underlying security exceeds the exercise value of the respective option.

*Unlisted put options* – regarding such long options include unrealized profits where the market value of the underlying security is less than the exercise value of the respective option. For such short options, include unrealized losses where the market value of the underlying security is less than the exercise value of the respective option.

Unrealized profits and/or losses included in net worth on unlisted options shall be increased or decreased by the write-off of any un-amortized cost of the long options or recognition of any un-amortized proceeds from the writing or sale of such options. See Rule 15c3-1, Appendix A, paragraph (a) for the definition of listed and unlisted options.

Positions in a broker or dealer’s (trading) error account should be marked-to-the-market and the value of the security positions reported in the appropriate item. Positions long in suspense or difference accounts without a related money balance should not be included herein. Refer to Rule 15c3-1(c)(2)(v) as to the treatment of short security differences.

Accrued interest receivable and payable in the broker or dealer’s readily marketable securities in its accounts may be added to the market value of the respective securities. The interest is subject to the same haircut as the security to which it pertains.

### **Securities not readily marketable, at estimated fair value**

See the general instructions and Rule 15c3-1(c)(2)(iv) (K-L), (c)(2)(vii) and (c)(11).

### **Other investments not readily marketable**

The amount reported as an allowable asset represents that portion which would otherwise be considered non-allowable except for the fact that it adequately secures indebtedness. (See Rule 15c3-1(c)(2)(iv) and (c)(1)(viii)).

## **Secured demand notes – satisfactory subordination agreements**

Subordination agreements must conform with the minimum requirements of Rule 15c3-1 Appendix D in order that the respective amounts may be included in Net Capital (satisfactory subordination agreements). See Appendix D, (c)(7) regarding subordination agreements in effect prior to adoption of Rule 15c3-1. Subordinations which are not covered by satisfactory subordination agreements will be included as non-allowable assets.

The collateral contained in each secured demand note collateral account shall relate only to the specific demand note that it collateralizes. The excess collateral value in one account shall not be applied to the deficiency in another account. No collateral value shall be given for secured demand note collateral which has no ready market.

## **Investment in and receivables from affiliates, subsidiaries and associated partnerships**

Bona-fide transactions between brokers or dealers and guaranteed subsidiaries – un-subordinated amounts due from a guaranteed subsidiary, provided that the books and records of the guaranteed subsidiary reflect the same exact liability to the parent, shall be allowable assets. This applies when there is no consolidation of assets and liabilities for Net Capital purposes as stipulated in Rule 15d3-1 Appendix C.

## **Property, furniture, equipment, leasehold improvements and rights under lease agreements, at cost**

Report as allowable amounts of fixed assets and assets which cannot readily be converted into cash, equal to any indebtedness adequately secured thereby. Such allowability is for those assets acquired for use in the ordinary course of the trade or business of a broker or dealer. Also report as allowable in the amount of the liability, those assets not readily convertible into cash wherein such assets are the sole recourse of the creditor for the non-payment of the related liability. Report as non-allowable any remainder and/or asset which do not conform with the above provisions. See Rule 15c3-1(c)(2)(iv) and (c)(2)(viii).

## **Other Assets – Dividends and interest receivable**

The amount reported as an allowable asset represents that portion of dividends receivable not outstanding longer than 30 days from the payable date, and interest receivable not outstanding longer than 30 days from the date it arises. Dividends receivable and payable are not to be netted; they are to be recorded in separate accounts

In addition, in cases where dividends are declared for the same security but at different intervals (i.e., quarterly dividends), the claims for the different intervals shall not be netted.

## **Other Assets – Free Shipments**

Receivables relating to free shipments of securities (other than mutual fund redemptions) in excess of \$5,000 per shipment are non-allowable assets. All free shipments, including mutual fund redemptions, are non-allowable assets if outstanding more than 7 business days. See Rule 15c3-1(c)(2)(iv)(B).

## **Other Assets – Loans and Advances**

Report amounts related to employees as allowable assets if secured by readily marketable securities and meet the margin requirements of the designated Examining Authority. Loans and advances to partners, directors, officers and subordinated lenders are to be included in the “Receivables from non-customers.”

## **Other Assets – Miscellaneous**

Insurance claims receivable – report as non-allowable asset if (1) after 7 business days from date of discovery not covered by opinion of outside counsel that claim is valid and covered by insurance policies presently in effect; (2) after 20 business days from date of discovery claim is not acknowledged in writing as due and payable by the insurance carrier; or (3) claim is not paid within 20 business days following date of such acknowledgement by the carrier. See Rule 15c3-1(c)(2)(iv)(D).

Mutual fund concessions receivable and management fees receivable from registered investment companies – report as non-allowable assets if outstanding for more than 30 days from the date they arise. See Rule 15c3-1(c)(2)(iv)(C).

Future income tax benefits arising as a result of unrealized losses may be recognized only to the extent such benefits do not exceed the amount of income tax liabilities accrued on the books and records of the broker or dealer and only to the extent such benefits could have been applied to reduce accrued tax liabilities on the date of the capital computation had the related unrealized losses been realized on that date. Any other benefits of this type recorded on the books which do not conform with the above shall be included as a non-allowable asset. See Rule 15c3-1(c)(2)(iv)(D).

