



SECURITIES AND EXCHANGE COMMISSION

17 CFR Part 240 and 249

[Release No. 34-102022; File No. S7-11-23]

RIN 3235-AN28

Daily Computation of Customer and Broker-Dealer Reserve Requirements under the Broker-Dealer Customer Protection Rule

AGENCY: Securities and Exchange Commission.

ACTION: Final rule.

SUMMARY: The Securities and Exchange Commission (“Commission”) is adopting amendments to the broker-dealer customer protection rule to require certain broker-dealers to perform their reserve computations for accounts of customers and proprietary accounts of broker-dealers and make any required deposits into their reserve bank accounts daily rather than weekly. The Commission also is adopting amendments to the broker-dealer net capital rule and customer protection rule to permit certain broker-dealers that perform a daily reserve computation for accounts of customers to reduce aggregate debit items (i.e., customer-related receivables) by 2% rather than 3% as part of the computation. Finally, the Commission is adopting technical amendments to the Financial and Operational Combined Uniform Single Report (“FOCUS Report”) to conform it to the amendments with respect to the lowering of the debit reduction from 3% to 2%.

DATES: *Effective date:* [INSERT DATE 60 DAYS AFTER PUBLICATION IN THE FEDERAL REGISTER].

Compliance date: The compliance date is discussed in section III. of this release.

FOR FURTHER INFORMATION CONTACT: Michael A. Macchiaroli, Associate Director; Thomas K. McGowan, Associate Director; Randall W. Roy, Deputy Associate Director; Raymond Lombardo, Assistant Director; Sheila Dombal Swartz, Senior Special Counsel; or

Abraham Jacob, Special Counsel, at (202) 551-5500, Office of Broker-Dealer Finances, Division of Trading and Markets; Securities and Exchange Commission, 100 F Street NE, Washington, DC 20549-7010.

SUPPLEMENTARY INFORMATION: The Commission is amending:

Commission Reference	CFR Citation (17 CFR)
Rule 15c3-1	17 CFR 240.15c3-1
Rule 15c3-3	17 CFR 240.15c3-3
Form X-17A-5 Part II	17 CFR 249.617

TABLE OF CONTENTS

I. INTRODUCTION

- A. The Need For Daily Reserve Computations
- B. Overview of the Final Amendments
- C. Overview of Rule 15c3-3 and Broker-Dealer Liquidations
 1. Overview of Rule 15c3-3
 2. Overview of Broker-Dealer Liquidations and SIPA

II. DISCUSSION OF COMMENTS AND FINAL AMENDMENTS

- A. Requirement to Perform a Daily Computation
 1. Proposal
 2. Comments Received and Final Amendments
- B. Compliance with Daily Reserve Computation after Exceeding \$500 Million Threshold
 1. Proposal
 2. Comments Received and Final Amendments
- C. Reducing the Aggregate Debit Reduction from 3% to 2%
 1. Amendments to Rules 15c3-1 and 15c3-3
 2. Conforming Amendments to the FOCUS Report
- D. Voluntary Customer and PAB Reserve Computations
- E. Other Comments
 1. Sweep Programs and Other “Cash in Motion” or “Transitory” Credits”
 2. Requests for Interpretations and Clarifications
- F. Reserve Account Requirements for Security-Based Swaps

III. COMPLIANCE DATE

IV. ECONOMIC ANALYSIS

- A. Introduction
- B. Baseline
 1. Regulatory Baseline
 2. Affected Broker-Dealers
 3. Debit Reduction in the Customer Reserve Computation for Certain Broker-Dealers
- C. Economic Effects of the Final Amendments
 1. Benefits
 2. Costs
 3. Other Compliance Costs

- D. Effects on Efficiency, Competition, and Capital Formation
- E. Reasonable Alternatives
 - 1. Over-Funding of the Customer and PAB Reserve Bank Accounts
 - 2. A Threshold Based on a Different Metric
 - 3. Daily Computation Requirement for All Carrying Broker-Dealers
 - 4. A Higher or Lower Threshold for Daily Computation
 - 5. Calculation based on the Maximum Value over the Past Year
 - 6. Daily Computation if an Average Required Deposit Exceeds a Threshold
 - 7. Daily Computation Requirement Based on Average Total Credits Per Number of Customer and PAB Accounts
 - 8. Daily Computation based on Average Total Credits from the Most Recent Calendar Year
 - 9. Reduction of the Aggregate Debit Items Charge from 3% to 1%
 - 10. Exemption for Cash in Motion

V. PAPERWORK REDUCTION ACT

- A. Summary of Collections of Information under the Final Amendments
- B. Use of the Information
- C. Respondents
 - 1. Recordkeeping Requirements
 - 2. Notification Requirement to Revert to Weekly Computations
 - 3. Notification Requirement to Voluntarily Perform Daily Customer Reserve Computation with 2% Debit Reduction
- D. Total Annual Burden Estimate
 - 1. Recordkeeping Requirements
 - 2. Notification Requirement to Revert to Weekly Computations
 - 3. Notification Requirement to Voluntarily Perform Daily Customer Reserve Computation with 2% Debit Reduction
 - 4. Summary of the Burden Revisions
- E. Collections of Information are Mandatory
- F. Confidentiality of Response to Collections of Information
- G. Retention Period for Recordkeeping Requirements

VI. REGULATORY FLEXIBILITY ACT CERTIFICATION

VII. OTHER MATTERS

STATUTORY AUTHORITY

I. INTRODUCTION

A. The Need For Daily Reserve Computations

Section 15(c)(3)(A) of the Securities Exchange Act of 1934 (“Exchange Act”) provides, in pertinent part, that no broker-dealer shall make use of the mails or any means or instrumentality of interstate commerce to effect any transaction in, or to induce or attempt to induce the purchase or sale of, any security (with exceptions for certain securities) in contravention of such rules and regulations as the Commission shall prescribe as necessary or appropriate in the public interest or for the protection of investors to provide safeguards with

respect to the financial responsibility and related practices of broker-dealers including, but not limited to, the acceptance of custody and use of customers' securities and the carrying and use of customers' deposits or credit balances.¹ The statute further provides, in pertinent part, that the rules and regulations shall require the maintenance of reserves with respect to customers' deposits or credit balances.²

Pursuant to this statutory directive, the Commission adopted the customer protection rule ("Rule 15c3-3") in 1972.³ This rule requires broker-dealers that hold customer cash and securities ("carrying broker-dealers") to treat these assets in a manner that facilitates their prompt return to the customers if the broker-dealer fails financially.⁴ The goal of the rule is to place a carrying broker-dealer in a position where it is able to wind down in an orderly self-liquidation without the need of financial assistance provided by the Securities Investor Protection Corporation ("SIPC") through a formal proceeding under SIPA.⁵

In order to facilitate an orderly self-liquidation, Rule 15c3-3 requires a carrying broker-dealer to compute the net amount of cash owed to customers under a formula in the rule ("customer reserve computation").⁶ Generally, carrying broker-dealers must perform their

¹ 15 U.S.C. 78o(c)(3)(A). The amendments to section 15(c)(3) of the Exchange Act granting this rulemaking authority were adopted in section 7(d) of the Securities Investor Protection Act of 1970 ("SIPA"). Pub. L. 91-598, §7(d), Dec. 30, 1970, 84 Stat. 1563. Rule 15c3-3 was promulgated in the aftermath of the securities industry "paper work crisis" of 1967-1970. See Commission, *Study of Unsafe and Unsound Practices of Brokers and Dealers*, H.R. Doc. No. 231, 92d Cong., 1st Sess. 6 (1971) ("During the 1967-70 period of severe operational and financial problems, many firms, primarily because of inadequate and inefficient recordkeeping and segregation systems and procedures, and the infrequent counting of securities in their possession, mishandled and misused customers' funds and securities.... Firms used customers' free credit and other credit balances in their daily activities.") *Id.* at 43.

² 15 U.S.C. 78o(c)(3)(A).

³ See *Broker-Dealers; Maintenance of Certain Basic Reserves*, Exchange Act Release No. 9856 (Nov. 17, 1972) [37 FR 25224 (Nov. 29, 1972)] ("Rule 15c3-3 Adopting Release").

⁴ See section I.C.1. of this release (discussing Rule 15c3-3).

⁵ See *Financial Responsibility Rules for Broker-Dealers; Final Rule*, Exchange Act Release No. 70072 (July 30, 2013) [78 FR 51824, 51869 (Aug. 21, 2013)] ("Financial Responsibility Rules for Broker-Dealers"); See also section I.C.2. of this release (discussing broker-dealer liquidations and SIPA).

⁶ The net amount of cash owed to customers is generally the amount the total cash owed to customers (e.g., cash balances in securities accounts) (referred to as "credits") exceeds the total amount of cash customers owe the carrying broker-dealer (e.g., margin loans to customers) (referred to as "debits"). 17 CFR 240.15c3-3a ("Rule 15c3-3a").

customer reserve computation and make any required deposits in a special reserve account at a bank (“customer reserve bank account”) weekly.⁷ This weekly cadence has been in effect since 1973.⁸ The rule also addresses how a carrying broker-dealer must treat proprietary securities and cash it holds for other broker-dealers, known as proprietary accounts of broker-dealers (“PAB accounts”).⁹ While broker-dealers are not treated as customers under preexisting Rule 15c3-3, the rule requires a carrying broker-dealer to perform a PAB reserve computation and make any required deposits into its PAB reserve bank account weekly, similar to the requirements for the customer reserve computation and customer reserve bank account.¹⁰

Since the adoption of Rule 15c3-3 in 1972, investor—including retail investor— participation in the U.S. securities markets has grown dramatically, which has led to a correspondingly dramatic increase in the amount of cash carrying broker-dealers hold for customers.¹¹ Cash owed to customers and PAB account holders may include proceeds received

⁷ Preexisting Rule 15c3-3 also permits carrying broker-dealers to perform the customer reserve computation more frequently than weekly (e.g., daily) and, in certain limited circumstances, monthly. *See* paragraph (e)(3) of Rule 15c3-3.

⁸ *See* Rule 15c3-3 Adopting Release, 37 FR at 25226. While Rule 15c3-3 was adopted in 1972, the effective date for the rule was January 15, 1973. *Id.*

⁹ The term PAB account means a proprietary securities account of a broker-dealer (which includes a foreign broker-dealer, or a foreign bank acting as a broker-dealer) other than a delivery-versus-payment account or a receipt-versus-payment account. The term does not include an account that has been subordinated to the claims of creditors of the carrying broker-dealer. *See* paragraph (a)(16) of Rule 15c3-3. For example, a broker-dealer that is not a carrying broker-dealer (e.g., a broker-dealer that introduces its customer accounts to a carrying broker-dealer (“introducing broker-dealer”)) may hold its proprietary securities and cash at a carrying broker-dealer. In this case, the securities account of the introducing broker-dealer held at the carrying broker-dealer would be a PAB account and the introducing broker-dealer would be a PAB account holder of the carrying broker-dealer. *See Daily Computation of Customer and Broker-Dealer Reserve Requirements under the Broker-Dealer Customer Protection Rule*, Exchange Act Release No. 97877 (July 12, 2023) [88 FR 45836, 45837 (July 18, 2023)] (“Proposing Release”).

¹⁰ *See* section I.C.1. of this release (discussing Rule 15c3-3).

¹¹ Broker-dealers file monthly or quarterly financial and operational information using the FOCUS Report. Based on FOCUS Report data as of December 31, 2023, carrying broker-dealers, in aggregate, reported approximately \$1.1 trillion in total customer and PAB credits. *See* section IV.B.2. of this release (discussing affected broker-dealers in the baseline). Of that amount, approximately \$965 billion constituted total credits for customer accounts (the remaining balance was total credits for PAB accounts). Further, carrying broker-dealers reported approximately \$319 billion in customer free credit balances. By comparison, free credit balances at year-end 1970 totaled \$2 billion for all broker-dealers that were NYSE members and carried public customer accounts. *See Study of Unsafe and Unsound Practices of Brokers and Dealers* at 51. Free credit balances are generally liabilities of a broker-dealer to customers which are

from sales of securities, cash customers and PAB account holders deposit for the purpose of purchasing securities, and monthly or quarterly dividends received on behalf of customers and PAB account holders.¹² Carrying broker-dealers may receive large cash inflows on behalf of their customers and PAB account holders during the week (e.g., month-end or quarter-end interest and dividend payments) and days prior to the next required weekly reserve computations and deposits into the reserve bank accounts.¹³ This can lead to situations where—for a period of days—the net amount of cash owed to customers and PAB account holders is greater than the amounts held in the carrying broker-dealer’s combined customer and PAB reserve bank accounts.¹⁴ This creates a “mismatch” or difference between the net cash owed to customers and PAB accounts holders and the amounts held in the carrying broker-dealer’s combined customer and PAB reserve bank accounts. Moreover, because of the dramatic increase in cash held by carrying broker-dealers since 1972, the amount of the mismatch between cash owed and cash reserved can be much larger than the Commission contemplated when it adopted the requirement to perform a weekly reserve computation. The potential for much larger mismatches today (as compared to 1972) poses a risk that if the carrying broker-dealer fails financially it may not be able to promptly return all cash and securities owed to customers and PAB account holders in an orderly self-liquidation and, instead, will need to be liquidated in a SIPA proceeding.

The potential size of the mismatch risk impacting carrying broker-dealers today can be demonstrated through the size of the deposits they are required to make into their reserve bank accounts. For example, during the 2023 calendar year, the largest required additional deposits into the *customer reserve bank accounts* of all carrying broker-dealers ranged from

subject to immediate cash payment to customers on demand, whether resulting from sales of securities, dividends, interest, deposits or otherwise, subject to certain exclusions. See paragraph (a)(8) of Rule 15c3-3.

¹² See Proposing Release, 88 FR at 45842.

¹³ See *id.*

¹⁴ See *id.*

approximately \$2.3 billion to over \$10 billion.¹⁵ During the 2023 calendar year, the largest required additional deposits into their *PAB reserve bank accounts* ranged from approximately \$345 million to almost \$4.0 billion.¹⁶ Furthermore, during the 2023 calendar year, the top ten additional required deposits to the *customer reserve bank accounts* for the 20 carrying broker-dealers with the lowest average total credits (of the 49 carrying broker-dealers estimated to be subject to the final amendments),¹⁷ ranged from approximately \$74.3 million to over \$600 million.¹⁸ Moreover, the largest potential mismatches today occur at carrying broker-dealers that reported the greatest amount of total credits for their customers and PAB account holders (i.e., amounts that exceed the final \$500 million threshold discussed below).¹⁹ In 2023, in the aggregate, the average mismatch for customer reserve bank accounts was 15.7% for carrying broker-dealers above the \$500 million threshold.²⁰ It was 6.4% for carrying broker-dealers below the threshold.²¹

¹⁵ This data is based on the 25 largest additional deposit requirements reported in the monthly FOCUS Reports filed during the 2023 calendar year.

¹⁶ This data is based on the 25 largest additional deposit requirements reported in the monthly FOCUS Reports filed during the 2023 calendar year. The largest additional deposit requirements were made by carrying broker-dealers that also had the 25 largest credit balances based on 2023 FOCUS Report data. A total of nine carrying broker-dealers made the 25 largest additional deposit requirements into the customer reserve bank accounts. Six of the 25 largest additional deposits into the customer reserve bank accounts were made by three carrying broker-dealers that voluntarily perform a daily reserve computation. The mean of these additional deposit requirements was \$4.2 billion, and the median was \$3.6 billion. With respect to the largest deposits into the PAB reserve bank accounts, a total of six carrying broker-dealers made the 25 largest additional deposit requirements. Twenty-one of the 25 largest additional deposits into the PAB reserve bank accounts were made by four carrying broker-dealers that voluntarily perform a daily reserve computation. The mean of these additional deposit requirements was approximately \$1.3 billion, and the median was approximately \$1.1 billion. In addition to large deposit requirements, the customer and PAB reserve computations also permitted some carrying broker-dealers to make large withdrawals from both their customer and PAB reserve bank accounts during the 2023 calendar year. For example, during the 2023 calendar year, the 25 largest withdrawals from customer reserve bank accounts ranged from approximately \$1.2 billion to \$4.8 billion, and the 25 largest withdrawals from PAB reserve bank accounts ranged from \$170 million to \$2.6 billion.

