

# Broker-Dealer Beat: New FOCUS Reporting Requirement Commences January 2015

December 2014

## New FOCUS Reporting Requirement Commences January 2015

A new FOCUS reporting requirement designed to enhance FINRA's ongoing monitoring of members' financial condition will take effect for the new year. Beginning January 2015, broker-dealers will be required to include with their FOCUS filings a Supplemental Inventory Schedule ("SIS") that provides more detailed information about the firm's long and short inventory positions than is currently disclosed on the FOCUS Report. Firms with a minimum dollar net capital requirement of less than \$100,000 will be exempt from the new reporting requirement. Firms with inventory positions consisting solely of money market mutual funds at the end of a reporting period need not file a SIS for that reporting period.

Currently, FOCUS Report Part II, or Part IIA, as applicable, requires aggregate information only with respect to short inventory positions. Long inventory is reported in categories that aggregate securities with different market risk profiles, thus making it difficult for regulators to accurately assess the market risk associated with such holdings. The SIS requires that securities and commodities positions, both long and short, be itemized by type, thus providing greater transparency into the market risk posed by instruments held in inventory, the potential impact to the firm's net capital and related funding and liquidity needs. The information also will enable the FINRA staff to perform more targeted examinations of firms' market risk exposure.

Firms subject to the SIS filing requirement should work now to assure that they capture the requisite information and accurately map inventory positions to the corresponding line items on the SIS. The initial SIS must disclose inventory positions as of December 31, 2014.

**SEC Approves New Technology Rules for Key Market Participants (Regulation SCI)**

On November 19, 2014, the Securities and Exchange Commission (the "SEC") voted to adopt Regulation Systems Compliance and Integrity (Regulation SCI), designed to strengthen the technology infrastructure of certain key U.S. securities markets participants, including alternative trading systems (ATs) that meet specified volume thresholds. The Regulation, which supersedes and replaces the current Automation Review Policy ("ARP"), will mandate additional safeguards and oversight requirements to ensure that critical technology infrastructure systems operate effectively, and that problems are promptly identified, communicated and corrected.

Under Regulation SCI, "SCI entities," including ATs, will have to ensure that their core technology infrastructure meets standards for capacity, integrity, resiliency, availability and security. They will need processes, policies and procedures to review and monitor their systems, and, in certain cases, pre-approval from the SEC for system modifications. SCI entities will be required to conduct expanded business continuity and disaster recovery testing and coordinate such testing on an industry or sector-wide basis. Regulation SCI will become effective 60 days after publication in the Federal Register. Entities subject to the new rules generally will have to comply nine months after the effective date.

In addition to the recently approved rules, certain SEC Commissioners have suggested that Regulation SCI-type regulations should be applied to a broader group of market participants. In her comments announcing the approval of Regulation SCI, SEC Chairman, Mary Jo White, stated that she has directed the SEC staff to research "whether an SCI-like framework should be developed for other key market participants, such as broker-dealers."