Cash Surrender Value of Life Insurance Policies – report as an allowable asset if the cash surrender value and face value are payable (1) to the estate of the sole proprietor – broker or dealer or (2) to the broker or dealer if a partnership or corporation.

Syndicate profits receivable shall be considered as unsecured receivables and therefore included as non-allowable. See Rule 15c3-1(c)(2)(iv)(C).

Funds on deposit in a “Segregated Trust Account” in accordance with Rule 27d-1 under the Investment Company Act of 1940 shall be considered as non-allowable to the extent that the amount of deposit in such Segregated Trust Account exceeds the amount of liability reserves established and maintained for refunds of charges required by Section 27(d) and 27(f) of The Investment Company Act of 1940. See Rule 15c3-1(c)(2)(iv)(E).

Accrued interest and commissions on customers’ fully margined account; cash securities accounts and accrued commissions on properly margined commodity accounts are to be reported as allowable assets. Accrued interest and commissions on partly secured or unsecured customers’ securities accounts and accrued commissions on customers’ commodity accounts which are not properly margined are to be reported as non-allowable assets.

Notes receivable payable on demand secured by readily marketable securities and meeting the margin requirements of the designated Examining Authority are to be reported as allowable assets. Unsecured notes receivable are to be reported as non-allowable assets.

Good faith deposits are to be reported as non-allowable assets if outstanding longer than 11 business days from the settlement of the respective underwriting. See Rule 15c3-1(c)(2)(iv)(C).

The following cash deposits and other related type deposits in the broker or dealer’s account shall be considered as allowable:

- (a) Guaranty deposits with Commodity Exchange Clearing Associations.
- (b) Contributions to clearing organizations incident to member ship.

Rent, airline and utility deposits are to be reported as non-allowable assets.

Settlement balances with clearing associations shall be included as allowable assets.

Other miscellaneous assets such as deferred organization expense, prepaid expenses, deferred charges, goodwill, service fee receivable, accrued income receivable, intangible assets and postage inventory shall be included as non-allowable. Subscriptions receivable for capital stock shall be included as a deduction in computing net worth.

Unsecured advances to municipalities for public improvements are to be reported as non-allowable assets.

#### **Bank loans payable:**

##### **Secured by customer’ exempted securities**

In lieu of including the above in aggregate indebtedness, the broker or dealer may, at its option, deduct 4% of the amount of any indebtedness secured by exempted securities not carried long in the proprietary or other accounts of the broker or dealer or representing exempted securities failed to deliver. If such option is taken, the indebtedness shall be included in the subsection “Includable in Formula for Reserve Requirements – Non .AI. Liabilities” and the appropriate charge included in the Computation of Net Capital in the category – “Other deductions and/or charges.”

##### **Secured by marketable securities and spot commodities owned or held pursuant to subordination agreements**

Securities and spot commodities collateral which are carried long and have not been sold by the broker or dealer are required, in order that the respective indebtedness, be included in the subsection “Other – Non-A.I. Liabilities.”

#### **Securities sold under repurchase agreements**

For purposes of this report securities sold as principal under a repurchase agreement are deemed to be securities owned by the respondent and the market value is included under “Securities and spot commodities owned, at market value.” The proceeds of sale relating to securities sold under repurchase agreements are to be reported under this section.

Payable to brokers or dealers and clearing organizations

The following accounts carried by other brokers or dealers shall be included in “Omnibus accounts” in the appropriate subsection:

1. Accounts secured by or containing collateral.
2. Payables for regulated and non-regulated commodities futures accounts liquidating to an equity on the respondent’s book of record.

Regarding Item 2, the amount (payable included in the “Omnibus account” shall include net ledger balances, and gains and losses on commodities future contracts.

Amounts payable (net) to clearing organizations utilizing a continuous net settlement system shall be included in the category – “Clearing organizations” in the appropriate subsection.

Other payables to brokers or dealers (for floor brokerage, commissions, etc.) shall be included in the category “Other – A.I. Liabilities.”

Regarding failed to receive, refer to Rule 15c3-1(c)(1)(iii) and (iv) as to inclusion and exclusion in the determination of Aggregate Indebtedness.

Regarding securities loaned (firm), exclude from Aggregate Indebtedness the ledger amount relative to securities which are carried long by the broker or dealer and which have not been sold. See Rule 15c3-1(c)(1)(ii).

## **Payables to customers – Commodities accounts**

The following commodity accounts shall be included in Aggregate Indebtedness:

- A. Net ledger balances, and gains and losses in commodity future non-regulated accounts liquidating to an equity.
- B. Free credit balances in customers' non-regulated commodity accounts.
- C. Credit balances in customers' accounts with spot (cash) commodity positions.

Regarding Items A and B, the respective amounts for regulated commodity accounts shall be excluded from Aggregate Indebtedness. Such represent amounts to be segregated pursuant to the Commodity Futures Trading Commission Act. The following represents funds actually segregated pursuant to the Act.