¹⁷ See section IV.B.2. in this release (discussing scope of affected entities in the economic baseline).

¹⁸ This data is based on the largest additional deposit requirements reported in the monthly FOCUS Reports filed during the 2023 calendar year for carrying broker-dealers above the \$500 million threshold.

¹⁹ See section II.A. of this release (describing the final \$500 million threshold).

²⁰ See section IV.B.2. of this release (discussing average mismatches). The aggregated average mismatch of 15.7% is calculated as an average of the average mismatches for all carrying broker-dealers that met the \$500 million threshold. The same was done for carrying broker-dealers below the \$500 million threshold.

²¹ See section IV.B.2. of this release (discussing average mismatches).

These large deposit requirements and mismatch percentages indicate that there may be times when the net amount of cash owed to customers and PAB account holders is substantially greater than the amounts on deposit in the customer and PAB reserve bank accounts.²² Large mismatches may lead to correspondingly large shortfalls in the amounts available in the customer and PAB reserve bank accounts, which, in the event of a failure of a carrying broker-dealer, may result in the delayed reimbursement of customer securities and cash, and the potential that customers' claims may not be satisfied in full.²³ In the case of a large shortfall, the cash and securities owed to customers or PAB account holders may be tied up in liquidation proceedings and these customers or PAB account holders would have to wait to receive their cash and securities until the broker-dealer liquidation is carried out under SIPA, which may take a significant amount of time.²⁴ This potential delay in obtaining access to their securities and cash also could cause customers to rapidly withdraw cash from a carrying broker-dealer during times of market turmoil, putting further stress on the carrying broker-dealer and the securities markets more generally, as well as potentially triggering or accelerating the failure of a carrying broker-dealer.

Further, in a SIPA liquidation, SIPC may be required to advance money from the SIPC Fund²⁵ to the extent the fund of customer property was insufficient to make customers—but not to PAB account holders—whole through the *pro rata* distribution.²⁶ In particular, if the

²² See Proposing Release, 88 FR at 45843.

²³ See *id.* at 45842.

²⁴ How quickly claims are satisfied in a SIPA liquidation depends on the complexity of the liquidation and the condition of the carrying broker-dealer's records. See *How The Claims Process Works*, available at <https://www.sipc.org/cases-and-claims/how-the-claims-process-works>; see also Proposing Release, 88 FR at 45848; section IV.A. of this release (discussing potential risks that an intra-week mismatch introduces); section IV.C. (discussing economic effects of the final amendments).

²⁵ See section I.C.2. of this release (discussing the SIPC Fund).

²⁶ See Proposing Release, 88 FR at 45842. The amount that can be advanced to each customer is capped at \$500,000 (of which \$250,000 can be used to cover cash claims). Broker-dealers with securities accounts at a failed broker-dealer—as SIPA customers—have the right to a *pro rata* share of customer property in a SIPA liquidation, but they are not entitled to advances from the SIPC Fund. See section I.C.2. of this release (providing an overview of broker-dealer liquidations and SIPA).

mismatch or difference between the net amount a carrying broker-dealer owes its customers and PAB account holders and the combined amounts in the customer and PAB reserve accounts was sufficiently large, customers' claims may not be satisfied in full.²⁷ In this case, the trustee would need to use the SIPC Fund to satisfy customers' claims to make them whole. This risk may be exacerbated for carrying broker-dealers experiencing large aggregate intra-week mismatches.²⁸ As a result, the SIPC Fund may be at a higher risk of depletion.²⁹

To address these risks, the Commission is amending Rule 15c3-3 to require carrying broker-dealers that owe large amounts of cash to customers and PAB account holders (i.e., have large total credits), measured by both their customer and PAB reserve computations for the previous 12 month ends (i.e., a rolling 12-month average), to perform those computations and make any required deposits into their respective reserve bank accounts daily rather than weekly.³⁰ The final amendments—by requiring daily rather than weekly reserve computations—will more quickly apply the protective measures of the Rule 15c3-3 reserve requirements to cash of customers and PAB account holders that is newly deposited into the carrying broker-dealer. This will reduce the risk—caused by the dramatic increase in cash carrying broker-dealers hold—that if the carrying broker-dealer fails financially, it may be unable to promptly return cash and securities to customers and PAB account holders through an orderly self-liquidation. It also reduces the risk that the SIPC Fund may be depleted.³¹ Further, a daily computation—as compared with a weekly computation—will more dynamically match the net amount of cash owed to customers and PAB account holders with the amount on deposit in the carrying broker-

²⁷ See Proposing Release, 88 FR at 45842.

²⁸ See Proposing Release, 88 FR at 45848. See also section IV.A. of this release (discussing potential risks that an intra-week mismatch introduces).

²⁹ See section IV.A. of this release (discussing potential risks that an intra-week mismatch introduces).

³⁰ See section II.A. of this release (discussing the final \$500 million threshold, which is a modification from the proposed \$250 million threshold); See also Proposing Release, 88 FR at 45843-45 (discussing proposed \$250 million threshold).

³¹ See Proposing Release, 88 FR 45842-43, 45848.

dealer's customer and PAB reserve bank accounts (i.e., daily changes in the net cash owed to customers and PAB account holders will be accounted for more quickly in the reserve computations). While Rule 15c3-3 currently permits a carrying broker-dealer to elect to perform its customer and PAB reserve computations more frequently than weekly,³² a practical effect of a daily computation requirement will permit carrying broker-dealers to withdraw excess cash or qualified securities more quickly from the reserve bank account, which will improve their liquidity.³³

In sum, the daily reserve computations—by protecting customer and PAB cash more quickly than is the case with weekly computations—will make the financial system safer by: (1) increasing the likelihood that a failing carrying broker-dealer can self-liquidate (meaning customers and PAB account holders do not temporarily lose access to their cash and securities); (2) lowering the risk that the SIPC Fund may be depleted by having to address a large shortfall in customer cash held by a failed carrying broker-dealer; and (3) increasing the liquidity of carrying broker-dealers performing the daily customer and PAB reserve computations thereby positioning them to better address potential financial shocks.

B. Overview of the Final Amendments

The Commission proposed the requirement to perform daily customer and PAB reserve computations on July 12, 2023.³⁴ The Commission received comments from a variety of persons, including broker-dealers, retail investors, industry associations, and other market participants.³⁵ As discussed in detail below, the Commission has modified the final amendments

³² See paragraph (e)(3)(iv) of Rule 15c3-3.

³³ See *supra* note 16 (citing data related to the 25 largest withdrawals from customer and PAB reserve bank accounts for the calendar year 2023).

³⁴ See Proposing Release.

³⁵ Comment letters on the Proposing Release are available at <https://www.sec.gov/comments/s7-11-23/s71123.htm>.

in response to comments. For example, while the Commission is retaining the overall structure of the proposal, the Commission has raised the threshold from \$250 million to \$500 million. The Commission also is reducing the 3% aggregate debit items charge (“3% debit reduction”) that certain carrying broker-dealers must take in performing a customer reserve computation to 2% (“2% debit reduction”) if they perform a daily customer reserve computation.³⁶

The final amendments are summarized below.

Daily Computation – Under the final amendments, a carrying broker-dealer that has average total credits that are equal to or greater than \$500 million (“\$500 Million Threshold”) must perform the customer and/or PAB reserve computations daily, rather than weekly as is required under preexisting Rule 15c3-3.³⁷ As proposed and under the final amendments, a carrying broker-dealer must perform the customer and PAB reserve computations, as applicable, as of the close of the previous business day, and any required deposits must be made no later than one hour after the opening of banking business on the second following business day.³⁸

Definition of Average Total Credits – As proposed and under the final amendments, “average total credits” means the arithmetic mean of the sum of total credits in the customer reserve computation and the PAB reserve computation reported in the carrying broker-dealer’s 12 most recently filed month-end FOCUS Reports.³⁹ This means the average total credits are a 12-month rolling average, as the carrying broker-dealer must add up the sum of the total credits reported in the customer and PAB reserve computations in each of the 12 most recently filed month-end FOCUS Reports and divide that amount by 12 to calculate the arithmetic mean of the total credits.

³⁶ See section II.C. of this release (describing this modification in more detail).

³⁷ See paragraph (e)(3)(i)(A)(I) of Rule 15c3-3, as amended.

³⁸ See *id.*

³⁹ See *id.*

Six-Month Compliance Period after Exceeding \$500 Million Threshold – Under the final amendments, a carrying broker-dealer must comply with the requirement to perform a customer and PAB reserve computation daily no later than six months after its average total credits equal or exceed the \$500 Million Threshold.⁴⁰

60-day Written DEA Notification to Revert to Weekly Computation – Under the final amendments, in the event that a carrying broker-dealer’s 12-month rolling average of total credits subsequently falls below the \$500 Million Threshold, it must continue to perform customer and PAB reserve computations daily until it provides written notification to its designated examining authority (“DEA”) of its election to perform weekly computations. The amendments require the carrying broker-dealer to provide this written notification 60 days prior to reverting to weekly computations.⁴¹

Lowering the 3% Debit Reduction to 2% for Carrying Broker Dealers that Perform a Daily Customer Reserve Computation – As discussed in more detail below, the minimum net capital requirement for broker-dealers is the greater of a fixed-dollar amount specified in Rule 15c3-1 and an amount determined by applying one of two financial ratios: the 15-to-1 aggregate indebtedness to net capital ratio (“basic method”) or the 2% of aggregate debit items ratio (“alternative method”).⁴² A carrying broker-dealer using the alternative method must reduce aggregate debit items by 3% when performing its customer reserve computation under Rule 15c3-3. This can increase the amount the carrying broker-dealer must lock up in its customer reserve bank account.

Under the final amendments, the Commission has modified Rule 15c3-1 to permit carrying broker-dealers that use the alternative method and are above the \$500 Million Threshold (i.e., that perform a daily customer reserve computation) to reduce their aggregate debit items by

⁴⁰ *See id.*

⁴¹ *See* paragraph (e)(3)(i)(B)(2) of Rule 15c3-3, as amended.

⁴² *See* section I.C.1. of this release (describing these provisions of the Rule 15c3-1 in more detail).

2% rather than 3%.⁴³ Further, carrying broker-dealers that use the alternative method and are below the \$500 Million Threshold may voluntarily perform a daily customer reserve computation under Rule 15c3-3 and, in so doing, apply the 2% debit reduction in lieu of the 3% debit reduction if they notify their DEA at least 30-days prior to beginning the daily customer reserve computation. Under the final amendments, carrying broker-dealers voluntarily performing a daily reserve computation and applying the 2% debit reduction must receive prior approval from their DEA to revert to a weekly customer reserve computation.⁴⁴ If they revert to performing a weekly customer reserve computation, they also must revert to applying a 3% debit reduction. Finally, under the final amendments, the Commission is adopting technical amendments to the FOCUS Report to conform it to the amendments with respect to the lowering of the debit reduction from 3% to 2%.

Compliance Date – Generally, carrying broker-dealers that exceed the \$500 Million Threshold using each of the 12 filed month-end FOCUS Reports from July 31, 2024, through June 30, 2025, must perform customer and PAB reserve computations daily beginning no later than December 31, 2025 (i.e., six months after June 30, 2025).⁴⁵ On or after the effective date of the final amendments, a carrying broker-dealer may voluntarily perform a daily customer reserve computation and apply the 2% debit reduction, provided it notifies its DEA in writing at least 30 calendar days prior to beginning the daily customer reserve computation that applies the 2% debit reduction.⁴⁶

Reserve Account Requirements for Security-Based Swaps – The Commission is not adopting any changes to the reserve account requirements for security-based swaps.

C. Overview of Rule 15c3-3 and Broker-Dealer Liquidations

⁴³ See paragraph (a)(1)(ii)(A) of Rule 15c3-1, as amended and paragraph (e)(3)(v) of Rule 15c3-3, as amended.

⁴⁴ See paragraph (e)(3)(v) of Rule 15c3-3, as amended.

⁴⁵ See section III. of this release (discussing the compliance date).

⁴⁶ See *id.*

1. Overview of Rule 15c3-3

Rule 15c3-3 is designed to give specific protection to customer funds and securities, in effect forbidding broker-dealers from using customer assets to finance any part of their businesses unrelated to servicing securities customers. For example, a broker-dealer is “virtually” precluded from using customer funds to buy securities for its own account.⁴⁷ To meet this objective, Rule 15c3-3 requires a carrying broker-dealer to take two primary steps to safeguard these assets, as described in this section below. The steps are designed to protect customers by segregating their securities and cash from the carrying broker-dealer’s proprietary business activities. The final amendments address the second step. If the carrying broker-dealer fails financially, the customer securities and cash should be readily available to be returned to the customers, which facilitates an orderly self-liquidation. However, if the failed carrying broker-dealer is liquidated under SIPA, the customer securities and cash should be isolated and readily identifiable as “customer property” and, consequently, available to be distributed to customers ahead of other creditors.⁴⁸

The first step required by Rule 15c3-3 is that a carrying broker-dealer must maintain physical possession or control over customers’ fully paid and excess margin securities.⁴⁹ Control means the carrying broker-dealer must hold these securities in one of several locations specified in Rule 15c3-3 and free of liens or any other interest that a third-party could exercise to secure an obligation of the carrying broker-dealer.⁵⁰ Permissible locations include a clearing corporation

⁴⁷ See *Net Capital Requirements for Brokers and Dealers*, Exchange Act Release No. 21651 (Jan. 11, 1985) [50 FR 2690, 2690 (Jan. 18, 1985)]. See also *Broker-Dealers; Maintenance of Certain Basic Reserves*, Exchange Act Release No. 9856 (Nov. 17, 1972) [37 FR 25224, 25224 (Nov. 29, 1972)]; Proposing Release, 88 FR at 45837.

⁴⁸ See section I.C.2. of this release (discussing broker-dealer liquidations under SIPA).

⁴⁹ See paragraph (b) of Rule 15c3-3; Proposing Release, 88 FR at 45838.

⁵⁰ See paragraph (c) of Rule 15c3-3. A carrying broker-dealer does not treat customer securities as its own assets. Rather, the carrying broker-dealer holds them in a custodial capacity, and the possession and control requirement is designed to ensure that the carrying broker-dealer treats them in a manner that allows for their prompt return.

and a “bank,” as defined in section 3(a)(6) of the Exchange Act.⁵¹

The second step is that Rule 15c3-3 requires carrying broker-dealers to have a customer reserve bank account that must hold cash and/or qualified securities (e.g., U.S. Treasury securities) in an amount determined by a computation of the net cash owed to the carrying broker-dealer’s customers pursuant to a formula set forth in Exchange Act Rule 15c3-3a, the customer reserve computation.⁵² Preexisting Rule 15c3-3 requires carrying broker-dealers to perform the customer reserve computation as of the close of the last business day of the week and make any required deposits into the customer reserve bank account weekly. Rule 15c3-3 also permits carrying broker-dealers to perform the customer reserve computation more frequently than weekly (e.g., daily),⁵³ and, in certain limited circumstances, to perform a monthly computation.⁵⁴

Under the customer reserve computation, the carrying broker-dealer adds up customer credit items and then subtracts from that amount customer debit items.⁵⁵ The credit items include credit balances in customer securities accounts (i.e., cash owed to customers) and funds obtained through the use of customer securities (e.g., a loan from a bank collateralized with customer

⁵¹ *See id.* In 2020, the Commission issued a statement describing its position that, for a period of five years, special purpose broker-dealers operating under the circumstances set forth in the statement will not be subject to a Commission enforcement action on the basis that the broker-dealer deems itself to have obtained and maintained physical possession or control of customer fully paid and excess margin “digital asset securities” for purposes of Rule 15c3-3. *See Commission Statement on Custody of Digital Asset Securities by Special Purpose Broker-Dealers*, Exchange Act Release No. 90788 (Dec. 23, 2020), 86 FR 11627 (Feb. 21, 2021). While the final amendments apply to all carrying broker-dealers, including special purpose broker-dealers, the amendments do not alter the current possession and control requirements of Rule 15c3-3 for any broker-dealer. *See also* Division of Trading and Markets, Commission and Office of General Counsel, FINRA, *Joint Staff Statement on Broker-Dealer Custody of Digital Asset Securities* (July 8, 2019), available at <https://www.sec.gov/news/public-statement/joint-staffstatement-broker-dealer-custody-digital-asset-securities>. The 2019 staff statement represents the views of the staff. It is not a rule, regulation, or statement of the Commission. Furthermore, the Commission has neither approved nor disapproved its content. This staff statement, like all staff statements, has no legal force or effect: it does not alter or amend applicable law; and it creates no new or additional obligations for any person.

