

**FORM G-405, PART II**  
**REPORT ON FINANCES AND OPERATIONS OF**  
**GOVERNMENT SECURITIES BROKERS AND DEALERS**

**GENERAL INSTRUCTIONS**

This report on the finances and operations of government securities brokers and dealers (Form G-405) constitutes the basic financial and operational report required of those government securities brokers or dealers subject to any minimum liquid capital requirement set forth in 17 CFR 402.2. These instructions and others issued from time to time must be used in preparing this report and are considered an integral part of this report.

The report shall be filed with the regulatory organization designated as the examining authority for the government securities broker or dealer.

The name of the government securities broker or dealer and date of the report shall be repeated on each sheet of the report submitted. If no response is made to an item or subdivision thereof it shall constitute a representation that the government securities 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 government securities 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. Where carried in conjunction with the United States dollar balances for the same customer, foreign currency may be consolidated with such 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.

Liquid capital is a defined term, and it must be interpreted according to that definition in the applicable capital requirements rule. Instructions relating to specific items must be followed. Any deviations from these specific instructions must be clearly explained in footnotes to the report.

If the government securities 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 appropriately reported.

"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 uncleared "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); and (d) securities which 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. A price reasonably related to the last sales price or current bona-fide competitive bid and offer quotations must be almost instantaneously determinable for a particular security in the securities market. Payment in settlement of a sale at such price must also be receivable 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 government securities 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 the 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 government securities broker or dealer shall mean the national securities exchange or national securities association of which the government securities broker or dealer is a member, if any. If the government securities broker or

dealer is a member of more than one such self-regulatory organization, the examining authority for such government securities broker or dealer is the organization designated by the Commission. If the government securities broker or dealer is not a member of any such self-regulatory organization, the examining authority for such government securities broker or dealer is the Regional Office of the Commission where such government securities broker or dealer has its principal place of business.

The terms "customer" and "non-customer" are 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 valuations. (For long valuations no price shall be used which is higher than the actual market price, i.e., for a price of  $17\frac{7}{8}$  use 17 but not 18. For short valuations, use the higher price, i.e.,  $17\frac{1}{8}$  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. Financial statements 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 government securities 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 and 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 three (3) years a copy of each Report on Finances and Operations of Government Securities Brokers and Dealers filed, along with all the working papers and memoranda used in the preparation of each report (Refer to Rule 17a-4 as modified by 17 CFR 404.3). Working papers, etc., must be made available for review by a representative of the designated examining authority.

#### Filing Requirements For Part IIA

Part IIA shall be filed quarterly by firms not clearing or carrying customer accounts, and those firms which are subject to the requirements of 17 CFR 402.2(c) and Rule 15c3-1(a)(2). Part IIA shall be filed monthly by such of these firms which receive written notice pursuant to Rule 17a-5(a)(2)(iv) as modified by 17 CFR 405.2 that they have exceeded parameters set by the self-regulators.

### **STATEMENT OF FINANCIAL CONDITION**

#### ASSETS

##### Cash

Cash in banks subject to withdrawal restrictions such as time deposits not subject to Regulation Q of the Federal Reserve System, deposits of foreign currency with exchange or transfer restrictions, or funds held in escrow shall be shown as "Other assets - Miscellaneous - 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 on which filing of the balance sheet is required; 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 - Includable in Formula for Reserve Requirements."

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

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

##### Receivables from brokers or dealers and clearing organizations

Accounts secured by, or containing, collateral carried by other brokers or dealers shall be included in "Omnibus accounts" in the appropriate subsection. Receivables for regulated and non-regulated commodities futures accounts liquidating to a deficit on the

respondent's books of account shall also be included in "Omnibus accounts" as an allowable asset. The amount receivable on these futures accounts shall include net ledger balances and losses and gains on commodities futures 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.

Other receivables from brokers or dealers (floor brokerage, commissions, etc.) shall be included in the category "Other" and classified as allowable or non-allowable pursuant to 15c3-1(c)(2)(iv)(C).

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.