1. Funds in banks segregated under the Act (cash and market value of U.S. Government Securities – Firm owned).
2. Margin deposits with and receivable from commodity exchange associations for regulated commodities (cash and market value of U.S. Government Securities – Firm owned).
3. Receivable from brokers or dealers for customers' regulated commodity future accounts – included in "Omnibus accounts" under "Receivables from brokers and clearing organizations."

## **Payables to non-customers**

See Rule 15c3-1(c)(1), (c)(1)(v) and (c)(1)(xii) to determine classification of amounts included and excluded from Aggregate Indebtedness.

## **Accounts payable and accrued liabilities and expenses – Other**

Estimated liabilities shall be established for, but not limited to, security dividends receivable, short security differences, unsecured or partly secured short positions, or other deficits in customers' accounts, and "aged" transfer positions. Such liabilities shall be included in Aggregate Indebtedness. The contra of the liability shall be a charge to a profit and loss account.

## **Notes and mortgages payable – secured**

See instructions under "Property, furniture, equipment, leasehold improvements and rights under lease agreements." Include in A.I. Liabilities, in the subsection "Unsecured," any fixed liabilities which do not conform with the exclusions stated in the instructions.

## **Borrowings not qualified for Net Capital purposes**

Include herein liabilities which are subordinated to the claims of creditors but which are not covered by satisfactory subordination agreements as defined in Appendix D of Rule 15c3-1. See Rule 15c3-1(c)(1)(xi) as to which subordinated liabilities may be excluded from Aggregate Indebtedness. It should be noted that such subordinations by customers may be excluded from Aggregate Indebtedness only if approved by the Examining Authority for such broker or dealer.

Indicate separately those satisfactory subordination agreements which are considered as equity capital for purposes of debt-equity requirements. Such are reported in subordinated liability section of the Statement of Financial Condition. See Rule 15c3-1(d) for the various requirements for such agreements.

## **Special Requirements as to Consolidated Financial Statements and Statements of 50% or Less Owned Persons and Certain other Persons.**

The inclusion or exclusion of subsidiaries in Consolidated Financial Statements shall be in accordance with the following requirements:

- (a) Consolidated Financial Statements of registrant shall include the statements of any subsidiary whose obligations or liabilities are guaranteed, endorsed or assumed directly or indirectly by registrant.
- (b) Consolidated Financial Statements of registrant may include the statements of any other subsidiary.

- (c) If the effect of the consolidation provided for in paragraph (a) or (b) above results in the increase of the registrant's net capital and/or decrease in the registrant's ratio of aggregate indebtedness to net capital or increases registrant's net capital and/or decreases the minimum net capital requirement called for by the subparagraph (f)(2) of Rule 15c3-3, then such benefits shall not be recognized unless an opinion of counsel is obtained containing the representations as to the availability of the portion of net assets related to registrant's interest prescribed in Rule 15c3-1, Appendix C, subparagraph (b)(2).
- (d) Subsidiaries which do not meet the requirements of paragraph (c) above shall not be consolidated.
- (e) Financial statements of any 50 percent or less owned person or other affiliate, whose obligations or liabilities are not guaranteed, endorsed or assumed directly or indirectly by registrant shall be included in a note.
- (f) Opinions of counsel concerning the availability of net assets to registrant shall be filed with each annual report under Rule 17a-5.

Registrants shall indicate whether the financial statements and schedules are consolidated or unconsolidated by checking the appropriate box at the top of the Statement of Financial Condition.

## **COMPUTATION OF NET CAPITAL AND AGGREGATE INDEBTEDNESS**

### **Ownership equity not allowable for Net Capital**

Deduct any capital accounts included as part of ownership equity on the Statement of Financial Condition which are not allowable in the determination of Net Capital.

### **Liabilities subordinated to claims of general creditors allowable in computation of Net Capital**

Appendix D to Rule 15c3-1 sets forth minimum and nonexclusive requirements for satisfactory subordination agreements. The self-regulatory organization which has been designated as the Examining Authority for the broker or dealer may require, or the broker or dealer may include, such additional provisions as they deem necessary or appropriate to the extent such provisions are not inconsistent with the provisions of Rule 15c3-1.

### **Secured demand note collateral accounts**

Securities contained in collateral, not accounts, shall be considered to have no value unless in bearer form, or registered in the name of the broker or dealer or the name of its nominee or custodian.

The collateral contained in each secured demand note collateral account shall relate only to the specific demand note that it collateralizes. The excess collateral value in one account shall not be applied to the deficiency in another account.

Two or more demand notes of the same individual should not be combined.

Only cash and securities which are fully paid for and which may be publicly offered or sold without registration under the Securities Act of 1933, and the offer, sale and transfer of which are not otherwise restricted, may be pledged as collateral to secure a secured demand note.

### **Other (deductions) or Credits**

Sole proprietors (individual members) who are not associated with a broker or dealer who is a member of a national exchange shall record here:

1. The total of any liabilities incurred in the course of business which are not reported in the Statement of Financial Condition and which would have a material effect on Net Capital.
2. The excess of liabilities which have not been incurred in the course of business as a broker or dealer over assets not used in the business.