⁵² *See* Rule 15c3-3a.

⁵³ *See* paragraph (e)(3)(iv) of Rule 15c3-3.

⁵⁴ *See* paragraph (e)(3)(i) of Rule 15c3-3.

⁵⁵ *See* Rule 15c3-3a.

margin securities).⁵⁶ The debit items include money owed by customers (e.g., from margin lending), securities borrowed by the carrying broker-dealer to effectuate customer short sales, and margin required and on deposit with certain clearing agencies as a consequence of customer securities transactions.⁵⁷ If credit items exceed debit items, the net amount must be on deposit in the customer reserve bank account in the form of cash and/or qualified securities.⁵⁸ The carrying broker-dealer must make a deposit into the customer reserve bank account by 10 a.m. of the second business day following the “as of” date of the new computation if the computation shows the amount required to be on deposit in the customer reserve bank account is greater than the amount currently on deposit in the account.⁵⁹ Conversely, if the computation shows the amount required to be on deposit in the customer reserve bank account is less than the amount currently on deposit in the account, the carrying broker-dealer can withdraw the difference.⁶⁰ A carrying broker-dealer also must make and maintain a record of each computation.⁶¹

The customer reserve computation permits the carrying broker-dealer to offset customer credit items only with customer debit items.⁶² This means the carrying broker-dealer can use customer cash to facilitate customer transactions such as financing customer margin loans and borrowing securities to make deliveries of securities customers have sold short. For example, if a carrying broker-dealer holds \$100 for customer A, the carrying broker-dealer can use that \$100 to finance a security purchase of customer B (i.e., make a margin loan to customer B). The \$100

⁵⁶ See Rule 15c3-3a, Items 1-9; Proposing Release, 88 FR at 45838.

⁵⁷ See Rule 15c3-3a, Items 10-15.

⁵⁸ See paragraph (e) of Rule 15c3-3.

⁵⁹ See paragraph (e)(3)(i) of Rule 15c3-3. For example, a carrying broker-dealer would perform the customer reserve computation on Monday as of the close of business on the previous Friday and generally be required to make the necessary deposit no later than 10 a.m. Tuesday. See Proposing Release, 88 FR at 45839.

⁶⁰ See paragraph (e) of Rule 15c3-3.

⁶¹ See paragraph (e)(3)(v) of Rule 15c3-3. Each record must be preserved in accordance with Rule 17a-4. *Id.* See also Proposing Release, 88 FR at 45839. As a result of the final amendments, paragraph (e)(3)(v) is being re-designated as paragraph (e)(3)(vi).

⁶² See paragraph (e)(2) of Rule 15c3-3; Rule 15c3-3a.

the carrying broker-dealer owes customer A is a credit in the customer reserve computation and the \$100 customer B owes the carrying broker-dealer is a debit in the computation. Therefore, under the customer reserve computation there would be no requirement to maintain cash and/or qualified securities in the customer reserve bank account. However, if the carrying broker-dealer did not use the \$100 held in customer A's account for this purpose, there would be no offsetting debit and, consequently, the carrying broker-dealer would need to have on deposit in the customer reserve bank account cash and/or qualified securities in an amount at least equal to \$100.⁶³

Rule 15c3-3 also addresses how a carrying broker-dealer must treat proprietary securities and cash it holds for other broker-dealers, known as PAB accounts. While broker-dealers are not treated as customers of the carrying broker-dealer under Rule 15c3-3,⁶⁴ the rule requires the carrying broker-dealer to have a PAB reserve bank account.⁶⁵ The PAB reserve bank account must hold cash and/or qualified securities in an amount determined by the PAB reserve computation. Under preexisting Rule 15c3-3, carrying broker-dealers are generally required to perform the PAB reserve computation and make any required deposits into the PAB reserve bank account weekly, similar to the requirements for the customer reserve computation.⁶⁶ Finally, consistent with the requirements for the customer reserve computation, the PAB reserve

⁶³ See Proposing Release 88 FR at 45839, n.22.

⁶⁴ See paragraph (a)(1) of Rule 15c3-3. The definition of "customer" in SIPA, however, is broader than the definition in Rule 15c3-3 in that the SIPA definition includes broker-dealers that have proprietary accounts at the carrying broker-dealer. As discussed in section I.C.2. of this release, broker-dealers—as customers under SIPA—have the right to a *pro rata* share of customer property in a SIPA liquidation. See 15 U.S.C. 78lll(2).

⁶⁵ See paragraph (e)(1) of Rule 15c3-3. Carrying broker-dealers also must obtain and maintain physical possession or control of securities carried for a PAB account holder unless the carrying broker-dealer has provided written notice to the PAB account holder that it may use those securities in the ordinary course of its securities business and has provided opportunity for the PAB account holder to object to such use. See paragraph (b)(5) of Rule 15c3-3. See Financial Responsibility Rules for Broker-Dealers, 78 FR at 51827-31 (adopting a PAB reserve computation and possession and control requirements for securities held in PAB accounts under Rule 15c3-3).

⁶⁶ See paragraph (e)(3) of Rule 15c3-3; Proposing Release, 88 FR at 45839-40.

computation permits the carrying broker-dealer to offset PAB credit items only with PAB debit items.⁶⁷

2. Overview of Broker-Dealer Liquidations and SIPA

SIPA⁶⁸ affords certain protections against loss to customers resulting from a broker-dealer failure through the establishment of SIPC and the SIPC Fund.⁶⁹ SIPC oversees the liquidation of SIPC-member broker-dealers that fail financially and where customer assets the broker-dealer holds (i.e., cash or securities) are missing from customers' securities accounts (i.e., broker-dealers that cannot return these assets through a self-liquidation).⁷⁰

In a SIPA liquidation of a broker-dealer, SIPC and a court-appointed trustee work to return customers' cash and securities as quickly as possible. Customers under SIPA, including broker-dealers with securities accounts at the failed broker-dealer ("SIPA customers"), generally are entitled to certain protections, including the right to share *pro rata* with other SIPA customers in the customer property held by the carrying broker-dealer by way of a priority claim on the customer property compared to general unsecured creditors of the carrying broker-dealer.⁷¹

SIPA protections also include the ability for a SIPA customer—other than a SIPA customer that is a broker-dealer (i.e., a PAB account holder)—to receive an advance from the SIPC Fund of up to \$500,000 (of which \$250,000 can be used to cover cash claims), if the amount of customer property is insufficient to satisfy the customer's claim for securities and/or

⁶⁷ See paragraph (e)(2) of Rule 15c3-3.

⁶⁸ See 15 U.S.C. 78aaa *et seq.*

⁶⁹ See 15 U.S.C. 78ccc(a)(1) and 78ddd(a)(1).

⁷⁰ With some limited exceptions set forth in SIPA, all registered broker-dealers are SIPC members. 15 U.S.C. 78ccc(a)(2). SIPC is a non-profit member organization created in 1970 under SIPA. 15 U.S.C. 78ccc(a); Proposing Release, 88 FR at 45840.

⁷¹ See 15 U.S.C. 78fff-2(c) and 15 U.S.C. 78fff-3(a). SIPA liquidations generally involve customer claims and the claims of general unsecured creditors. Customer claims are satisfied out of the customer estate, while general unsecured claims are paid from the general estate (any remaining assets). To the extent a customer's claims are not fully satisfied through advances from the SIPC Fund and the customer's share of the customer estate, a customer will be eligible to receive a distribution as a general creditor if there are any general estate assets. See 15 U.S.C. 78fff2(c)(1).

cash.⁷² The SIPC Fund largely is financed through assessments paid to SIPC by its broker-dealer members.⁷³ The SIPC Fund is used to pay SIPC’s expenses, the administrative costs of a SIPA liquidation to the extent the carrying broker-dealer’s estate is insufficient to cover those costs, and—as stated above in this section—to pay advances to SIPA customers whose claims cannot be fully satisfied by the estate of a failed carrying broker-dealer.⁷⁴ The SIPC Fund—which consists of cash and U.S. Government securities—totaled approximately \$4.47 billion as of December 31, 2023.⁷⁵ Finally, the schedule for calculation of the annual assessment for SIPC members is governed under the SIPC Bylaws and generally depends on the level of SIPC’s unrestricted net assets.⁷⁶ The current assessment rate (effective January 1, 2024) is 0.15% of net operating revenues.⁷⁷ A summary of the possible level of SIPC assessments is as follows:

Table 1. SIPC Assessment Schedule

Unrestricted Net Assets/SIPC Fund Balance	Annual Assessment Rate
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⁷² 15 U.S.C. 78fff-3.

⁷³ 15 U.S.C. 78ddd(c) and (d); Proposing Release, 88 FR at 45841. The SIPC Fund is also financed through interest on U.S. Government securities held in the SIPC Fund. *See* 2023 SIPC Annual Report at 4, available at <https://www.sipc.org/media/annual-reports/2023-annual-report.pdf>.

⁷⁴ In the event that the SIPC Fund is or may reasonably appear to be insufficient for the purposes of SIPA, the Commission is authorized to lend SIPC up to \$2.5 billion, which the Commission, in turn, would borrow from the U.S. Treasury. 15 U.S.C. 78ddd(g) and (h). The Commission has not borrowed funds under the authority in SIPA since the legislation was enacted in 1970. *See* 2023 SIPC Annual Report at 3; Proposing Release, 88 FR at 45841, n.49. In 2023, no liquidations under SIPA were initiated. Over the last ten-year period, the annual average of new cases was 0.2. Since the inception of SIPC, liquidation proceedings under SIPA were commenced for 330 SIPC-member broker-dealers. These 330 members represent less than 1% of the approximately 40,000 broker-dealers that have been SIPC members during the past fifty-three years. In addition, during that timeframe, cash and securities distributed for accounts of customers totaled approximately \$142.5 billion. Of that amount, approximately \$141.6 billion came from debtors’ estates and \$915.7 million came from the SIPC Fund. Currently, SIPC has 3,297 members. *See* SIPC 2023 Annual Report at 8.

⁷⁵ *See* 2023 SIPC Annual Report at 10. The target level of the SIPC Fund is set out in SIPC’s Bylaws and has increased from an initial target of \$150 million in 1970, to the current target of \$5.0 billion as measured in unrestricted net assets. *See* Article 6 (Assessments) of SIPC Bylaws; The SIPC Fund, available at <https://www.sipc.org/about-sipc/the-sipc-fund>; 2023 SIPC Annual Report at 3.

⁷⁶ *See* Article 6 (Assessments) of SIPC Bylaws. SIPC’s unrestricted net assets are SIPC’s total assets (including the SIPC Fund) less liabilities, which include estimated costs to complete ongoing SIPA liquidations. *See* 2023 SIPC Annual Report at 20. *See also* 15 U.S.C. 78ddd(c) and (d); Proposing Release, 88 FR at 45841.

⁷⁷ *See* Assessment Rate, available at <https://www.sipc.org/for-members/assessment-rate>. The amount of each SIPC member’s assessment for the member’s fiscal year is the product of the assessment rate established by SIPC for that fiscal year and either the member’s gross revenues or net operating revenues from the securities business. *See* section 6(a)(1) of SIPC’s Bylaws; Proposing Release, 88 FR at 45841.

Unrestricted net assets \$2.5 – < \$5 billion (and reasonably likely to remain less than \$5 billion but not less than \$2.5 billion)	0.15% of net operating revenues
SIPC Fund balance of \$150 million – unrestricted net assets of <\$2.5 billion	0.25% of net operating revenues
SIPC Fund balance \$100 million – <\$150 million	Determined by SIPC, but not less than 0.25% of gross revenues
SIPC Fund balance below \$100 million	Determined by SIPC, but not less than 0.5% of gross revenues
Unrestricted net assets \geq \$ 5 billion (and reasonably likely to remain $>$ \$5 billion (after review of study* and consultation with Commission and SROs))	SIPC may not more than once in any four-year period, increase or decrease the assessment rate by up to, but not more than, 25% of the assessment rate in effect at that time.

*When unrestricted net assets total \$5 billion, SIPC will commission a study every four years to examine the adequacy of SIPC’s unrestricted net asset balance and the SIPC Fund and the appropriate assessment rate. *See* section 6(a)(1)(C) and (D) of SIPC’s Bylaws.

II. DISCUSSION OF COMMENTS AND FINAL AMENDMENTS

A. Requirement to Perform a Daily Computation

1. Proposal

The Commission proposed amendments to Rule 15c3-3 that would require carrying broker-dealers with large amounts of total credits to perform the customer and PAB reserve computations daily rather than weekly.⁷⁸ More specifically, the amendments would add paragraph (e)(3)(i)(B) to Rule 15c3-3.⁷⁹ This paragraph would provide that a carrying broker-dealer with average total credits that are equal to or greater than \$250 million (“\$250 Million Threshold”) must make the computation necessary to determine the amounts required to be

⁷⁸ *See* section I.A. of this release (discussing the need for daily reserve computations); Proposing Release, 88 FR at 45843.

⁷⁹ *See* paragraph (e)(3)(i)(B) to Rule 15c3-3, as proposed to be amended. In addition, the Commission proposed the following conforming amendments to paragraph (e)(3)(i) of Rule 15c3-3: (1) paragraph (e)(3)(i) would be re-lettered paragraph (e)(3)(i)(A); and (2) the text in paragraph (e)(3)(i) regarding monthly computations would be set forth in new paragraph (e)(3)(i)(C). Further, the phrase “[e]xcept as provided in paragraphs (e)(3)(i)(B)(I) and (C) of this section” would be added to the beginning of paragraph (e)(3)(i)(A) of Rule 15c3-3, as proposed to be amended, to clarify that the weekly computation requirement in paragraph (e)(3)(i)(A) applies unless the carrying broker-dealer is subject to the daily computation requirement of paragraph (e)(3)(i)(B)(I) or meets the conditions of paragraph (e)(3)(i)(C) to perform a monthly computation. *See* Proposing Release, 88 FR at 45843, n.74. The Commission did not receive comments on these proposed conforming amendments and is adopting them as proposed.

deposited in the customer and PAB reserve bank accounts daily as of the close of the previous business day.⁸⁰ The paragraph would further provide that the deposit so computed must be made no later than one hour after the opening of banking business on the second following business day.⁸¹ For purposes of paragraph (e)(3) of Rule 15c3-3, the Commission proposed to define average total credits as the arithmetic mean of the sum of total credits in the customer reserve computation and PAB reserve computation reported in the twelve most recently filed month-end FOCUS Reports.⁸² Based on regulatory filings for the period of January 2022 through December 2022, the \$250 Million Threshold would have applied the proposed daily computation requirement to approximately 63 carrying broker-dealers.⁸³ These broker-dealers included 11 carrying broker-dealers that already voluntarily performed the customer reserve computation daily.⁸⁴

2. Comments Received and Final Amendments

Many commenters supported the overall proposal.⁸⁵ Commenters stated that the proposal would help protect customers, and address potential risks in a more timely and proactive manner, which safeguards investors and market participants, as well as strengthens the overall resilience

⁸⁰ The text of paragraph (e)(3)(i)(B) of Rule 15c3-3—as proposed to be amended—was modelled closely on the preexisting text of paragraph (e)(3)(i) of Rule 15c3-3. *See* Proposing Release 88 FR at 45843, n.75.