#### Receivables from customers

See the general instructions for definition 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 securities or commodities accounts of any one customer, but not cash accounts, may be combined and reported under the appropriate classification. Customers' accounts related by bona-fide written guarantees may be combined.

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.

#### Receivables from non-customers

The amount reported as an allowable asset must represent those portions of partly secured accounts which are deemed to be fully secured. The remaining portion of the ledger debit balance shall be considered non-allowable.

Fully and partly secured accounts with spot (cash) commodity positions shall be reported in the manner described above as allowable assets.

#### Securities purchased under agreements 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 the securities to the seller. These transactions result in the government securities broker or dealer having a secured receivable from the borrower of funds and the liquid 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 of the date of the Statement of Financial Condition. Fractions and accrued interest with respect to securities may be omitted except where such procedures, in the case of short positions, would have a material effect on liquid capital.

For the purpose of this report securities sold as principal under a repurchase agreement shall be deemed to be securities owned by the government securities broker or dealer and the market value shall be included in this section. The proceeds of the 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 government securities broker or dealer has an interest shall be reported as follows:

- a) Accounts carried by the reporting government securities broker or dealer – for those accounts carried by the reporting government securities broker or dealer include its applicable portion of the market value of marketable securities and spot commodities in the appropriate item. The reporting government securities broker's 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 customer's or non-customer's account, as appropriate, and included as a receivable from or payable to customers or non-customers 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 customer or non-customer accounts 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 liquid 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 government securities broker's 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 government securities broker or dealer will include its portion of the market value of marketable securities and spot commodities in the appropriate item. A margin deposit by the

reporting government securities broker or dealer is an allowable asset in the computation of liquid capital. The reporting government securities broker's 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 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 government securities broker or dealer has an interest – money balances and securities positions carried by the reporting government securities 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 government securities 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 government securities broker's 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.
- d) If the joint account nets to a credit balance or is a free credit balance, include in "Payable to customers or non-customers – Securities accounts," as appropriate, the amount of such balance multiplied by the other participant(s)' percentage of the account. Any margin deposits received regarding the above would be included in "Payable to brokers or dealers and clearing organizations – Other."
- e) If the joint account 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 and clearing organizations – Other," and the remainder of the deposit shall be included in "Other." The other participant(s) portion of the net debit balance in the joint amount shall be included in "Receivables from customers or non-customers," as appropriate.

Include in the "Options" category the market value of all long listed options and all long unlisted options which are Treasury market risk instruments according to the provisions of 17 CFR 402.2(e). The market value of all short listed options and all short unlisted options which are Treasury market risk instruments according to the provisions of 17 CFR 402.2(e) 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 which are not Treasury market risk instruments, 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 or unlisted options which are not Treasury market risk instruments shall be increased or decreased by the write-off of any unamortized cost of the long options or recognition of any unamortized 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 government securities broker's 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 on the government securities broker's 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)(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).)

#### Secured demand notes - satisfactory subordination agreements

Subordination agreements must conform with the minimum requirements of Rule 15c3-1 Appendix D as modified by 17 CFR 402.2d in order that the respective amounts may be included in liquid capital (satisfactory subordination agreements). 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 government securities brokers or dealers and guaranteed subsidiaries – unsubordinated 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 liquid capital purposes as stipulated in Rule 15c3-1 Appendix C as modified by 17 CFR 402.2c.

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

Report as allowable only those amounts of fixed assets and assets which cannot readily be converted into cash which are 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 government securities 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 assets which do not conform with the above provisions. (See Rule 15c3-1(c)(2)(iv).)

#### 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 payment 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 seven (7) business days. (See Rule 15c3-1(c)(2)(iv)(B).)

#### Other Assets - Loans and advances

Report amounts related to employees and customers as allowable assets if they are 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 appropriate category under "Receivables from non-customers."

#### Other Assets - Miscellaneous

Insurance claims receivable – report as non-allowable asset if: (1) after seven (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 government securities 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)(i)(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 a sole proprietor-government securities broker or dealer or (2) to the government securities 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).)