### **Deductions and/or charges:**

#### **Customer Commodity accounts – deductions**

30% of the market value of spot commodities long or short in customers and non-customers' accounts liquidating to a deficit; provided, that the deduction shall be 10% of the market value of the spot commodities to the extent they are hedged by future commodity contracts or forward spot commodity contracts in the same commodity.

The total of credit lines granted on open commodity contracts in "trade" accounts with net long positions or in "trade" accounts with net short positions, whichever is greater, plus any credit lines granted on open commodity contracts in "trade" accounts with no net long or net short positions.



This amount is determined by multiplying the number of contracts in an account, on which credit has been granted, by the amount of credit granted on each such open contract. From the amount so determined deduct the equity or deficit in that account after application of margin calls, marks-to-market, or other required deposits outstanding 5 business days or less. The deduction, however, cannot exceed the amount of credit granted.

After the amount of credit granted has been determined for each account, the amounts are totaled for accounts which have net long positions and separately for accounts which have net short positions. The amount required by the accounts with net longs or with net shorts, whichever amount is greater, is used. To this amount is added the amount determined for accounts with no net positions.

If an account has open positions in only one commodity, the number of contracts determines the net position. If it has a net long position in one commodity and a net short position in a different commodity, the market value determines the net position.

The total amount by which the daily limit fluctuation of all future commodity contracts carried for a customer's or a non-customer's account or accounts controlled by such persons exceeds 15% of the debt-equity total of the broker or dealer.

The amount which the daily limit fluctuations of all future commodity contracts carried for a customer's or non-customer's account exceeds 15% of the debt-equity total of the broker or dealer may be determined by eliminating from each customer's and non-customer's account or group of accounts controlled by such persons, purchases of a commodity in one contract month and sales of a like amount of the same commodity in a different contract month provided such contracts were made in the same market. The daily limit fluctuation for futures contracts affected in foreign markets is to be considered the same as if such contracts had been affected in a domestic market.

After such eliminations, the remaining number of contracts long and short is multiplied by the amount of the daily limit fluctuation prescribed by the pertinent commodity exchange for each contract in the respective commodity.

The amount of the charge is the excess of the amount of the daily limit fluctuation over 15% of the debt-equity total as in the following example:

**Account of John Smith**

	<u>Number of Contracts</u>		<u>Daily Limit Fluctuation</u>	
	<u>Long</u>	<u>Short</u>	<u>Per Contract</u>	<u>Total</u>
Cocoa	1,000		300	\$ 300,000
Cotton	700		1,000	700,000
Soybean Oil	500		600	600,000
Sugar	300		560	168,000
Wheat	300		500	<u>150,000</u>
				\$1,618,000
15% of \$10,000,000 – Debt Equity Total				<u>1,500,000</u>
Amount of Charge				\$ 118,000

A deduction to provide for the amount required to restore the original margin required by the pertinent commodity exchange or the clearing house requirement, per contract, if the commodity exchange has no original margin requirement, when the original margin has been depleted by 50% on all future commodity contracts in each customer's and non-customer's account. Cash required should be exclusive of liquidating deficits and after application of calls for margin, marks-to-market, or other posits which are outstanding 5 business days or less.

A deduction, exclusive of liquidating deficits deducted under other provisions of Rule 15c3-1, of cash required to provide margin equal to 20% of the market value in each customer's and non-customer's account in equity, after application of calls for margin, marks to market, or other require deposits outstanding 5 business days or less, containing spot commodity positions, evidenced by warehouse receipts, issued by a warehouse licensed by a commodity exchange, which are the result of future contracts tendered through an exchange within the past 90 days, but not hedged by future contracts in the same commodity.

A deduction of cash required to provide margin equal to 10% of market value in each customer's and non-customer's combined account in equity, after application of calls for margin, marks-to-market, or other required deposits outstanding 5 business days or less, when such account contains spot commodity positions, evidenced by warehouse receipts issued by a warehouse licensed by a commodity exchange, which are the result of future contracts tendered through an exchange within the past 90 days, and hedged by future contracts in the same commodity.

Deduct the debit balance in each customer's or non-customer's spot (cash) commodity account (i) other than the result of a tender made on a futures contract within the past 90 days and (ii) not evidenced by warehouse receipts issued by a warehouse licensed by a commodity exchange.

½% of the market values of the greater of either the total long or total short future contracts in each commodity carried for customers and non-customers. This may be determined by eliminating from each customer and non-customer's account those contracts representing spreads or straddles in the same commodity and contracts offsetting or hedging any "spot" commodity positions. After such eliminations, the total market values of the remaining contracts are determined separately for each commodity. The greater of the long value or short value of each commodity enters into the computation of ½% of the market values as in the following example

## Market Value

	<u>Long</u>	<u>Short</u>	<u>Greater of Long or Short</u>
Coffee	\$ 200,000	\$ 100,000	\$ 200,000
Cotton	1,500,000	1,000,000	1,500,000
Sugar	300,000	200,000	300,000
Corn	500,000	700,000	700,000
Oats	150,000	150,000	150,000
Wheat	1,000,000	1,300,000	<u>1,300,000</u>
			<u>\$4,150,000</u>
Amount Required ½% of Total			20,750

### Customer maintenance margin deficiencies

Deduct the amount of cash required in each customer's and non-customer's securities account to meet the maintenance margin requirements of the regulatory or self-regulatory authority designed as the Examining Authority for the broker or dealer, after application of calls for margin, marks-to-the market, or other required deposits which are outstanding 5 business days or less.