⁸¹ For example, a carrying broker-dealer performing the computation on Tuesday—as of the close of business on Monday—would be required to make the deposit on Wednesday, assuming all three days are business days. On Wednesday, the carrying broker-dealer would perform the computation as of the close of business Tuesday and be required to make the deposit on Thursday (assuming Thursday is a business day). *See* Proposing Release 88 FR at 45844.

⁸² *See* paragraph (e)(3)(i)(B)(1) of Rule 15c3-3, as proposed to be amended. This would mean the carrying broker-dealer would add up the sum of the total credits reported in the customer and PAB reserve computations in each of the twelve most recently filed month-end FOCUS Reports and divide that amount by 12 to calculate the arithmetic mean of the total credits. *See* Proposing Release, 88 FR at 45844, n.76.

⁸³ *See* Proposing Release, 88 FR at 45844, n.79.

⁸⁴ *See* Proposing Release, 88 FR at 45844, n.80.

⁸⁵ *See, e.g.*, Letter from Joshua Beattie, FriendshipWorks (July 20, 2023); Roger Cryer (Aug. 16, 2023); Ethan Jenni (Aug. 20, 2023); Ruth Earle (Aug. 20, 2023); Jesse Tutti (Aug. 20, 2023); Nathan Saint (Aug. 20, 2023); Chris Edmondson (Aug. 20, 2023); and Janice Schrader (Aug. 21, 2023).

of the financial markets.⁸⁶ One commenter, however, stated that the preexisting weekly reserve requirements have proven effective for the industry and not resulted in any problems.⁸⁷

The Commission agrees with commenters that the amendments to require daily customer and PAB reserve computations will protect customer and PAB cash more quickly than is the case with weekly computations. While the preexisting weekly customer and PAB reserve requirements have generally been effective,⁸⁸ the observed large deposit requirements, and differences or “mismatches” between the net amount of cash a carrying broker-dealer owes its customers and PAB account holders and the amounts on deposit in the customer and PAB reserve bank accounts, indicate that a daily reserve computation requirement enhances the preexisting rule.⁸⁹

As discussed in section I.A. of this release, a daily reserve computation requirement will make the financial system safer by: (1) increasing the likelihood that a failing carrying broker-dealer can self-liquidate (meaning customers and PAB account holders do not temporarily lose access to their cash and securities); (2) lowering the risk that the SIPC Fund may be depleted by having to address a large shortfall in customer cash held by a failed carrying broker-dealer; and (3) increasing the liquidity of carrying broker-dealers performing the daily customer and PAB reserve computations thereby positioning them to better address potential financial shocks.

Regarding the proposed \$250 Million Threshold, one commenter suggested modifying the proposal to include a second test that would need to be met to trigger the requirement to perform daily reserve computations.⁹⁰ In particular, the commenter recommended requiring a

⁸⁶ See Letter from Joseph (Sept. 8, 2023); Golden DOGE (Sept. 9, 2023).

⁸⁷ See Letter from Christopher A. Iacovella President & CEO, American Securities Association (Sept. 11, 2023) (“ASA Letter”) at 4.

⁸⁸ See section II.C.2. of this release (discussing broker-dealer liquidations and SIPA).

⁸⁹ See section I.A. of this release (discussing the need for daily reserve computations); section IV.B.2. of this release (discussing average mismatches).

⁹⁰ See Letter from Kevin Zambrowicz, Deputy General Counsel (Institutional) & Managing Partner, SIFMA (Sept. 11, 2023) (“SIFMA Letter”) at 6-7.

carrying broker-dealer to perform daily computations if it exceeds the proposed \$250 Million Threshold *and* has average net credits of \$10 million or more because some carrying broker-dealers that meet the proposed \$250 Million Threshold do not present a material risk as they do not carry a large excess of credits over debits. This commenter also stated that a number of carrying broker-dealers rarely have an excess of credits over debits because of the nature of their activities, and the customer protection benefit of a daily computation requirement for these carrying broker-dealers is minimal, and should be weighed against the significant costs of the proposal, which are not commensurate with the risk profiles they present.⁹¹ Another commenter stated the Commission should adopt a threshold using risk or liquidity factors because they are better predictors of a failing carrying broker-dealer than a fixed threshold based on size.⁹² The commenter stated that this threshold classification would avoid penalizing carrying broker-dealers with strong balance sheets that exceed a fixed threshold.⁹³ One commenter stated that the Commission should define the threshold as a formula that it could adjust periodically without further rulemaking, because the proposed threshold is based on a narrow set of FOCUS reports and could become outdated as a result of material changes.⁹⁴

Some commenters suggested eliminating the proposed \$250 Million Threshold so that all carrying broker-dealers would be required to perform daily customer and PAB reserve computations.⁹⁵ One of these commenters stated that the mismatch risk applies equally to both

⁹¹ *See id.*

⁹² *See* ASA Letter at 5.

⁹³ *See id.* The commenter did not identify specific risk or liquidity factors that the Commission could use for this purpose but suggested that the Commission could consider the liquidity factors in a FINRA concept release for a potential FINRA liquidity risk management rule. *Id.*

⁹⁴ *See* Letter from Andrew Hartnett, NASAA President and Deputy Commissioner, Iowa Insurance Division (Sept. 11, 2023) (“NASAA Letter”) at 2-3. The commenter stated that this alternative would ensure that the Commission reevaluates, and refreshes (as necessary) the proposal’s systemic risk mitigation aims and ease the Commission’s future burdens given the significant effort required to engage in rulemaking. *Id.* at 3.

⁹⁵ *See* Letter from Stephen W. Hall, Legal Director and Securities Specialist, Better Markets, Inc. (Sept. 11, 2023) (“Better Markets Letter”) at 8; Cory (Sept. 19, 2023) (“Cory Letter”). Another commenter stated

large and small carrying broker-dealers, and, as such, the Commission should apply the requirement to all carrying broker-dealers so that customers are not left vulnerable simply because they hold their securities accounts at smaller broker-dealers.⁹⁶ The commenter also stated that this modification would eliminate the need for carrying broker-dealers to monitor their average total credits over a 12-month period to determine whether or not they meet the \$250 Million Threshold.⁹⁷

The final amendments modify the proposal by raising the \$250 Million Threshold to \$500 million. This threshold is designed to provide a balanced demarcation between carrying broker-dealers with large amounts of total credits relative to smaller carrying broker-dealers (with lower average total credits). The former are more likely to have larger mismatches in any given year, and are better positioned to absorb the increased costs resulting from performing daily reserve computations.⁹⁸ For example, when proposed, the threshold was estimated to apply the daily reserve computations requirement to 63 of the 187 total broker-dealers subject to the customer and PAB reserve requirements of Rule 15c3-3.⁹⁹ Further, at proposal, the mismatch risk was calculated as a carrying broker-dealer's deposit divided by its reserve account balance from any month. The average of these mismatches for each carrying broker-dealer during 2022 was computed to determine the average mismatches.¹⁰⁰ For example, in 2022, on the aggregate

that it is possible that a threshold based on a narrow set of FOCUS Reports could become stale if the data changes materially and that one remedy would be to require all carrying broker-dealers to compute reserve requirements daily. The commenter, however, recognized the Commission's implicit concern that extending the requirement to all carrying broker-dealers might be unnecessarily burdensome, and stated that there is a potential consensus to support a reasonable "balanced demarcation" [between carrying broker-dealers with large amounts of total credits relative to smaller carrying broker dealers]. *See* NASAA Letter at 2.

⁹⁶ *See* Better Markets Letter at 8.

⁹⁷ *See id.* at 8-9.

⁹⁸ *See* section IV.B.2. of this release (discussing the number of affected broker-dealers as part of the baseline for the economic analysis of the final amendments).

⁹⁹ *See* Proposing Release, 88 FR at 45849-50. Included in the 187 carrying broker-dealers were 25 carrying broker-dealers that reported zero customer or PAB credits in 2022.

¹⁰⁰ *See id.* at 45852.

level, the average mismatch across the 187 carrying broker-dealers for customer reserve accounts was 11.2% for carrying broker-dealers above the proposed \$250 Million Threshold.¹⁰¹ It was 6.1% for carrying broker-dealers below the proposed \$250 Million Threshold.

The threshold is being raised to \$500 Million to further narrow the scope of the final amendments to carrying broker-dealers whose average mismatches are larger as compared to carrying broker-dealers that are below the threshold.¹⁰² In particular, the \$500 Million Threshold is estimated to apply the daily computation requirement to 49 of the 191 carrying broker-dealers subject to the customer and PAB reserve requirements of Rule 15c3-3.¹⁰³ Nine of these 49 carrying broker-dealers already voluntarily perform daily customer and PAB reserve computations.¹⁰⁴ Moreover, it is estimated that these 49 carrying broker-dealers—in the aggregate—account for 99.3% of the total credits of all 191 carrying broker-dealers subject to the requirement.¹⁰⁵ Further, the average mismatches were generally higher for carrying broker-dealers above the \$500 Million Threshold as compared to carrying broker-dealers below the threshold.¹⁰⁶ For example, the average mismatch across the 191 carrying broker-dealers for customer reserve bank accounts is 15.7% for carrying broker-dealers above the \$500 Million Threshold.¹⁰⁷ It is 6.4% for carrying broker-dealers below the threshold.

¹⁰¹ See Proposing Release, 88 FR at 45852 (table 4 depicting broker-dealer deposits and withdrawals as a share of the reserve account balance). In this release, the aggregated average mismatch of 11.2% is calculated as an average of the average mismatches for all carrying broker-dealers that met the proposed \$250 Million Threshold in 2022. A mismatch is calculated as a carrying broker-dealer's deposit (FOCUS Report Line 4520) divided by its reserve account balance from any month (Line 4530). The average of these mismatches for each broker-dealer is computed to determine the "average mismatches." The same was done for carrying broker-dealers below the proposed \$250 Million Threshold in 2022. Using a \$500 Million Threshold, based on 2022 data, on the aggregate level, the average mismatch across the 187 carrying broker-dealers for customer reserve accounts was 11.9% for carrying broker-dealers above the \$500 Million Threshold, and 6.1% for carrying broker-dealers below the \$500 Million Threshold.

¹⁰² See section IV.B.2. of this release.

¹⁰³ Included in the 191 carrying broker-dealers were 29 carrying broker-dealers that reported zero customer or PAB credits in 2023. See section IV.B.2. of this release.

¹⁰⁴ Based on FOCUS Report data for December 31, 2023.

¹⁰⁵ See *id.*

¹⁰⁶ See section IV.B.2. of this release, table 5 - Broker-Dealer Deposits and Withdrawals as a Share of Reserve Account Balance, 2023.

¹⁰⁷ See section IV.B.2. of this release.

These data indicate that the \$500 Million Threshold will apply to carrying broker-dealers that hold the bulk of total credits in the industry and to the carrying broker-dealers that tend to have the larger mismatches as measured by the average of reserve deposits required for the carrying broker-dealer relative to the average balance in its reserve accounts. In this way, the \$500 Million Threshold seeks to reasonably balance the enhancements to customer protection under Rule 15c3-3 through reductions in the mismatch risk, with the potential increases in compliance costs and staffing that may be necessary to perform a daily reserve computation. The \$500 Million Threshold is a straightforward way to narrow the scope of the final rule to carrying broker-dealers that tend to have larger mismatches. For example, this modification will exclude an additional 12 carrying broker-dealers from the scope of the final rule.¹⁰⁸ For these reasons, the Commission is not modifying the final \$500 Million Threshold to include the second test a commenter suggested (i.e., having average net credits of \$10 million or more) or to use risk or liquidity factors, as a different commenter suggested. These suggested modifications would narrow the application of the rule in a way that would exclude some carrying broker-dealers from the daily reserve computation requirement that have the potential for large mismatch risks.

Further, the final \$500 Million Threshold—because it is based on total customer and PAB credits (as opposed to a net amount of credits)—will apply the daily reserve computations requirement to carrying broker-dealers that tend to have large obligations to customers (e.g., through receiving large infusions of customer cash, holding cash balances in customers' securities accounts, or using customer margin securities). Using a net credit amount, in addition to the \$500 Million Threshold would exclude 10 of the 49 carrying broker-dealers that would be subject to the daily reserve requirement based on FOCUS Report data for calendar year 2023.¹⁰⁹ At the time of the weekly computation, however, a carrying broker-dealer may have substantial

¹⁰⁸ This estimate is based on FOCUS Report data for calendar year 2023.

¹⁰⁹ See section IV.E.2. of this release (discussing alternative thresholds based on different metrics).

debits to offset the credits and, therefore, have a relatively small amount of excess credits in comparison to its total credits. This could cause the carrying broker-dealer to stay under the threshold notwithstanding the fact that it typically has large amounts of total credits, and large intra-week mismatches.¹¹⁰ Consequently, a net credit amount may not indicate that a carrying broker-dealer is at a lower risk of large intra-week mismatches because it does not account for large fluctuations in the net cash owed to customers and PAB account holders between reserve computations. The final amendments are designed to reduce the mismatch risk for carrying broker-dealers with large amounts of total credits (who are more likely to have larger mismatches) by protecting customer and PAB cash more quickly than is the case with weekly computations. This will increase the likelihood that a failing carrying broker-dealer can self-liquidate (meaning customers and PAB account holders do not temporarily lose access to their cash and securities).

Finally, the \$500 Million Threshold also is designed as a straightforward way for a carrying broker-dealer to determine whether it is subject to the requirement to perform daily customer and PAB reserve computations. As such, it will be simple for carrying broker-dealers and the Commission or Commission staff to calculate and monitor because it is a fixed-threshold and the data for the calculation is derived from FOCUS Reports.¹¹¹ Setting formula-based thresholds that incorporate dynamic risk or liquidity factors would make the rule requirements less predictable and more complex to monitor because of their variability. Moreover, carrying broker-dealers in compliance with the net capital rule typically have strong balance sheets because the rule imposes a net liquid assets test that is designed to promote liquidity within

¹¹⁰ Based on FOCUS Report data for calendar year 2023, at least one carrying broker-dealer that would be excluded from the scope of the rule using a net credit amount in addition to a \$500 Million Threshold had two of the top 100 largest deposits in customer reserve bank accounts in 2023. Further, four of the top 25 PAB reserve bank account deposits in calendar year 2023 were made by two carrying broker-dealers that would be excluded using the net credit amount in addition to the \$500 Million Threshold.

¹¹¹ A uniform threshold also is less costly to monitor because it does not change. *See* the Economic Analysis in section IV. of this release (discussing the economic effects of the final amendments).

broker-dealers.¹¹² During times of market stress, however, carrying broker-dealers may experience fluctuations in their capital if customers and/or PAB account holders rapidly withdraw cash and securities from their accounts to reduce their exposure to the carrying broker-dealer and the securities markets more generally.¹¹³ Consequently, a formula-based threshold that incorporates dynamic risk or liquidity factors would exclude carrying broker-dealers that are more likely to experience larger mismatches, including carrying broker-dealers with large amounts of credits that have strong balance sheets.¹¹⁴ A fixed threshold also is consistent with other thresholds and ratios in the Commission’s broker-dealer financial responsibility rules, which use fixed-dollar amounts or predetermined ratios that do not contain formulas for future adjustments.¹¹⁵ Finally, the \$500 Million Threshold will incorporate any month-to-month material changes because it uses a 12-month rolling average (as compared to basing the calculation on a single filing or date).¹¹⁶ For these reasons, the Commission is not adopting a formula-based threshold that incorporates dynamic risk or liquidity factors, or a threshold that can be adjusted without rulemaking as some commenters suggested.

By adopting a \$500 Million Threshold, the final rule does not apply the daily reserve computation requirement to all carrying broker-dealers, as a commenter suggested.¹¹⁷ This suggested modification would apply the requirement to carrying broker-dealers that do not have

¹¹² See Rule 15c3-1. The net capital rule also requires that a carrying broker-dealer must not otherwise be insolvent as defined in the net capital rule. See paragraph (a)(16) of Rule 15c3-1 (defining the term insolvent).

¹¹³ See section IV.D. of this release (discussing capital losses that could arise in times of market stress); section I.A. of this release (discussing the need for daily reserve computations).

¹¹⁴ See paragraph (a)(16) of Rule 15c3-1 (defining the term insolvent).