Accrued interest and commissions on customers' fully margined accounts and cash securities accounts are to be reported as allowable assets. Accrued interest and commissions on all customers' commodity accounts, whether or not they are properly margined, are also to be reported as allowable assets. Accrued interest and commissions on partly secured or unsecured customers' securities accounts 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 government securities broker's or dealer's accounts shall be considered as allowable:

- a) Guaranty deposits with Commodity Exchange Clearing Associations, and
- b) Contributions to clearing organizations incident to membership.

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 expenses, prepaid expenses, deferred charges, goodwill, service fee receivables, accrued income receivables, 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.

## LIABILITIES

### Bank loans payable

#### 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 government securities broker or dealer are required in order that the respective indebtedness be included in the subsection "Other."

#### 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 a 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:"

1. Accounts secured by or containing collateral, and
2. Payables for regulated and non-regulated commodities futures accounts liquidating to an equity on the respondent's books of account.

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."

Other amounts payable to broker or dealers (floor brokerage, commissions, etc.) shall be included in the category "Other."

### Payable to customers

See the general instructions for definition of the terms “customer” and “non-customer.” Amounts payable to those indicated as “non-customers” shall be shown in their respective categories in the Statement of Financial Condition.

All securities or commodities accounts of any one customer, but not cash accounts, may be combined and reported under the appropriate classification. Customers’ accounts related by bona-fide written guarantees may be combined.

### 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. 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 the subsection “Unsecured,” any fixed liabilities which do not conform with the exclusions stated in the instructions.

### Liabilities subordinated to claims of general creditors

Indicate separately those satisfactory subordination agreements which are considered as equity capital for purposes of debt-equity requirements. See Rule 15c3-1(d) as referenced in 17 CFR 402.2 for the various requirements for such agreements.

### Borrowings not qualified for liquid 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 as modified by 17 CFR 402.2d.

## **COMPUTATION OF CAPITAL REQUIREMENTS AND LIQUID CAPITAL**

### Special requirements as to liquid capital and total haircuts calculations for consolidated entities and as to statements of 50 percent or less owned persons and certain other persons

The inclusion or exclusion of subsidiaries or affiliates in the calculation of liquid capital and total haircuts shall be in accordance with Appendix C to Part 402.2 (17 CFR 402.2c) and with the following requirements:

- (a) If the reporting government securities broker or dealer guarantees, endorses, or assumes directly or indirectly the obligations or liabilities of any subsidiary or affiliate and has obtained the opinion of counsel prescribed in paragraph (b) of Appendix C (17 CFR 402.2c(b)) with respect to that subsidiary or affiliate, then the subsidiary’s or affiliate’s assets and liabilities must be consolidated with those of the reporting broker or dealer in the calculation of liquid capital.
- (b) If the reporting government securities broker or dealer guarantees, endorses, or assumes directly or indirectly the obligations or liabilities of any subsidiary or affiliate but has not obtained the opinion of counsel prescribed in paragraph (b) of Appendix C (17 CFR 402.2c(b)) with respect to that subsidiary or affiliate, then the subsidiary’s or affiliate’s assets and liabilities may not be consolidated with those of the reporting broker or dealer in the calculation of liquid capital. Furthermore, in such a case the reporting broker or dealer shall compute its total haircuts by adding the total haircuts of each such subsidiary or affiliate to the separately computed haircuts of the broker or dealer.
- (c) A reporting government securities broker or dealer who guarantees, endorses, or assumes directly or indirectly any obligation or liability of a subsidiary or affiliate must reflect that obligation or liability in its computation of liquid capital, even if consolidation is prohibited as in paragraph (b) above.
- (d) The reporting government securities broker or dealer may consolidate with its assets and liabilities in the calculation of liquid capital the assets and liabilities of any other majority owned and controlled subsidiary or affiliate, if and only if the opinion of counsel prescribed in paragraph (b) of Appendix C (17 CFR 402.2c(b)) has been obtained with respect to such subsidiary or affiliate.
- (e) With respect to any subsidiary or affiliate whose assets and liabilities are consolidated in the computation of liquid capital under the provisions of paragraph (a) or (d) above, the reporting government securities broker or dealer shall calculate its haircuts by either computing the haircuts as if the consolidated entity were one firm or by adding the individually computed total haircuts of such subsidiary or affiliate to its own separately computed haircuts.
- (f) Financial statements of any 50 percent or less owned person or other affiliate consolidated into the liquid capital computation whose obligations or liabilities are not guaranteed, endorsed or assumed directly or indirectly by the reporting government

securities broker or dealer shall be included in a note.