### Aged fails to deliver

Deduct the percentages of the market value of each failed to deliver contract which is outstanding 15 business days or longer which would be required by application of the deduction required by subparagraph (c)(2)(vi), or, where appropriate, paragraph (f) of Rule 15c3-1, on the underlying security. Provided, that such deduction shall be increased by any excess of the contract price of the fail to deliver over the market value of the underlying security position or reduced by any excess of the market value of the underlying security over the contract value of the fail but not to exceed the amount of the deduction. Effective January 1, 1977, this charge shall be applied to each fail to deliver contract outstanding 11 business days or longer.

### Aged short security differences

Deduct the market value of all short securities differences unresolved for 7 business days after discovery and the market value of any long security differences where such securities have been sold by the broker or dealer until they are adequately resolved, less any reserves established therefor.

### Secured demand note deficiency

If the value of securities and cash collateralizing a secured demand note contributed for purposes of capital under Rule 15c3-1 after application of the deductions specified in subparagraph (c)(2)(vi) of Rule 15c3-1 is less than the unpaid principal amount of the secured demand note, such deficiency shall be deducted.

### Haircuts

Undue concentration – Basic Net Capital Computation under Rule 15c3-1.

In the case of money market instruments or securities of a single class or series of an issuer, including any option written, endorsed or held to purchase or sell securities of such a single class or series of an issuer (other than "exempted securities"), which are long or short in the proprietary, or other accounts of a broker or dealer for more than 11 business days, and which have a market value of more than 10% of the "net capital" of a broker or dealer before the application of subparagraph (c)(2)(vi) or Appendix A to Rule 15c3-1, there shall be an additional deduction from net worth equal to 50% of the percentage deductions otherwise provided by subparagraph (c)(2)(vi) or Appendix A to Rule 15c3-1 on that portion of the securities position in excess of 10% of the "Net Capital" of the broker or dealer before the application of subparagraph (c)(2)(vi) or Appendix A to Rule 15c3-1. (See subparagraph (c)(2)(vi)(M) of Rule 15c3-1 for further provisions).

### Contractual commitments

Deduct, in the case of a broker or dealer who has open contractual commitments (other than option positions treated in Appendix A to Rule 15c3-1), the respective deductions as specified in subparagraph (c)(2)(vi) or Appendix B to Rule 15c3-1 (in the case of a broker or dealer electing to operate pursuant to paragraph (f) of Rule 15c3-1, the percentage deduction for contractual commitments in securities described in subparagraph (f)(3)(ii) shall be 30%) from the value (which shall be the market value whenever there is a market) of each net long and each net short position contemplated by any existing contractual commitment in the proprietary and other accounts of the broker or dealer. (See subparagraph (c)(2)(viii) of Rule 15c3-1 for further provisions).

## **Firm security and commodity accounts**

Deduct the percentages specified in subdivisions (A) to (M) of subparagraph (c)(2)(vi) or the deductions prescribed for securities positions set forth in Appendix A to Rule 15c3-1 or, where appropriate, paragraph (f) of Rule 15c3-1 of the market values of all securities, money market instruments or options in the proprietary and other accounts of the broker or dealer. The capital charge (haircut) on future commodity contracts is 30% of the market value of all “long” and all “short” future contracts other than those contracts representing spreads and straddles in the same commodity and those contracts offsetting or hedging any “spot” commodity positions in proprietary or other accounts of the broker or dealer.

## **Straddle or Spread**

These terms mean the same thing, but in practice the grain trade uses the term “spread”, whereas the other commodity interests use the term “straddle.” A spread may be defined as the purchase of one future against the sale of another future of the same commodity or a related commodity in the same or different market. The Commodity Futures Trading Commission Act defines spreading only in terms of the same commodity, whereas exchanges define it to also include different but related commodities.

Deduct 30% of the market value of “spot” commodities long or short in the proprietary and other accounts of the broker or dealer to the extent that such positions are not hedged by future commodity contracts or forward spot commodity contracts in the same commodity. 10% of the market value shall be deducted on fully hedged positions.

## **COMPUTATION OF CAPITAL REQUIREMENTS AND NET CAPITAL UNDER THE ALTERNATIVE METHOD**

### **Capital requirements**

Capital requirements under the alternative method are the greater of \$100,000 or 4% or the total debit items in the “Formula for Determination of Reserve Requirements for Brokers and Dealers” as set forth in Exhibit A to Rule 15c3-3. It should be noted, however, that the brokers or dealers operating under the alternative method must make the “Formula for Determination of Reserve Requirements for Brokers and Dealers” computation on a weekly basis and *in lieu* of the 1% reduction of total debit balances in customers’ cash and margin accounts included in the formula under Item 10 thereof:

- (a) reduce the total debits in the formula by 3%, and
- (b) include in Items 7 and 8 of the formula the market value of short security count difference over 7 business days old and the market value of short securities (not be offset by long or by debits) in all suspense accounts over 7 business days.
- (c) exclude from the formula credit balances in accounts representing amounts payable for government securities, commercial paper, bankers’ acceptances and certificates of deposit (as described in Rule 15c3-1(c)(2)(iv)(A) and (E) not yet received from the issuer or its agent of any related debit items for three business days.