¹¹⁵ See Rules 15c3-1 and 15c3-3.

¹¹⁶ See NASAA Letter at 2; see also Letter from Josephine Wang, President and CEO, SIPC (Sept. 11, 2023) (“SIPC Letter”) at 2 (supporting the rolling 12-month average).

¹¹⁷ The commenter also stated that applying the daily reserve computation requirement to all carrying broker-dealers would eliminate the need to monitor average total credits over a 12-month period. See Better Markets Letter at 8. As discussed above in this section, the \$500 Million Threshold is a fairly simple calculation that relies on numbers carrying broker-dealers already report on the FOCUS Report. Consequently, it will not be difficult for carrying broker-dealers to determine whether they have triggered the daily reserve computation requirement.

the potential for large mismatch risks and that are less able to bear the costs of—and devote the resources necessary for—performing daily reserve computations because of their size or limited customer or PAB account carrying activity. Applying the daily reserve computation to all carrying broker-dealers would impose compliance costs on an additional 113 carrying broker-dealers with relatively less customer and PAB account activity.¹¹⁸ Thus, it would subject them to increased compliance costs while they do not have the potential for large mismatches.¹¹⁹ However, carrying broker-dealers below the \$500 Million Threshold may choose to voluntarily perform a daily customer reserve computation in order to apply the 2% debit reduction in lieu of the 3% reduction.¹²⁰ In this way, the investor protection benefits of performing a daily computation may be expanded beyond the carrying broker-dealers that will be required to perform a daily computation, but in a way that does not impose undue costs on smaller carrying broker-dealers. For example, smaller carrying broker-dealers can analyze whether it is advantageous from a cost perspective to realize the liquidity benefits that result from performing a daily customer reserve computation and applying a 2% debit reduction in lieu of a 3% debit reduction.

In addition to addressing the proposed \$250 Million Threshold, some commenters suggested modifying the proposal in a way that would make the reserve computations a hybrid of the daily and weekly approaches where carrying broker-dealers would compute certain items in the reserve formula daily and others weekly. For example, two commenters¹²¹ suggested that a more cost efficient and effective alternative to prevent a deficit of customer property in a SIPA

¹¹⁸ See section IV.E.3. of this release (discussing applying the daily reserve requirement to all carrying broker-dealers as a reasonable alternative).

¹¹⁹ See *id.*

¹²⁰ See section II.C. of this release (describing the 2% debit reduction).

¹²¹ See SIFMA Letter at 10-11; Letter from Erik Soderberg, Head of Regulatory Affairs, Americas, Deutsche Bank Securities, Inc. (Sept. 11, 2023) (“Deutsche Bank Letter”) at 1-2. These commenters stated that inflows of customer cash to customer accounts for interest and dividends represent the vast bulk of any net equity that a carrying broker-dealer would owe its customers if such a carrying broker-dealer were subject to a liquidation. See SIFMA Letter at 10; see also Deutsche Bank Letter at 2.

liquidation (for carrying broker-dealers primarily conducting a DVP/RVP business)¹²² would be to continue weekly computations with a daily calculation of free credit balances.¹²³ Another commenter acknowledged that while certain carrying broker-dealers should perform a daily reserve computation, the Commission should permit other carrying broker-dealers to perform a weekly reserve computation, and a simplified intra-week reserve computation of only material balances (while excluding cash balances moved to external sweep programs).¹²⁴

The final amendments retain the daily customer and PAB reserve computation requirement, as proposed. The hybrid approaches commenters suggested would not provide the same level of customer protection afforded by complete daily customer and PAB reserve computations because these hybrid approaches do not include all debits and credits.¹²⁵ As discussed above in section I.C.1. of this release, preexisting Rule 15c3-3 is designed to protect customers by segregating their securities and cash from the carrying broker-dealer's proprietary business activities. This is accomplished through the customer and PAB reserve computations that must include all funds which have customer assets as their source, and ensures that the net amount of cash owed to customers and PAB account holders that is not deployed for customer or

¹²² DVP/RVP means a delivery-versus-payment or receipt-versus-payment. This generally refers to an arrangement whereby payment for securities purchased is made to the selling customer's agent or delivery of securities sold is made to the buying customer's agent in exchange for payment at time of settlement, usually in the form of cash. This settlement method generally guarantees the transfer of securities only happens after payment has been made. Carrying broker-dealers whose primary business is DVP/RVP transactions also may have limited carrying business (including for affiliates) including margin accounts. *See* SIFMA Letter at 10.

¹²³ *See* SIFMA Letter at 10; Deutsche Bank Letter at 1-2. These commenters suggested that these carrying broker-dealers be permitted to calculate free credit balances daily as of the previous business day, identify whether such balances are greater than the free credit balances reflected in their most recent reserve computation, and, on the same day, either: (1) sweep any excess into a sweep program; or (2) deposit any increase into their customer reserve bank accounts. *Id.*

¹²⁴ *See* ASA Letter at 5; Letter from ASA (Jan. 19, 2024) ("ASA Letter 2") at 2; Letter from ASA (Oct. 2, 2024) ("ASA Letter 3"). The commenter stated that this computation would achieve a similar purpose as the daily customer and PAB reserve computations requirement and provide relief for carrying broker-dealers from having to develop infrastructure and hire regulatory staff to perform a customer and PAB reserve computation daily. *See* ASA Letter at 5.

¹²⁵ In this regard, in adopting the original customer reserve requirements of Rule 15c3-3 in 1972, the Commission stated that "[it] has taken a broad view of the Congressional mandate by requiring that the reserve account include all funds which have as their source customer assets." *See* Rule 15c3-3 Adopting Release, 37 FR at 25224.

PAB account holder securities transactions is deposited in the customer and PAB reserve bank accounts.¹²⁶ Performing only a modified or hybrid customer or PAB reserve computation increases the risk of a large mismatch for carrying broker-dealers with large amounts of credits that exceed the \$500 Million Threshold because they would not be accounting for all credit items when performing daily reserve computations under these alternatives.¹²⁷ This, in turn, would increase the risk that a carrying broker-dealer may be unable to promptly return cash and securities to customer and PAB account holders in the event the carrying broker-dealer fails financially.

Further, limiting the daily computation to the amount of free credit balances and including any increase in only free credit balances in a sweep program or a separate special reserve bank account,¹²⁸ or an intra-week computation of only certain credit items would not account for possible material changes in other credit items not accounted for daily that could substantially affect the customer or PAB reserve computation and any required deposit. Finally, the hybrid computations commenters suggested would introduce an additional level of complexity to the computation that could tax the resources of carrying broker-dealers while not achieving the full risk-reducing benefits of a complete daily reserve computation.¹²⁹

Another commenter stated that the Commission should adopt a separate \$250 million threshold requirement for the customer and PAB reserve computations, to allow carrying broker-dealers to focus their resources on the reserve computation that merits the most attention, rather than one that presents minimal risk to the carrying broker-dealer or the financial system as a

¹²⁶ See 1972 15c3-3 Adopting Release, 37 FR at 25224 (One of the goals of Rule 15c3-3 is to “insure that customers’ funds held by a broker-dealer (both free credit balances and deposits which may be restricted as to withdrawal) and the cash which is realized through the lending, hypothecation and other permissible uses of customers’ securities are deployed in safe areas of the broker-dealer’s business related to servicing his customers, or to the extent that the funds are not deployed in these limited areas, that they be deposited in a reserve bank account.”). *Id.*

¹²⁷ See section I.A. of this release (describing the need for daily reserve computations).

¹²⁸ See section II.E.1. of this release (discussing sweep programs and cash in motion and other transitory credits); section IV.E.10. (discussing exemption for cash in motion as a reasonable alternative).

¹²⁹ See section I.A. of this release (describing the need for daily reserve computations).

whole.¹³⁰ This commenter also suggested as another alternative that the Commission permit a carrying broker-dealer that exceeds the proposed \$250 Million Threshold to perform an optional weekly computation for either its customer or PAB accounts where credits in that particular computation fall below a certain level (e.g., \$50 million).¹³¹ Another commenter stated that for carrying broker-dealers performing both the customer and PAB reserve computations, the Commission should not require daily PAB reserve computations in order to protect customer reserves while mitigating stress on carrying broker-dealers' resources.¹³²

The final amendments do not take these approaches commenters suggested to bifurcate the frequency of the customer and PAB reserve computations. Both the securities accounts of customers and PAB account holders would be affected if a carrying broker-dealer experiences a large intra-week mismatch in either its customer or PAB reserve bank accounts. This mismatch risk increases the risk to both the carrying broker-dealer's customers and PAB account holders that if the carrying broker-dealer fails financially, the customers and PAB account holders may experience a delay in receiving their cash and securities or be subject to a disorderly liquidation. Requiring that a carrying broker-dealer that exceeds the \$500 Million Threshold perform a daily customer and PAB reserve computation reduces the mismatch risk in each of these accounts and more dynamically matches the net cash owed to PAB account holders with the amount on deposit in the customer and PAB reserve bank accounts. This requirement will reduce mismatch risk, and benefit both customer and PAB account holders if a carrying broker-dealer fails financially by ensuring their cash and securities are promptly returned to them.

¹³⁰ See Marshall Ollia, Chief Financial Officer, Raymond James & Associates, Inc. (Sept. 11, 2023) ("Raymond James Letter") at 2-3. This commenter stated that its total customer credits would exceed \$250 million but its PAB credit balances are significantly below the threshold. The commenter further stated that in practice it does not see large inflows or outflows of broker-dealer credit items in PAB accounts and so the carrying broker-dealer does not experience a mismatch in timing of those items. *Id.*

¹³¹ See Raymond James Letter at 3. This commenter stated, for example, where a carrying broker-dealer has \$2.0 billion in customer credits, but only \$45 million in PAB credits, then it would perform a customer reserve computation daily for the customer reserve bank account and have the option of performing PAB reserve computations weekly for the PAB reserve bank account. *Id.*

¹³² See ASA Letter at 4.

In addition, in the event of a SIPA liquidation of a failed carrying broker-dealer, both customers and PAB account holders would be part of the customer estate which would include both the customer and PAB reserve bank accounts to the extent needed to satisfy customers' claims. Further, because PAB account holders—as broker-dealers—are not entitled to advances from the SIPC Fund, their claims for securities and cash would be at a greater risk of not being satisfied in full (as compared to non-broker-dealer customers). This could expose the PAB account holder to financial stress and increased risk of liquidation.¹³³ Therefore, because a large mismatch in the customer or PAB reserve bank account will affect both customers and PAB account holders in a SIPA liquidation, the final rules require a carrying broker-dealer to perform a daily customer and PAB reserve computation if it meets or exceeds the \$500 Million Threshold.

Finally, a daily requirement for both the customer and PAB reserve computations also will promote consistency by requiring that a carrying broker-dealer perform the customer and PAB reserve computations with the same frequency.¹³⁴ While Rule 15c3-3 currently permits a carrying broker-dealer to elect to perform its customer and PAB reserve computations more frequently than weekly,¹³⁵ a practical effect of requiring a uniform standard that a carrying broker-dealer perform both the customer and PAB reserve computations daily will be to permit the carrying broker-dealer to withdraw excess funds more quickly from either the customer or PAB reserve bank account (as compared to a weekly reserve computation). This consistency will increase liquidity for carrying broker-dealers and position them to better address potential financial shocks.¹³⁶

¹³³ See Proposing Release, 88 FR at 45842.

¹³⁴ Based on FOCUS Report data for December 31, 2023, all nine of the carrying broker-dealers above the \$500 Million Threshold that voluntarily perform daily reserve computations currently perform daily customer and PAB reserve computations.

¹³⁵ See paragraph (e)(3)(iv) of Rule 15c3-3.

¹³⁶ See section I.A. of this release (discussing the need for daily reserve computations).

For the reasons discussed above in this section, the Commission has not modified the final amendments to establish the alternative thresholds or hybrid computations commenters suggested. However, to the extent that carrying broker-dealers incur costs to transition to a daily reserve computation, the modification of the final amendments to permit a 2% debit reduction in performing the customer reserve computation will provide them additional liquidity.¹³⁷ This modification will reduce costs from the proposal for carrying broker-dealers without compromising the enhancements to customer protection that the final \$500 Million Threshold is designed to provide (and without adopting any of the alternative thresholds or hybrid computations commenters suggested).

Several commenters stated that carrying broker-dealers should perform reserve computations in real time or commented on the technological advances in the securities markets.¹³⁸ One commenter stated that technical prerequisites for such complex computational operations are already in place and should not be burdensome to carrying broker-dealers.¹³⁹ Another commenter stated that the Commission should not entertain any carrying broker-dealer's objections that the proposal would be ineffective or burdensome to implement since the entirety of their services should now be automated.¹⁴⁰ Commenters also stated that the proposal is a necessary reform given technological advances and pace of today's financial markets.¹⁴¹

Although there have been technological advances to automate and streamline the customer and PAB reserve computations to enable carrying broker-dealers to perform a computation daily, there are still portions of the customer and PAB reserve computations that

¹³⁷ See section II.C. of this release (describing the 2% debit reduction) and the Economic Analysis in section IV. of this release (discussing the costs and benefits of the rule).

¹³⁸ See Letter from Greg Linder (Aug. 20, 2023) ("Linder Letter"); Andrew O'Donnell (July 30, 2023) ("O'Donnell Letter") and Alex MacCartney (July 21, 2023); Joao F. Santos (July 28, 2023) ("Santos Letter"); Eddie Klas (July 18, 2023); Adam Whitehurst (July 12, 2023) ("Whitehurst Letter"); Cory Letter.

¹³⁹ See Santos Letter. This commenter suggested that carrying broker-dealers be required to electronically publish whether reserve requirements have been met or breached. *Id.*

¹⁴⁰ See Whitehurst Letter; Anonymous Letter (Aug. 21, 2023).

¹⁴¹ See Whitehurst Letter; Cory Letter.

employees must perform manually (such as performing reconciliations or researching items in suspense accounts in order to properly credit the correct customer securities account), or required data inputs that a carrying broker-dealer may be unable to obtain in real time (such as data from a third party service provider). These manual items and unavailability of certain data in real time make it impractical to require carrying broker-dealers to perform a customer or PAB reserve computation in real time. Moreover, adjusting amounts deposited in the customer and PAB reserve bank accounts in real time would be impractical.

B. Compliance with Daily Reserve Computation after Exceeding \$500 Million Threshold

1. Proposal

The Commission proposed to require that a carrying broker-dealer comply with performing a customer and PAB reserve computation daily no later than six months after having average total credits that are equal to or greater than \$250 million. The purpose of the six-month compliance period in the proposed rule text was to provide time for a carrying broker-dealer to prepare to perform a customer and PAB reserve computation daily after it exceeds the proposed \$250 Million Threshold.¹⁴² The Commission stated that a carrying broker-dealer in this situation may need to add resources in order to perform the computations, including hiring or assigning additional staff to perform the daily computations.¹⁴³

Once a carrying broker-dealer begins to perform customer and PAB reserve computations daily (because it exceeded the \$250 Million Threshold), the Commission proposed to require the carrying broker-dealer to continue performing customer and PAB reserve computations daily for at least 60 days after it falls below the \$250 Million Threshold. More specifically, under the proposal, a carrying broker-dealer could elect to perform computations weekly by notifying its

¹⁴² See Proposing Release, 88 FR at 45844.

¹⁴³ See *id.*

DEA in writing at least 60 calendar days before reverting to a weekly computation.¹⁴⁴ If a carrying broker-dealer that provided the 60-day notice under the proposal reverts to a weekly rather than daily customer and PAB reserve computation and subsequently exceeds the proposed \$250 Million Threshold once again, the proposed rule would require the carrying broker-dealer to comply with the daily computation requirement no later than six months after having average total credits equal to or greater than \$250 million.¹⁴⁵ This would be the same process as when a carrying broker-dealer exceeded the proposed \$250 Million Threshold for the first time.

2. Comments Received and Final Amendments

The Commission sought comment on the proposed compliance period for beginning to perform customer and PAB reserve computations daily after a carrying broker-dealers exceeds the proposed \$250 Million Threshold.¹⁴⁶ As discussed below in this section, the Commission received several comments regarding the proposed compliance period.