- (g) Opinions of counsel concerning the availability of net assets to the reporting government securities broker or dealer shall be filed with each annual report under Rule 17a-5 as modified by 17 CFR 405.2.

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 LIQUID CAPITAL**

#### Ownership equity not allowable for liquid 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 liquid capital.

#### Liabilities subordinated to claims of general creditors allowable in computation of liquid capital

Appendix D to Rule 15c3-1 as modified by 402.2d sets forth minimum and nonexclusive requirements for satisfactory subordination agreements. The self-regulatory organization which has been designated as the examining authority for the government securities broker or dealer may require, or the government securities 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 as incorporated in 17 CFR 402.2.

#### Secured demand note collateral accounts

Securities contained in collateral note accounts shall be considered to have no value unless in bearer form, or registered in the name of the government securities 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 securities 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 liquid capital, and
2. The excess of liabilities which have not been incurred in the course of business as a government securities broker or dealer over assets not used in the business.

#### Deductions and/or charges

##### 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 designated as the examining authority for the government securities broker or dealer, after application of calls for margin, marks-to-the-market, or other required deposits which are outstanding five (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 five (5) business days (21 business days in the case of a municipal security) or longer which would be required by application of the deduction required by paragraph (g) of 17 CFR 402.2 and Appendix A thereto to 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.



#### Aged short security differences

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

#### Net pair-off and give-up receivables and money differences

Net pair-off receivables and money differences need not be deducted until the close of business on the third business day after the day the funds are due. Give-up receivables need not be deducted until they have been outstanding 30 business days from the billing date. The billing date shall be no later than the last day of the month in which the give-up receivable arises.

#### 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 as incorporated in 17 CFR 402.2 after application of the deductions specified in paragraph (g) of 17 CFR 402.2 and Appendix A thereto is less than the unpaid principal amount of the secured demand note, such deficiency shall be deducted.

#### Haircuts

Haircuts on the positions and financings, including contractual commitments, in the government securities broker's or dealer's portfolio are to be calculated as required in 17 CFR 402.2(g) and Appendix A thereto. Schedules A through E in 17 CFR 402.2a(c) may be used in this calculation. The government securities broker's or dealer's designated examining authority or appropriate regulatory authority may require that these schedules, or substantially similar forms, be used in this calculation.

### **STATEMENT OF INCOME (LOSS)**

#### INCOME

##### Commissions

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

##### Principal transactions 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 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.

##### 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 executed 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.

## EXPENSES

### 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, including government securities brokers.

### Communications

Include the cost of telephones and leased 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 rentals and general insurance.

### Interest

Include interest paid to banks, on customers' accounts, and on all other unsubordinated 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 costs incurred for advertising, sales literature and promotional activities; travel and entertainment; subscriptions to periodicals; dues and assessments; losses in error account and bad debts; 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.

### Extraordinary Items

State in a note the nature and amount of any material items and disclose the tax applicable to each.

### Cumulative effect of changes in accounting principles

State in a note any material items and disclose the tax applicable to each.

## **COMPUTATION FOR DETERMINATION OF RESERVE REQUIREMENTS FOR GOVERNMENT SECURITIES BROKERS OR DEALERS UNDER RULE 15c3-3**

Definitions - The definitions given in Rule 15c3-3 as modified by 17 CFR 403.4 shall apply for customer securities, qualified security, bank, free credit balance, other credit balance, funds carried for account of any customer, and "customer funds."

### 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 cash 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 customer's 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 government securities 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 an allocation. If an allocation is necessary to determine proprietary versus customer positions, the government securities broker or dealer should make and maintain a record of each such allocation and preserve it in accordance with Rule 17a-4 as modified by 17 CFR 404.3.