As to a broker or dealer who has consolidated a subsidiary pursuant to Appendix C of Rule 15c3-1, such broker’s or dealer’s capital requirements under the alternative method are the sum of:

- (a) such broker’s or dealer’s capital requirements under Rule 15c3-1(f), and
- (b) the individual capital requirement(s) of the consolidated subsidiary(ies). Each consolidated broker or dealer subsidiary may elect to compute its capital requirement pursuant to Rule 15c3-1(a) or Rule 15c3-1(f).

It should be further noted that when a broker or dealer (including a broker or dealer included as a consolidated subsidiary by a parent broker or dealer) elects to compute its capital requirements under the provisions of the alternative method such election is binding until such time as the Commission, upon application of the broker or dealer, approves a change.

### **Net capital computation**

The determination of net capital under the alternative method follows the same basic rule under Rule 15c3-1 with the substitution of revised haircut percentages for convertible debt securities, risk arbitrage positions, other securities and the additional charge for undue concentration.

In the case of convertible debt securities not in default, where the market value is 100% or more of the face value, the haircut is:

- (i) 15% of the market values of the long position, plus
- (ii) 30% of the market value of that portion of the short positions which exceeds 25% of the market value of the long positions.

The above charge is computed on the aggregate market values in the category and not on an item-by-item basis.

In the case of convertible debt securities not in default, where the market value is less than face value, the haircuts are the same as for non-convertible debt securities in the basic net capital computation ( See Rule 15c3-1(c)(2)(iv)(F)) provided the securities are rated as required by such sub-division.

As regards to other securities, as defined in Rule 15c3-1(f)(3)(ii), the haircut shall be:

- (i) 15% of the market value of the long positions, plus
- (ii) 30% of the market value of that portion of the short position which is in excess of 25% of the market value of the long position.

No deduction need be taken on

- (i) Securities long and short which are convertible or exchangeable, without restriction, within 90 days, or
- (ii) A security which has been called redemption within 90 days.

Also, in regard to open contractual commitments on other securities the haircut is 30%.

Positions arising as a result of risk arbitrage transactions, as defined in Rule 15c3-1(c)(2)(vi)(I), may at the option of the broker or dealer be combined with other securities for the purpose of determining the haircut charge, if such treatment results in a lower charge than that computed for risk arbitrage position under the basic rule.

Appendix A to Rule 15c3-1 contains certain provisions for different haircuts on options and related positions when using the alternative net capital requirement.

The additional charge for undue concentration is based upon securities (including options) of a single class or series or an issuer and is generally equal to 50% of the applicable rate on that amount in excess of 10% of net capital before haircuts. Such additional charge does not apply to:

- (1) Exempted securities.
- (2) Positions arising from under-writings not held for more than 11 business days.
- (3) Securities which are convertible or exchangeable, without restriction, within 90 days.

#### **STATEMENT OF INCOME (LOSS) or STATEMENT OF COMPREHENSIVE INCOME (as defined in §210.1-02 of Regulation S-X), as applicable**

If there are no items of other comprehensive income in the period presented, the broker or dealer is not required to report comprehensive income.

#### **Commissions**

Commission earned on non-member and intra-member equity, debt and commodity transactions including non-inventory principal transactions. Commission earned on introduced accounts carried by other brokers and on omnibus accounts carried for other brokers should be reported net.

#### **Principal Transaction Including Unrealized Gains and Losses**

Report realized and unrealized gains and losses from securities and from future and spot commodities in trading and investment accounts.

#### **Underwriting**

Gross profit from underwriting transactions shall be determined as the difference between the proceeds of securities sold and their purchase price adjusted for discounts, commissions and allowances received from or given to other brokers.

Any direct expense which can be associated with a specific underwriting may also be considered as a cost in determining gross profit or loss. In determining gross profit or loss any unrealized loss on securities unsold at the time the underwriting account was closed shall be considered as a deduction from the proceeds of securities sold.

In addition, report all fees earned from private placements, mergers and acquisitions and any other underwriting activity.

#### **Interest and Dividends**

Report interest and dividend income earned on firm trading and investment accounts. Also report gross interest earned on customers' securities and commodities accounts.

### **Income from Sale of Investment Company Shares**

Include income from sale of open-end investment company shares as retailer and as an underwriter including sales of periodic payment plans of the installment type and face amount certificates. Exclude income from sale and underwriting of shares of closed-end investment companies.

### **Other Income**

Report all other income including sale of investment company securities, investment advisory fees, proxy solicitation fees, service charges (including custodial fees), fees in connection with option transactions not excluded on an exchange, fees for solicitation of tenders on exchanges of securities, income from sale of insurance policies and all other income not specified above.

### **Employee Compensation and Benefits**

Report all salaries, commissions, bonuses, profit sharing contributions, payroll taxes and benefits paid to or incurred for all employees of the reporting organization.