One commenter suggested the Commission group carrying broker-dealers by size and select a transition period for compliance appropriate for carrying broker-dealers in each group to accelerate the transition to performing a customer and PAB reserve computation daily.¹⁴⁷ This commenter stated that six months may be longer than many large and sophisticated carrying broker-dealers need to complete the transition to a daily reserve computation after exceeding the proposed \$250 Million Threshold.¹⁴⁸ Another commenter stated that the Commission should shorten the proposed six-month compliance period to three-months for a carrying broker-dealer to make the systems and staffing changes necessary to perform a daily computation after it exceeds the proposed \$250 Million Threshold.¹⁴⁹ Finally, one commenter requested that the

¹⁴⁴ See Proposing Release, 88 FR at 45844-45.

¹⁴⁵ See Proposing Release, 88 FR at 45845.

¹⁴⁶ See *id.* at 45845-46.

¹⁴⁷ See SIPC Letter at 1. The commenter did not suggest any specific groupings or time periods. *Id.*

¹⁴⁸ See SIPC Letter at 1.

¹⁴⁹ See Letter from Brad D. (Sept. 9, 2023).

calculations for customer and PAB reserve computations be bifurcated, with the proposed \$250 Million Threshold applied separately for the customer and PAB reserve computations, and that the six month compliance period apply when the particular type of average total credits (customer or PAB) crosses the proposed \$250 Million Threshold.¹⁵⁰

As discussed in section II.A. of this release, the Commission is adopting a \$500 Million Threshold as part of the final amendments. The six-month timeframe accounts for the fact that carrying broker-dealers of different sizes may need more or less time to comply with a requirement to perform the customer and PAB reserve computations daily. The six-month timeframe, accordingly, provides a straightforward and uniform compliance period for carrying broker-dealers to meet if they exceed the \$500 Million Threshold and must begin performing the customer and PAB reserve computations daily. A uniform compliance period also will be easier for the Commission, Commission staff and a carrying broker-dealer's DEA to monitor for compliance because the same requirement will apply to all carrying broker-dealers. As such, the Commission is not modifying the final rule to provide for different compliance timeframes based on the size of a carrying broker-dealer, as commenters suggested.

A six-month compliance period also helps to ensure a carrying broker-dealer that exceeds the \$500 Million Threshold begins to perform a daily customer and PAB reserve computation within a reasonable period of time. In light of the enhancements to customer protection a daily reserve computation provides, it is important that carrying broker-dealers transition to a daily reserve computation as soon as practicable after exceeding the \$500 Million Threshold. Shortening the compliance period to three-months, however, may not give carrying broker-dealers sufficient time to transition to a daily customer and PAB reserve computation, given the need to add resources in order to perform the computations, including hiring or assigning

¹⁵⁰ See Raymond James Letter at 3. As discussed in section II.A.2. of this release, the Commission is adopting a single threshold, the \$500 Million Threshold, for the customer and PAB reserve computations. As a result, a single compliance period once a carrying broker-dealer has exceeded the \$500 Million Threshold is appropriate.

additional staff, upgrading systems, and making other operational changes. A six-month compliance period reasonably balances the importance of transitioning to a daily customer and PAB reserve computation soon after exceeding the \$500 Million Threshold to enhance customer protection requirements, with the time period a carrying broker-dealer needs to make the changes required to comply with the rule. Therefore, the Commission is not modifying the final rule to provide for a three-month compliance period as a commenter suggested.

One commenter stated that the proposal would allow a carrying broker-dealer that is required to perform daily computations to revert to a weekly computation 60 days after notifying its DEA, but if it exceeds the proposed \$250 Million Threshold, it would not be required to return to performing a customer and PAB reserve computation daily for six months.¹⁵¹ The commenter stated that while the Commission assumes it may be infrequent that a carrying broker-dealer that reverts to weekly computations after falling below the proposed \$250 Million Threshold re-crosses it shortly after because of increased customer activity, if such circumstances were to occur the carrying broker-dealer at issue would present the risk that the Commission is trying to address in the proposal for a period of six months.¹⁵² Consequently, this commenter suggested that the Commission revise the rule so that a carrying broker-dealer that falls below the proposed \$250 Million Threshold would enter a probationary period of six months during which time it would be required to immediately return to performing the customer and PAB reserve computations daily if its total credits re-crossed the threshold.¹⁵³

Another commenter suggested that the Commission provide a transition of not more than 30 days for a carrying broker-dealer that performs a customer and PAB reserve computation daily, reverts to a weekly computation because it falls below the proposed \$250 Million Threshold, and then subsequently exceeds the proposed \$250 Million Threshold and must

¹⁵¹ See NASAA Letter at 3.

¹⁵² See *id.*

¹⁵³ See *id.* at 3-4.

perform a daily computation. This commenter stated that a carrying broker-dealer that formerly performed customer and PAB reserve computations daily is unlikely to require six months to reinstate procedures previously in effect.¹⁵⁴

In response to the comments that the Commission require a carrying broker-dealer to immediately return to performing a customer and PAB reserve computation daily if it exceeds the threshold for a second time, or only be permitted a three-month compliance period, the compliance period is designed to provide sufficient time for a carrying broker-dealer to prepare to perform a customer and PAB reserve computation daily after it exceeds the threshold. A carrying broker-dealer performing the customer and PAB reserve computations weekly which recrosses the \$500 Million Threshold for a second or subsequent time will likely continue to need time to prepare to perform the customer and PAB reserve computations daily, because the carrying broker-dealer may have re-allocated resources when it reverted to a weekly computation. A return to performing a customer and PAB reserve computation daily likely means a carrying broker-dealer will require time to enhance its current operational resources in order to increase the frequency of the customer and PAB reserve computations once more. It also may be the case that a carrying broker-dealer may exceed the \$500 Million Threshold for a second or subsequent time after a substantial period of time has passed. Finally, although a carrying broker-dealer may re-cross the \$500 Million Threshold shortly after falling below it, and not yet have re-allocated resources required to perform a daily computation, consistent standards will be applied to all carrying broker-dealers that exceed the \$500 Million Threshold after a long or short period of time as they will have the same risk profile. Therefore, a six-month compliance period is appropriate in this case.

Some carrying broker-dealers' average total credits may hover around the \$500 Million Threshold from time to time. This will likely be an infrequent occurrence since there will only

¹⁵⁴

See SIPC Letter at 2.

be a few carrying broker-dealers at any given time whose average total credits remain close to the \$500 Million Threshold.¹⁵⁵ These carrying broker-dealers may choose to monitor and manage their average total credits to remain below the \$500 Million Threshold or voluntarily perform the customer and PAB reserve computations daily to realize the beneficial impact on liquidity management resulting from the ability to make more frequent withdrawals from the customer and PAB reserve bank accounts.¹⁵⁶ Carrying broker-dealers that voluntarily perform the customer reserve computation daily also may apply the 2% debit reduction to the computation.¹⁵⁷ These alternatives will assist carrying broker-dealers in complying with the requirement to perform a customer and PAB reserve computation daily if they exceed the \$500 Million Threshold.

After review of the comments, the Commission is adopting the six-month compliance period after a carrying broker-dealer exceeds the \$500 Million Threshold, and the 60-day written notice requirement to revert to a daily computation.¹⁵⁸ Therefore, under the amendments, a carrying broker-dealer must begin to perform a customer and PAB reserve computation daily no later than six months after its average total credits equal or exceed the \$500 Million Threshold. This means, for example, that a carrying broker-dealer which exceeds the \$500 Million Threshold for 12 filed monthly FOCUS Reports for a particular calendar year (i.e., FOCUS Reports filed for January through December in a calendar year), must begin performing a customer and PAB reserve computation daily no later than June 30th of the next calendar year. Finally, this amendment provides time for a carrying broker-dealer to prepare to perform a customer and PAB reserve computation daily after it exceeds the \$500 Million Threshold. This

¹⁵⁵ For example, based on FOCUS Report data for the 2023 calendar year, there were three carrying broker-dealers with average total credits that were between \$450 million and \$500 million, and one carrying broker-dealer with average total credits between \$500 million and \$600 million.

¹⁵⁶ See paragraph (e)(3)(iv) of Rule 15c3-3.

¹⁵⁷ See paragraph (e)(3)(v) of Rule 15c3-3, as amended.

¹⁵⁸ See paragraph (e)(3)(i)(B)(1) and (2) of Rule 15c3-3, as amended.

preparation may involve adding resources to perform the computations, including, among other things, hiring extra staff, assigning additional staff, and updating or enhancing technology and software.

C. Reducing the Aggregate Debit Reduction from 3% to 2%

1. Amendments to Rules 15c3-1 and 15c3-3

Under existing requirements, carrying broker-dealers—as part of the customer reserve computation—must reduce the value of debit items (i.e., customer-related receivables) in the customer reserve computation by either 1% (for debit balances in customers’ cash and margin accounts) or 3% (for aggregate debit items which includes all debit items).¹⁵⁹ Whether a carrying broker-dealer must apply the 1% or 3% debit reduction depends on how it calculates its minimum net capital requirement under Rule 15c3-1. Rule 15c3-1 requires that broker-dealers maintain a minimum level of net capital (meaning highly liquid capital) at all times.¹⁶⁰ The minimum net capital requirement for broker-dealers is the greater of a fixed-dollar amount specified in the rule and an amount determined by applying one of two financial ratios: the 15-to-1 aggregate indebtedness to net capital ratio (basic method) or the 2% of aggregate debit items ratio (alternative method).¹⁶¹ Carrying broker-dealers electing the alternative method must maintain minimum net capital of the greater of \$250,000 or 2% of their aggregate debit items included in the customer reserve computation.¹⁶² In addition, a broker-dealer that uses the

¹⁵⁹ See Note E(3) to Rule 15c3-3a (requiring the 1% debit reduction); paragraph (a)(1)(ii)(A) of Rule 15c3-1 (requiring the 3% debit reduction). The PAB reserve computation does not require either the 3% or the 1% debit reduction. See Rule 15c3-3a, Notes Regarding the PAB Computation, Note 4 (providing that Note E(3) to Rule 15c3-3a—which imposes the 1% debit reduction—does not apply to the PAB reserve computation); paragraph (a)(1)(ii)(A) of Rule 15c3-1 (imposing the 3% debit reduction in lieu of the 1% debit reduction of Note E(3) of Rule 15c3-3a for carrying broker-dealers using the alternative method).

¹⁶⁰ See Rule 15c3-1.

¹⁶¹ See paragraphs (a)(1)(i) and (ii) of Rule 15c3-1.

¹⁶² See paragraphs (a)(1)(i) and (a)(2)(i) of Rule 15c3-1. Aggregate debit items in the customer reserve computation (FOCUS Line 4470) is total debit items before the 3% debit reduction. The Commission adopted the alternative method as part of the Commission’s continuing efforts to structure its rules to provide adequate protection for customers’ assets while recognizing the industry’s need for flexibility in efficiently allocating capital resources. See *Net Capital Requirements for Brokers and Dealers; Amended Rules*, Exchange Act Release No. 18417 (Jan. 13, 1982) [47 FR 3512, 3513 (Jan. 25, 1982)].

alternative method must provide the Commission with an “early warning” notice when the amount of its net capital falls below 5% of aggregate debit items.¹⁶³ Most carrying broker-dealers use the alternative method, including the 49 carrying broker-dealers that exceeded the \$500 Million Threshold for calendar year 2023.¹⁶⁴

Under Rule 15c3-1, a carrying broker-dealer using the alternative method must reduce aggregate debit items (i.e., the total of all debit items in the customer reserve computation) by 3% when performing its customer reserve computation under Rule 15c3-3.¹⁶⁵ Conversely, Note E(3) to the customer reserve computation under Rule 15c3-3a requires a carrying broker-dealer using the basic method to reduce by 1% the total debit balances in customer cash and margin accounts (i.e., margin loan balances customers owe the carrying broker-dealer).¹⁶⁶ Both of these provisions can increase the amount that must be on deposit (locked up) in the customer reserve bank account; however, the 3% debit reduction can result in an even larger increase in the deposit requirement.¹⁶⁷ This is because the reduction is larger (3% compared to 1%) and is applied to the total amount of debit items while the 1% debit reduction applies to a single category of debit items: customer margin loan balances.

The Commission is lowering the 3% debit reduction to 2% in response to comments that a reduction as large as 3% would no longer be necessary if the requirement to perform a daily

¹⁶³ See 17 CFR 240.17a-11(b)(2). This 5% of aggregate debits “early warning” threshold acts as a *de facto* minimum net capital requirement for broker-dealers using the alternative method since they seek to maintain sufficient levels of net capital to avoid the necessity of providing this regulatory notice.

¹⁶⁴ Based on FOCUS Report data as of December 31, 2023, using the 3% aggregate debit item (Line 4471) and/or 2% aggregate debit items in computation of minimum regulatory capital requirements (Line 3870). Most broker-dealers that use the basic method to compute net capital are smaller broker-dealers that are not carrying broker-dealers, and generally have minimum net capital requirements that are less than the \$250,000 required to use the alternative method. See also section IV.B.2. of this release (discussing the scope of affected broker-dealers).

¹⁶⁵ See paragraph (a)(1)(ii)(A) of Rule 15c3-1.

¹⁶⁶ See Rule 15c3-3a, Item 10 (debit balances in customers’ cash and margin accounts excluding unsecured accounts and accounts doubtful of collection).

¹⁶⁷ See Financial Responsibility Rules for Broker-Dealers, 78 FR at 51858.

reserve computation is adopted.¹⁶⁸ This modification to the proposal is designed to recalibrate how Rule 15c3-3 addresses the risk that the amount on deposit in the customer reserve bank account is less than the net amount of cash owed to customers in light of the new requirement to perform daily customer and PAB reserve computations. As a commenter stated, “[u]nder a daily computation, the value of debit items and the amounts owing to customers on any given day are accounted for in the next day’s computation and the difference is protected via the following day’s deposit into the Special Reserve Bank Accounts” and therefore “[t]he amount of assets in the Special Reserve Bank Accounts would...more quickly reflect the amounts owing to customers on any given day and the value of debit items, thereby reducing the need for any cushion [(i.e., the 3% debit reduction)] to account for a potential mismatch.”¹⁶⁹ Similarly, another commenter stated that when the Commission adopted the 3% debit reduction in 1975 the purpose was to provide, in the event of a liquidation, an additional cushion of secured debit items which will be available to satisfy customers with whom the carrying broker-dealer effects transactions.¹⁷⁰ This commenter stated that a shift to a daily customer reserve computation enabled by technological advancements since 1975 will result in a more precise and up-to-date computation, thereby mitigating the risk that the 3% debit reduction addresses in the customer reserve computation.¹⁷¹ The commenter went on to state that “a 1% deduction in line with that applied to other broker-dealers seems appropriate for firms that calculate net capital under the alternative method.”¹⁷²

Commenters suggested eliminating the 3% debit reduction that applies to carrying broker-dealers using the alternative method. This would then subject these carrying broker-

¹⁶⁸ See SIFMA Letter at 5; Raymond James Letter at 2; ASA Letter at 5; ASA Letter 2; ASA Letter 3.

¹⁶⁹ See SIFMA Letter at 6.

¹⁷⁰ See Raymond James Letter at 2.

¹⁷¹ See *id.*

¹⁷² See *id.*

dealers to the 1% debit reduction that applies to carrying broker-dealers using the basic method. For the reasons discussed below, the Commission is not taking this approach and instead is lowering the 3% debit reduction to 2%.