Debit balances in customers' cash and margin accounts excluding unsecured accounts and accounts doubtful of collection (See Note B, Exhibit A Rule 15c3-3 as modified by 17 CFR 403.4)

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.

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 of customers' securities not older than 30 calendar days

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 government securities broker's fail to deliver account has been eliminated.

Frequency of computation

Computations may be made monthly if the government securities broker's or dealer's ratio of liquid capital to total haircuts is not less than 1.8 and the total of free credit and other credit balances carried for the accounts of customers does not exceed \$1,000,000.

**STATEMENT OF CHANGES IN OWNERSHIP EQUITY**  
**(SOLE PROPRIETORSHIP, PARTNERSHIP 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).

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 liquid 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 in liquid capital.

Deductions

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

**FINANCIAL AND OPERATIONAL DATA**

Stock record breaks

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 (shorts) 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 Report on Finances and Operations of Government Securities Brokers and Dealers 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 amount required to balance the general ledger, except for items promptly resolved.

This category could include, but is not 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, stocks 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 balance resulting from one day's "out of balance" shall not be netted against another day's 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 liquid capital.

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 include 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, collectability, 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 short 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 on 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 futures contract differences after comparison and balancing with proprietary positions
  - a. Long \$ \_\_\_\_\_
  - b. Short \$ \_\_\_\_\_

c. As to Clearing Accounts with Commodity Brokers:

- 1. Date on which statements were last received \_\_\_\_\_
- 2. Date of last reconciliation of accounts \_\_\_\_\_
- 3. Number and amount of unresolved reconciling money items
  - a. Debits No.: \_\_\_\_\_ \$ \_\_\_\_\_
  - b. Credits No.: \_\_\_\_\_ \$ \_\_\_\_\_

4. Market value of unresolved futures contract differences after comparison and balancing with proprietary positions

a. Long \$ \_\_\_\_\_

b. Short \$ \_\_\_\_\_

d. Gains and Losses in Futures Contracts:

1. Latest date reconciled with Difference Accounts \_\_\_\_\_

2. Unresolved Differences

a. Debits \$ \_\_\_\_\_

b. Credits \$ \_\_\_\_\_

Bank Accounts Reconciliations

Debit and credit amounts applicable to unresolved reconciling items should be shown separately. They should not be netted and shown as a single amount.

Reorganization accounts

The term "reorganization accounts" shall include, but not be limited to, transactions in the following:

- (a) "rights" subscriptions
- (b) warrants exercised
- (c) stock splits
- (d) redemptions
- (e) conversions
- (f) exchangeable securities
- (g) spin-offs

Personal capital borrowings

Enter any borrowings of cash or securities included in amounts and valuations reported in the computation of liquid capital as proprietary capital or subordinated debt.

Maximum haircuts on underwriting commitments

The above is based on the largest net long and/or short position (contingent and actual) in each security at any time during the month, whether or not a net long and/or short position exists at the close of business on the last day at month end.

Lease and rentals payable within one year, aggregate lease and rental commitments payable for entire term of the lease

The amounts reported should be the total amount required to be reported in the financial statements pursuant to Regulation S-X (See Regulation S-X, Article 3, Rule 3-16q, General Notes to Financial Statements – Leased assets and lease commitments).

State in a footnote a description of any assets, liabilities and accountabilities, actual or contingent, which are not reported on the Statement of Financial Condition. Only such items, which in the aggregate are material in relation to liquid capital or total haircuts, need be reported. Contingent liabilities may include lawsuits pending against the respondent, accommodation endorsements, rediscounted notes, and guarantees of accounts of others.

Public reporting burden for this collection of information is estimated to average 12 hours per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any aspect of this collection of information, including suggestions for reducing this burden to: Bureau of the Fiscal Service, Government Securities Regulations Staff, 3201 Penny Drive, Building E, Landover, MD 20785-1603; and to the Office of Management and Budget, (1530-0064) Washington, DC 20503.