### **Commissions and Floor Brokerage**

Include security and commodity commissions paid to others; clearance fees paid to clearing corporations, associations and depositories; fees paid to exchanges and floor brokerage paid to other brokers.

### **Communications**

Include the cost of telephones and leases wires, tickers and quotation equipment, postage, stationery, office supplies and forms.

### **Occupancy and Equipment Rental**

Enter the cost of rent, heat, light and maintenance; depreciation and amortization; EDP equipment, rental and service bureau charges; all other equipment rental and general insurance.

### **Interest**

Include interest paid to banks and on customers' accounts; on all other un-subordinated and subordinated borrowings.

### **Taxes Other Than Income Taxes**

Include real estate taxes, personal property taxes, commercial rent and occupancy taxes, etc.

### **Other Operating Expenses**

Report cost incurred for advertising, sales literature and promotional activities; travel and entertainment; subscriptions to periodicals, dues and assessments, losses in error accounts and bad debt, professional fees and all other expenses not specified above.

### **Income Taxes**

Include all unincorporated business taxes, franchise taxes, state and local income taxes and Federal income taxes paid, accrued or refunded.

### **Equity in Earnings of Unconsolidated Subsidiaries**

The amount reported shall be stated net of any applicable tax provisions.

**STATEMENT OF CHANGES IN OWNERSHIP EQUITY  
(SOLE PROPRIETORSHIP, PARTNERHIP OR CORPORATION)**

**Balance, Beginning and End of Month**

The amounts reported should agree with related Statements of Financial Condition.

**Net Income (Loss) For Period**

Report the amount of net income (loss) for the period reported on the Statement of Income (Loss) or Statement of Comprehensive Income, as applicable.

**Additions and Deductions**

State separately net income (loss) for the period and each addition and each deduction such as sale of capital stock, retirement or repurchase of capital stock, dividends, partners capital contributed or partners capital withdrawn.

**STATEMENT OF CHANGES IN LIABILITIES  
SUBORDINATED TO CLAIMS OF GENERAL CREDITORS**

**Balance, Beginning and End of Period**

The amount reported should agree with the sum of subordinated liabilities which have been approved for inclusion in net capital as shown in the Statement of Financial Condition at the end of each of the respective periods.

**Additions**

Report the gross amount of increases in secured capital demand notes and subordinated loans and accounts which have been approved for inclusion of net capital.

**Deductions**

Report the gross amount of decreases in secured capital demand notes and subordinated loans and accounts which have been approved for inclusion of net capital.

**COMPUTATION FOR DETERMINATION OF  
RESERVE REQUIREMENTS FOR  
BROKER DEALERS UNDER RULE 15C3-3**

Definitions: The definitions given in Rule 15c3-3 and Release 34-9922, dated January 2, 1973, shall apply for customer securities, qualified security bank, free credit balance, other credit balance, funds carried for account of any customer, and "customer funds," (Note: Release 34-9922 explains conditions under which account of partners, officers or stockholders are to be considered as customer accounts).

**Free Credit Balances and Other Credit Balances in Customers' Security Accounts**

The credit balance used under this Item is interpreted to include the net balances due to customers in non-regulated commodity accounts reduced by any deposits of case or securities with any clearing organization or clearing broker in connection with the open contracts in such accounts.

Also include in this Item all outstanding drafts payable to customers which have been applied against free credit balances or other credit balances as well as checks drawn in excess of bank balances per firm's records.

*Monies payable against customers' securities loaned . . . . . Securities borrowed to effectuate short sales by customers and securities borrowed to make delivery on customers' securities failed to deliver . . . . . Failed to deliver of customers' securities not older than 30 calendar days . . . . . Customers' securities failed to receive . . . . .*

**These items are applicable to customer transactions**

If it is impractical or unduly burdensome to determine which fail to receive contracts and fail to deliver contracts relate to proprietary accounts versus customer accounts and which securities loaned and securities borrowed are for proprietary accounts or customer accounts, an appropriate allocation may be made on a conservative basis to accomplish maximum protection for customers. If an allocation is used with regard to the foregoing items, the broker or dealer should be able to demonstrate that the results so obtained regarding designations of customer versus proprietary positions would be comparable to those which would

be obtained if the respective positions had been developed without the use of allocations. If an allocation is necessary to determine proprietary versus customer positions, the broker or dealer should make and maintain a record of each such allocation and preserve it in accordance with Rule 17a-4.

### **Debit Balances in Customers' Cash and Margin Accounts Excluding Unsecured Accounts and Accounts Doubtful of Collection (See Note B, Exhibit A Rule 15c3-3)**

Debit balances in margin accounts are reduced by the amount by which a specific security, (other than an exempted security) which is collateral for margin accounts, exceeds in aggregate value 15% of the aggregate value of all securities which collateralize all margin accounts receivable; provided, that the required reduction is not in excess of the amount of the debit balance required to be excluded because of this concentration rule. A specified security is deemed to be collateral for a margin account only to the extent it represents in value not more than 140% of the customer debit balance in a margin account.