In order to understand the Commission's rationale for recalibrating Rule 15c3-3 in this manner, it is necessary to discuss the origins and purpose of the 3% debit reduction and its connection to Rule 15c3-1. Rule 15c3-3—when it was adopted in 1972—required carrying broker-dealers to reduce the value of debit balances in cash and margin accounts by 1% when performing the customer reserve computation.¹⁷³ Debit balances in cash and margin accounts was one of three categories of debit balances included in the customer reserve computation at that time (i.e., the 1% debit reduction did not apply to the total value of debits in the customer reserve computation).¹⁷⁴ In 1972, the Commission also proposed significant revisions to Rule 15c3-1 (the broker-dealer net capital rule).¹⁷⁵ The original rule prohibited a broker-dealer from having aggregate indebtedness that exceeded 2000% of its net capital, exclusive of exchange memberships and fixed assets (a 20-to-1 requirement).¹⁷⁶ Moreover, the rule did not apply to broker-dealers that were members of a securities exchange on the premise that these broker-dealers were subject to capital requirements promulgated by their respective exchanges. The 1972 proposed amendments—among other things—would apply Rule 15c3-1 to all broker-dealers (i.e., a uniform net capital rule) and change the minimum net capital requirement to the greater of a fixed-dollar amount and a ratio amount: the 15-to-1 aggregate indebtedness to net

¹⁷³ See Rule 15c3-3 Adopting Release, 37 FR at 25229.

¹⁷⁴ See *id.* In 1972, there were three categories of debit items in the customer reserve computation: Items 10, 11, and 12. *Id.* Item 10 was where the carrying broker-dealer recorded the value of debit balances in cash and margin accounts. *Id.* Today, there are six categories of debit items in the customer reserve computation: Items 10, 11, 12, 13, 14, and 15. See Rule 15c3-3a. Item 10 continues to be where the carrying broker-dealer records the value of debit balances in cash and margin accounts. *Id.*

¹⁷⁵ See *Net Capital Rule-Proposed Uniform and Comprehensive Regulation*, Exchange Act Release No. 9891 (Dec. 5, 1972) [38 FR 56 (Jan. 3, 1973)].

¹⁷⁶ Net Capital Requirements for Brokers and Dealers; Amended Rules, 47 FR at 3512.

capital ratio (i.e., the basic method). Thus, as originally proposed in 1972, the amendments to Rule 15c3-1 did not include the alternative method of computing minimum net capital.

While the 1972 amendments to Rule 15c3-1 were still pending, the Commission proposed further amendments to the rule as well as corresponding amendments to Rule 15c3-3. They included a 1974 proposal to add the alternative method of calculating minimum net capital.¹⁷⁷ The proposed alternative method would require a carrying broker-dealer to maintain a minimum level of net capital equal to the greater of \$100,000 or 4% of aggregate debit balances includable in the customer reserve computation.¹⁷⁸ At that time, the Commission acknowledged that the alternative method could result in lower minimum net capital requirements as compared with the basic method.¹⁷⁹ Given this impact, the Commission proposed a number of more stringent requirements for carrying broker-dealers using the alternative method, including that they would need to apply the 3% debit reduction in lieu of the existing 1% debit reduction in Rule 15c3-3.¹⁸⁰ In proposing the 3% debit reduction, the Commission explained that the proposed debit reduction would require a 100% reserve for customer funds not available for use by the broker-dealer, and an additional 3% commitment of the broker-dealer's own liquid capital

¹⁷⁷ See *Alternative Net Capital Requirement for Certain Brokers and Dealers*, Exchange Act Release No. 11094 (Nov. 11, 1974) [39 FR 41540 (Nov. 29, 1974)].

¹⁷⁸ *Id.* at 41541-42.

¹⁷⁹ *Id.* at 41540. (“The Commission has determined to publish for comment a new concept to measure the capital adequacy of broker-dealers which would eliminate in part restraints presently imposed by the net capital ratio and aggregate indebtedness concepts which have served as the primary source of protection of customers and other broker-dealers for over 30 years. As a result of the numerous changes that have occurred in the securities industry over the last five years, the evolving future structure of the securities markets and the future needs of the nation’s corporate issuers to raise both equity and debt capital, it is important at this time to develop new approaches to the financial responsibility and capital adequacy of broker-dealers for both the protection of customers and to maintain sound and viable primary and secondary capital markets.”).

¹⁸⁰ *Id.* at 41542.

in the form of cash or qualified securities as an additional reserve and to insure the broker-dealer's ability to finance its customer-related receivables.¹⁸¹

The Commission adopted the proposed amendments to Rules 15c3-1 and 15c3-3 in 1975.¹⁸² They included the alternative method for calculating the minimum net capital requirement and the requirement that carrying broker-dealers using the alternative method apply the 3% debit reduction.¹⁸³ In this regard, the Commission explained “that the objectives of the [alternative method] can only be achieved by further strengthening the custodial requirements and Reserve Formula safeguards developed for the protection of customer assets established by [Rule 15c3-3]” and therefore the alternative method “requires aggregate debit items in the Reserve Formula to be reduced by 3% rather than the 1% reduction of certain debit items which now exists.”¹⁸⁴ The Commission stated that this “reduction of debit items will thus provide, in the event of a liquidation, an additional cushion of secured debit items which will be available to satisfy customers with whom the broker or dealer effects transactions.”¹⁸⁵

Thus, the 3% debit reduction is designed to compensate for the potential lower minimum net capital requirement resulting from carrying broker-dealers electing the alternative method in lieu of the basic method. Consequently, the Commission lowered the capital requirements and strengthened the customer reserve computation requirements for carrying broker-dealers using the alternative method. In particular, the 3% debit reduction decreases the amount of debits that offset credits in the customer reserve computation and, thereby, can increase the amounts

¹⁸¹ *Id.* The Commission further explained that such additional reserves will be available to provide self-regulatory organizations and others with additional assets for the satisfaction of customer cash claims and to redeem customers' securities which have been hypothecated or otherwise encumbered when necessary for the orderly winding up of the business of any broker-dealer. *Id.*

¹⁸² *See Adoption of Uniform Net Capital Rule and an Alternative Net Capital Requirement for Certain Brokers and Dealer*, Exchange Act Release No. 11497 (June. 26, 1975) [40 FR 29795 (July 16, 1975)].

¹⁸³ In 1982, the Commission modified the alternative method to reduce the ratio from 4% of aggregate debit items to 2% of aggregate debit items. *See Net Capital Requirements for Brokers and Dealers; Amended Rules.*

¹⁸⁴ *See Adoption of Uniform Net Capital Rule and an Alternative Net Capital Requirement for Certain Brokers and Dealers*, 40 FR at 29798.

¹⁸⁵ *Id.*

carrying broker-dealers must lock up in their customer reserve bank accounts. The 3% debit reduction applies to *aggregate* debit items in the customer reserve computation under Rule 15c3-3 (i.e., all debit items in the customer reserve computation). Carrying broker-dealers that use the basic method to compute their minimum net capital requirement must reduce certain debits (i.e., not all debits) by 1%. This results in a lower reduction and a correspondingly smaller potential increase in the amount carrying broker-dealers applying the 1% debit reduction must lock up in their customer reserve bank accounts.

For these reasons, the Commission is not eliminating the 3% debit reduction as commenters suggested because doing so would subject carrying broker-dealers using the alternative method to the same 1% debit reduction that applies to carrying broker-dealers using the basic method.¹⁸⁶ As discussed above in this section, the 3% debit reduction is designed to compensate for how the alternative method can result in a lower minimum net capital requirement than the basic method. In addition, as stated in this section above, the 49 carrying broker-dealers that exceeded the \$500 Million Threshold for calendar year 2023 use the alternative method for net capital purposes. The Commission also estimates that these 49 carrying broker-dealers, based on FOCUS Report data for January 2023 through December 2023, held 99.3% of aggregate total credits of all carrying broker-dealers.¹⁸⁷ Therefore, carrying broker-dealers using the alternative method for net capital hold the bulk of customer credits (i.e., amounts the carrying broker-dealer owes customers) as compared to carrying broker-dealers using the basic method.

However, the new requirement to perform daily customer reserve computations significantly strengthens the customer protection measures of Rule 15c3-3. In particular, performing a daily customer reserve computation reduces the risk that the net amount of cash

¹⁸⁶ See sections IV.B.3. and C.1. of this release (discussing the 2% debit reduction).

¹⁸⁷ See section IV.B.2. of this release (discussing scope of affected carrying broker-dealers). In comparison, there were 3,461 broker-dealers registered with the Commission on December 31, 2023.

owed to customers will be substantially greater than the amount on deposit in a carrying broker-dealer's customer reserve bank account.¹⁸⁸ A daily computation requirement allows for cash owed to customers from a particular day to be included in that day's customer reserve computation, computed the next business day and any required deposits made the following business day. Therefore, under a daily customer reserve computation, the amount on deposit in the customer reserve bank account will more quickly reflect the net amount of cash the carrying broker-dealer owes its customers. Performing a daily customer reserve computation also will reduce the maximum time between required deposits into a customer reserve bank account to two business days. In contrast, under a weekly customer reserve computation, a carrying broker-dealer performs the customer reserve computation on Monday, using numbers as of the close of business on Friday, and makes any required deposits in its customer reserve bank account on Tuesday (typically) of each week. Therefore, the next deposit requirement under a weekly customer reserve computation will be the Tuesday of the following week.

These enhancements to the customer protection measures of Rule 15c3-3 warrant a corresponding adjustment to the 3% debit reduction in order to avoid overcompensating for the differences between the alternative and basic method. Consequently, the Commission is lowering the 3% debit reduction to 2% for carrying broker-dealers that use the alternative method if they perform a daily customer reserve computation.¹⁸⁹ Lowering the debit reduction to 2% is designed to adjust this risk-reducing measure in response to the customer protection enhancements of the new daily customer reserve computation requirements while maintaining a

¹⁸⁸ See table 5, panel C in section IV. of this release.

¹⁸⁹ The 2% debit reduction also is consistent with the incremental increase in the frequency of the customer reserve computation for carrying broker-dealers that perform a monthly customer reserve computation and carrying broker-dealers that elect to compute net capital under the alternative method and perform a customer reserve computation weekly or daily under the amendments. Monthly customer reserve computations require a 5% buffer above the carrying broker-dealer's deposit requirement, while carrying broker-dealers electing the alternative method for net capital are required to use a 3% "buffer" for weekly customer reserve computations and a 2% "buffer" for daily customer reserve computations. See paragraph (e)(3)(i)(A) of Rule 15c3-3 and paragraph (a)(1)(ii)(A) of Rule 15c3-1, as amended.

debit reduction amount (2% as compared to 1%) that will continue to compensate for the differences between the alternative and basic methods of calculating minimum net capital requirements.

In order to implement this change, the Commission is amending paragraph (a)(1)(ii)(A) of Rule 15c3-1 to provide that a carrying broker-dealer that is required to perform a daily customer reserve computation under paragraph (e) of Rule 15c3-3 may reduce aggregate debit items in such computation by 2% (rather than 3%).¹⁹⁰ Carrying broker-dealers that elect the alternative method for calculating their minimum net capital requirement and perform their customer reserve computation weekly must continue to apply the preexisting 3% debit reduction. Further, this amendment to Rule 15c3-1 applies only to a carrying broker-dealer's customer reserve computation. It does not amend or change the minimum net capital requirements for carrying broker-dealers under Rule 15c3-1 irrespective of whether they use the basic or alternative methods. Consequently, carrying broker-dealers electing the alternative method must continue to maintain the greater of \$250,000 or 2% of aggregate debit items under Rule 15c3-1 and they remain subject to an early warning notification requirement under Rule 17a-11 if their net capital falls below 5% of aggregate debit items.¹⁹¹

In addition, the Commission is modifying paragraph (e)(3) of Rule 15c3-3 to add a new paragraph (e)(3)(v) to permit a carrying broker-dealer that voluntarily performs the customer reserve computation daily under preexisting paragraph (e)(3)(iv) of Rule 15c3-1 to reduce its aggregate debit items by 2%, if the carrying broker-dealer notifies its DEA, in writing, of its election at least 30 calendar days before beginning such computation.¹⁹² The new paragraph also

¹⁹⁰ See paragraph (a)(1)(ii)(A) of Rule 15c3-1, as amended. In order to implement this change, the following phrase is being added to the end of the current rule text in paragraph (a)(1)(ii)(A): "provided, however, that, if a broker or dealer is required to make the computation required by § 240.15c3-3(e) and set forth in Exhibit A, § 240.15c3-3a, on a daily basis, the broker or dealer may reduce aggregate debit items in such computation by 2%."

¹⁹¹ See paragraph (a)(1)(ii) of Rule 15c3-1; paragraph (b)(2) of Rule 17a-11.

¹⁹² See paragraph (e)(3)(v) of Rule 15c3-3, as amended.

provides that if a carrying broker-dealer has notified its DEA of this election, the carrying broker-dealer must continue to compute the customer reserve computation daily unless a change is approved by its DEA.¹⁹³ This amendment is being made in Rule 15c3-3 (as compared to Rule 15c3-1 where the 3% and 2% debit reduction provisions are located) because it relates to a carrying broker-dealer voluntarily performing a daily customer reserve computation. Therefore, to maintain consistency with existing rule text, this new paragraph follows paragraph (e)(3)(iv) of Rule 15c3-3, which permits carrying broker-dealers to voluntarily perform reserve computations more frequently than required under the rule.¹⁹⁴ The notice requirement to voluntarily begin the daily customer reserve computations with the 2% debit reduction will assist the DEA in monitoring the carrying broker-dealer. For example, upon receiving the notice, the DEA can contact the carrying broker-dealer to inquire about its plan for transitioning to a daily customer reserve computation and about any changes to its systems and processes for performing the daily computation and for applying the lower 2% debit reduction (in lieu of the 3% debit reduction). The approval requirement to revert to performing a weekly customer reserve computation is designed to ensure that a carrying broker-dealer performs a daily customer reserve requirement consistently rather than constantly switching between daily and weekly reserve computations depending on which approach is more advantageous on a given day. This will prevent a carrying broker-dealer from performing a daily customer reserve computation on an *ad hoc* basis solely to reduce an excess of credits over debits in the customer reserve computation and thereby minimize deposit requirements in the customer reserve bank account.

Commenters stated that lowering the 3% debit reduction will increase the liquidity of carrying broker-dealers because it will reduce the extra buffer of broker-dealer capital that must be deposited into the customer reserve bank account. For example, a commenter stated that the

¹⁹³ *Id.*

¹⁹⁴ *See* paragraph (e)(3)(iv) of Rule 15c3-3, as amended.

new requirement to perform a customer reserve computation daily would reduce the need for any cushion to account for a mismatch and, consequently, would increase liquidity and lower costs for customer financing by allowing carrying broker-dealers to use assets that would otherwise be locked up (in their customer reserve bank account).¹⁹⁵ This commenter further stated that the increased liquidity resulting from lowering the amount of the 3% debit reduction could be redeployed by carrying broker-dealers to provide customers with more financing at a lower cost, which benefits customers and carrying broker-dealers.¹⁹⁶ This commenter also stated that carrying broker-dealers would use this additional liquidity to pay the costs associated with transitioning from weekly to daily reserve computations, potentially allowing carrying broker-dealers to make the transition more efficiently and at a lower relative cost.¹⁹⁷ Another commenter stated that this modification would provide financial relief to carrying broker-dealers.¹⁹⁸

Decreasing the debit reduction from 3% to 2% will provide extra liquidity to carrying broker-dealers, as commenters suggested. Enhancing the liquidity of carrying broker-dealers will position them to better withstand financial shocks and thereby lower the risk that such a shock causes the carrying broker-dealer to fail financially (which in turn will benefit the carrying broker-dealer's customers, counterparties, and creditors). Further, carrying broker-dealers will be able to use this extra liquidity to pay the initial and ongoing compliance costs to transition from weekly to daily reserve computations. They also may use the extra liquidity to address situations where they must make large additional deposits into the customer or PAB reserve bank accounts to account for large infusions of customer or PAB account holder cash that is intended

¹⁹⁵ See SIFMA Letter at 6. This commenter stated one member carrying broker-dealer estimated that eliminating the 3% debit reduction in favor of the 1% debit reduction would free up \$3 billion in liquidity. *Id.* Another commenter stated that this potential change would, on average, amount to approximately \$50 million in liquid assets each week. See Raymond James Letter at 2. Lowering the 3% debit reduction to 2% will result in additional liquidity for carrying broker-dealers performing a daily customer reserve computation.