Debit balances in customers' cash and margin accounts included in the formula under this item are to be reduced by an amount equal to 1% of their aggregate value. It should be noted, however, that brokers or dealers operating under the alternative method (Rule 15c3-1(f)) would reduce total debits in the formula by 3% in lieu of the aforementioned 1%. See respective Rule for other requirements regarding the alternative method.

The debit balance under this item shall include the debit in a related draft receivable when immediate credit has not been received on draft shipments of securities purchased by customers, provided that the debit in the customer's account for the purchase of the securities so drafted has been eliminated.

### **Failed to Deliver to Customers' Securities Not Older Than 30 Calendar Day**

The debit balance under this item shall include the debit balance in a related draft receivable when immediate credit has not been received on shipments to other brokers with draft attached, provided that the debit in the broker's fail to deliver account has been eliminated.

### **Frequency of Computation**

Computations may be made monthly if the broker or dealer's Net Capital ratio is not over 800% and the total of free credit and other credit balances carried for the accounts of customers does not exceed \$1,000,000. A weekly computation is required for brokers or dealers adopting the alternative method under Rule 15c3-1(f).

## **FINANCIAL AND OPERATIONAL DATA**

### **Stock Record Brakes**

Stock record breaks are defined as out-of-balance error conditions in the daily recording of security position changes or movements where total debit entries (longs) do not equal total credit entries (short) within a given security position reflected on the daily stock record.

"Long" differences are the amounts needed to balance an excess of short positions over long positions.  
When recorded in a difference account, such would be recorded long on the stock record.

"Short" differences are the amounts needed to balance an excess of long positions over short positions.  
When recorded in a difference account, such would be recorded short on the stock record.

### **Tickets**

See Part I of the FOCUS Report for the definition of tickets.

### **Corrected Customer Confirmations**

As stated, include only customer confirmations – exclude broker-to-broker comparisons except where the contra-broker is considered a customer (Section 220.4(b) of Reg. T). In addition, include confirms where the incorrect original was mailed to the customer and count multiple corrections on confirms individually.

### **Money Differences**

The term "money differences," shall include all respective accounts containing ledger debits or credits representing unidentified or unknown items, with no related security positions or which contain security positions that cannot be promptly related to ledger balances or any account required to balance the general ledger, except for items promptly resolved.

This category could include, but not be limited to, the following:

- (a) Unallocated receipts or disbursements.
- (b) Cash Dividend Balancing Accounts (out-of-balance proofs).
- (c) Money Balancing Accounts (EDP Cage P & S, Accounting and others). Adjustments of General Ledger control accounts to agree to subsidiary records.
- (d) Unresolved Money Differences as a result of comparison of detail in bank accounts to bank statements.
- (e) Unresolved Money Differences resulting from the comparison of detail records to control accounts for customer accounts, fail to receive, fail to deliver, stocks borrowed, stock loaned, bank loans, etc.
- (f) Any accounts utilized to balance "daily work" which contain debits or credits requiring resolution. If any such accounts exist, the ledger balancing resulting from one days "out of balance" shall not be netted against another days work unless it is related to such "out of balance".

For reporting purposes, debit and credit money differences shall not be netted.

Ledger debits shall be considered non-allowable assets in the computation of Net Capital and ledger credits shall be included in Aggregate Indebtedness.

Any unresolved differences, as of the date of this report, between general ledger control accounts, balancing of blotters, etc., shall be included in these accounts. Any debit balance for which resolution is considered unlikely shall be written off to profit and loss, or an adequate reserve shall otherwise be provided.

**Security Suspense Accounts**

The term "security suspense accounts" shall indicate all transactions in any accounts containing a long or short security position with a related ledger balance pending determination of their ultimate disposition because of doubtful ownership, collect ability, or deliverability, except for transactions promptly resolved.

Security suspense accounts not promptly resolved should be considered security difference accounts where appropriate.

**Security Difference Accounts**

The term "security difference accounts," shall include all transactions in any accounts containing long and/or sort security positions, for which no related ledger balance exists.

**Commodity Suspense Accounts**

In determining data to be included in the report, the following schedule may be used. It should be noted that this schedule is not all-inclusive and other suspense items should be indicated in the report.

- a. Warehouse Receipts on hand:
  - 1. Date counted and compared to records \_\_\_\_\_
  - 2. Number of unresolved differences \_\_\_\_\_
  - 3. Market value of unresolved differences – Long (Short) \$ \_\_\_\_\_
- b. As to Direct Clearing with Commodity Exchanges:
  - 1. Latest date which all settlement sheets have been reconciled \_\_\_\_\_
  - 2. Number and amount of unresolved reconciling money items:
    - a. Debits No.: \_\_\_\_\_ \$ \_\_\_\_\_
    - b. Credits No.: \_\_\_\_\_ \$ \_\_\_\_\_
  - 3. Market value of unresolved future contract differences after comparisons and balancing with proprietary and customers' positions
    - a. Long \$ \_\_\_\_\_
    - b. Short \$ \_\_\_\_\_
- c. As to Clearing Accounts with Commodity Brokers:
  - 1. Date which statements were last received \_\_\_\_\_
  - 2. Date of last reconciliation of accounts \_\_\_\_\_