¹⁹⁶ See SIFMA Letter at 6.

¹⁹⁷ See SIFMA Letter at 6.

¹⁹⁸ See ASA Letter at 5.

to be swept out of the broker-dealer but gets accounted for in the reserve computations before it can be swept.¹⁹⁹

2. Conforming Amendments to the FOCUS Report

The Commission is adopting amendments to the Part II of the FOCUS Report to conform the reporting obligations with the final amendment lowering the debit reduction from 3% to 2% for carrying broker-dealers that use the alternative method and perform daily customer and PAB reserve computations.²⁰⁰ Currently, in the Computation for Determination of Customer Reserve Requirements in Part II of the FOCUS Report, the form includes a line for a carrying broker-dealer that uses the alternative method for computing net capital to report the 3% debit reduction. The amendments to the FOCUS Report add a line to report the 2% debit reduction in lieu of reporting the 3% debit reduction. The existing line to report the 3% deduction is being retained for carrying broker-dealers that are below the \$500 Million Threshold and that do not voluntarily perform daily customer and PAB reserve computations.

Further, the Commission is amending the line for reporting “Total Debits” in the Computation for Determination of Customer Reserve Requirements in Part II of the FOCUS Report to reflect that Total Debits equals “Aggregate Debit Items” less the 3% or 2% debit reduction, as applicable. The Commission also is adding an additional line under “Frequency of Computation” to require that a carrying broker-dealer check one of two new boxes to indicate whether it is using the 2% debit reduction or 3% debit reduction. Finally, the Commission is

¹⁹⁹ See section II.E.1. of this release (describing sweep programs and other transitory credits).

²⁰⁰ In addition to amending the FOCUS Report Part II as part of the final amendments, the Commission is updating the FOCUS Report on the Commission’s website that highlights the fields that security-based swap dealers and major security-based swap participants relying on a Commission substituted compliance order (“Covered Entities”) must complete pursuant to the *Amended and Restated Order Specifying the Manner and Format of Filing Unaudited Financial and Operational Information by Security-Based Swap Dealers and Major Security-Based Swap Participants that are not U.S. Persons and are Relying on Substituted Compliance Determinations with Respect to Rule 18a-7*, Exchange Act Release No. 101932 (Dec. 16, 2024). However, these amendments do not result in any changes to the number of fields in the FOCUS Report that Covered Entities must complete.

amending the footnote to the Computation for Determination of Customer Reserve Requirements in the FOCUS Report Part II to add a reference to paragraph (e)(3)(v) of Rule 15c3-3.

D. Voluntary Customer and PAB Reserve Computations

The Commission proposed to amend paragraph (e)(3)(iv) of Rule 15c3-3, which permits interim reserve computations to be performed between the days that the weekly or permitted monthly computations must be performed.²⁰¹ In particular, preexisting paragraph (e)(3)(iv) of Rule 15c3-3 provided that computations *in addition to* the computations required in paragraph (e)(3) (i.e., the weekly and permitted monthly computations) may be made as of the close of *any* business day, and the deposits so computed must be made no later than one hour after the opening of banking business on the second following business day.²⁰² The amendment to paragraph (e)(3)(iv) provides that computations—other than those made under paragraph (e)(3)(i)(B)(I) of Rule 15c3-3, as amended (i.e., the daily computations)—may be made as of the close of any business day.²⁰³ This amendment specifies that the option to perform a customer or PAB reserve computation more frequently than weekly or monthly (as applicable) remains available to carrying broker-dealers that must make such computations weekly or monthly. Carrying broker-dealers voluntarily performing daily customer and PAB reserve computations have used this option.²⁰⁴

A commenter stated that the proposal permits carrying broker-dealers that perform weekly reserve computations to continue to make voluntary, interim computations but does not expressly require approval from the carrying broker-dealer's DEA.²⁰⁵ The commenter stated that

²⁰¹ See Proposing Release, 88 FR at 45845.

²⁰² 17 CFR 240.15c3-3(e)(3)(iv); Proposing Release, 88 FR at 45845.

²⁰³ This proposed amendment would insert the phrase “other than computations made under paragraph (e)(3)(i)(B)(I) of this section,” following the words “this paragraph (e)(3),” in preexisting paragraph (e)(3)(iv) of Rule 15c3-3. See Proposing Release, 88 FR at 45845. The Commission did not receive any comments on this amendment and is adopting it as proposed.

²⁰⁴ See Proposing Release, 88 FR at 45845.

²⁰⁵ See SIPC Letter at 2.

the Commission should make this approval a requirement in the final rule, as well as require approval from the DEA for the carrying broker-dealer to cease performing the interim computation.²⁰⁶ The commenter stated these changes would help guard against a carrying broker-dealer performing interim reserve computations opportunistically to minimize required reserve account deposits.²⁰⁷

The final amendments do not include this modification, as it would impose new requirements on carrying broker-dealers that elect to perform an interim reserve computation. Further, carrying broker-dealers that utilize this provision to perform an interim reserve computation will remain subject to the 3% debit reduction. In addition, the Commission estimates that, based on data for January 2023 through December 2023, 49 carrying broker-dealers, which held 99.3% of aggregated total credits of all carrying broker-dealers, will exceed the \$500 Million Threshold and will be required to perform a daily customer and PAB reserve computation.²⁰⁸ Because these carrying broker-dealers will perform daily customer and PAB computations under the final amendments, they will not perform interim reserve computations. Given that these carrying broker-dealers hold nearly all of the total credits of all carrying broker-dealers, an amendment to the rule as the commenter suggested is not merited given the relatively smaller amounts required to be on deposit for the remaining carrying broker-dealers.²⁰⁹ For these reasons, the Commission is not adopting the commenter's suggested modification and is adopting the amendment as proposed.²¹⁰

E. Other Comments

²⁰⁶ *See id.*

²⁰⁷ *See id.*

²⁰⁸ *See* section IV.B.2. of this release (discussing affected broker-dealers in the baseline).

²⁰⁹ A carrying broker-dealer that is under the \$500 Million Threshold may nonetheless elect to perform a daily customer reserve computation in order to apply the 2% debit reduction in lieu of the 3% reduction. A carrying broker-dealer making this election will be subject to the DEA notification requirements of paragraph (e)(3)(v) of Rule 15c3-3, as amended.

²¹⁰ *See* paragraph (e)(3)(iv) of Rule 15c3-3, as amended.

The Commission received other comments related to the proposal that cover technical questions about how the final amendments will operate, as well as requests for clarification and interpretations on specific issues related to performing a customer and PAB reserve computation daily.

1. Sweep Programs and Other “Cash in Motion” or “Transitory” Credits”

The Commission received two comments regarding sweep programs²¹¹ and performing daily customer and PAB reserve computations.²¹² One commenter stated that a daily reserve computation would not benefit customers of carrying broker-dealers with widely-used sweep programs.²¹³ This commenter stated that sweep programs contribute to protecting customer assets and already address the mismatch risk the proposal seeks to remedy by regularly moving customer cash off a carrying broker-dealer’s balance sheet.²¹⁴ In addition, this commenter stated that if a carrying broker-dealer receives customer cash after the daily sweep cutoff time, it is generally swept early the next business day and, as such, will be protected sooner than including such cash in a daily reserve computation.²¹⁵

This commenter also stated that there are potential benefits to more frequent customer and PAB reserve computations but raised concerns about potential impacts on liquidity,

²¹¹ A sweep program is a service provided by a carrying broker-dealer where it offers to its customer the option to automatically transfer free credit balances in the securities account of the customer to either a money market fund or an account at a bank whose deposits are insured by the Federal Deposit Insurance Corporation (“FDIC”). *See* paragraph (a)(17) of Rule 15c3-3. The sweep program requirements for customer accounts are set forth in paragraph (j)(2)(ii) of Rule 15c3-3. Broker-dealers are not customers under Rule 15c3-3. Therefore, PAB account holders are not subject to the sweep program requirements under the rule with respect to their free credit balances. *See* paragraph (a)(1) of Rule 15c3-3. Nonetheless, PAB account holders may elect to have their free credit balances included in a sweep program. *See* Proposing Release, 88 FR at 45842, n.58.

²¹² *See* ASA Letter at 2; SIFMA Letter at 7; ASA Letter 3.

²¹³ *See* ASA Letter at 2.

²¹⁴ *See id.*

²¹⁵ *See id.*

particularly in cases where a free credit balance is “transitory” or is “cash in motion,”²¹⁶ such as cash that the carrying broker-dealer needs the next day to fund an Automated Clearing House transfer or a wire request received after banking cutoff times.²¹⁷ This commenter stated that carrying broker-dealers may need to use their own funds to account for transitory funds and that this may result in only large carrying broker-dealers (with substantial liquidity) being able to service ultra-high net worth clients with large transitory credits.²¹⁸ The commenter stated that this would disadvantage smaller carrying broker-dealers who would be unable to compete for certain types of clients or transactions.²¹⁹ Another commenter stated that the proposed daily computation requirement would impose substantial unintended costs on carrying broker-dealers that regularly deposit inflows of customer cash into reserve bank accounts or transfer them into a sweep account.²²⁰ For these carrying broker-dealers, the commenter stated that a daily computation could require them to segregate large portions of funds that are already protected by virtue of the sweep/deposit.²²¹ Commenters stated that, although this issue exists with the preexisting weekly computations under Rule 15c3-3, this risk is exacerbated under a daily

²¹⁶ See ASA Letter at 2. The commenter stated that for purposes of the comment, transitory means free credits that are: (1) included in the computation; (2) will be needed to fund a known activity the first following day; and (3) will be included in the deposit due the morning of the second following day (despite the fact that the free credits have already been used for another client directed purpose). *Id.* The commenter also referred to these transitory credits as “cash in motion.” See ASA Letter 2 at 1.

²¹⁷ See ASA Letter at 2.

²¹⁸ See ASA Letter 3 at 1.

²¹⁹ *Id.*

²²⁰ See SIFMA Letter at 7. For example, that commenter stated that if a carrying broker-dealer receives \$100 million shortly before market close on Monday, that \$100 million will be incorporated into the customer reserve computation for Monday. Even if the carrying broker-dealer sweeps the funds into a sweep program first thing Tuesday morning as part of its normal operations, the commenter stated that it would still need to deposit \$100 million into its customer reserve bank account on Wednesday morning, since the relevant computation would be as of close of business on Monday. The commenter stated that this would effectively require carrying broker-dealer to use its own \$100 million, thereby tying up liquidity for no corresponding benefit. *Id.*

²²¹ See SIFMA Letter at 7. The commenter did not provide data regarding the specific amounts of cash each day that is not swept to a carrying broker-dealer’s sweep program because the carrying broker-dealer received it after the sweep cut-off time.

computation because carrying broker-dealers will no longer have a week to resolve any issues, which creates uncertainty, as the amount of cash tied up would vary each day.²²²

One commenter stated that Commission staff has previously recognized this issue under existing staff no-action positions where carrying broker-dealers in certain circumstances have withdrawn funds from the special reserve bank account or deposited funds into separate special reserve bank accounts that are promptly swept or are otherwise used to meet specific customer instructions.²²³ This commenter further stated that if funds the carrying broker-dealer receives from or for customers are swept on a same or next day basis into a sweep program or into a customer reserve bank account, they are protected against loss and there is no reason for including these amounts in a reserve computation.²²⁴ Accordingly, the commenter suggested that the Commission simplify the staff no-action positions and permit a carrying broker-dealer to exclude from the customer and PAB reserve computations any funds that the carrying broker-dealer has swept or deposited promptly upon receipt.²²⁵

²²² See SIFMA Letter at 7; ASA Letter at 3; ASA Letter 2 at 1; ASA Letter 3 at 3.

²²³ See SIFMA Letter at 7. The commenter stated that these staff no-action positions have a number of provisions that are challenging for carrying broker-dealers to meet (e.g., requiring that funds received per transaction or with respect to a particular customer equal at least 25% of the total credits of the carrying broker-dealer's most recent reserve computation). *Id.* See also Letter from Michael A. Macchiaroli, Assistant Director, Commission to Mr. Salvatore Pallante, Vice President, NYSE (Apr. 25, 1990) ("NYSE Letter") (stating that the staff will not recommend enforcement action to the Commission if a carrying broker-dealer withdraws funds from the special reserve bank account without a computation under paragraph (g) of Rule 15c3-3 to fulfill certain specific customer transactions where such transaction represents 25% or more of the total credits in the carrying broker-dealer's most recent reserve account computation, and where the customer funds received are deposited into a separate reserve bank account) and FINRA Interpretations of Financial and Operational Rules, 15c3-3(g)/05, available at www.finra.org; Letter from Aase A. Berling, Staff Accountant, Division of Market Regulation, Commission to James A. Francis, Vice President, The Ohio Company (Mar. 21, 1985) ("Ohio Company Letter") (stating that the staff will not recommend enforcement action to the Commission if a carrying broker-dealer makes a withdrawal from the special reserve bank account without performing a computation in order to obtain sufficient cash to effect the purchase of money market fund shares for customers, and deposits such funds into a separate reserve bank account to purchase money market fund shares) and FINRA Interpretations of Financial and Operational Rules 15c3-3(g)/021, available at www.finra.org. Staff statements (including those cited herein) represent views of the Commission staff and are not a rule, regulation, or statement of the Commission. The Commission has neither approved nor disapproved of these staff statements, and, like all staff statements, they have no legal force or effect, do not alter or amend applicable law, and create no new or additional obligations for any person.

²²⁴ See SIFMA Letter at 7.

²²⁵ See *id.*

Another commenter stated that the Commission should permit cash held for a customer that is intended to be swept not be treated as a credit in the customer reserve computation. The commenter stated that this suggestion is analogous to a current interpretation under Rule 15c3-3a that states, if a carrying broker-dealer pre-funds a redemption of money market shares but still carries the shares long in the customer's account, it cannot treat the pre-funding as a debit in the reserve computation. The commenter stated that cash held for a customer that is intended to be swept should not be treated as a credit in the reserve computation just as pre-funded money market fund redemptions are not treated as debits in the computation.²²⁶

For the reasons discussed below, the final amendments do not exclude cash that is intended to be swept or is otherwise “transitory” or in “motion” from the customer and PAB reserve computations. However, the final amendments lowering the debit reduction from 3% to 2% in the customer reserve computations mitigate concerns commenters raised about how a daily reserve requirement could require carrying broker-dealers to use their own capital to fund reserve account deposit requirements that relate to cash that will be swept or otherwise deployed the next day. In particular, a carrying broker-dealer can use the additional liquidity available to it through the lower 2% debit reduction to meet a required reserve deposit that results from a situation where cash is not swept or otherwise deployed quickly enough to avoid its inclusion in the customer or PAB reserve computations. Further, in response to the comment that smaller carrying broker-dealers may be disadvantaged in servicing customers with large transitory credits as compared to larger carrying broker-dealers with more liquidity, smaller carrying broker-dealers (as measured in terms of average total credits) also can use this additional liquidity to provide services to all types of customers, including ultra-high net worth individuals

with large transitory credits.²²⁷ In addition, raising the threshold to \$500 Million will exclude an additional cohort of smaller carrying broker-dealers—relative to the carrying broker-dealers subject to the requirement—from the scope of the final amendments as compared to the proposal. These smaller carrying broker-dealers (as measured in terms of average total credits) may continue to perform weekly customer and PAB reserve computations and will have a week to resolve any issues related to transitory credits.²²⁸ Lowering the debit reduction from 3% to 2% and increasing the threshold from \$250 million to \$500 million will address—in part—concerns about transitory credits by either providing excess liquidity to account for these credits or excluding a larger number of relatively smaller carrying broker-dealers from the need to address these credits on a daily basis.

Transferring cash in a customer or PAB account to an FDIC-insured bank as part of a sweep program protects customers' and PAB account holders' cash in that it is no longer on the carrying broker-dealer's balance sheet. Other cash that has been redeployed such as cash used to purchase securities also is no longer included on a carrying broker-dealer's balance sheet.²²⁹ However, this does not mean that it would be appropriate to permit a carrying broker-dealer performing daily customer and PAB reserve computations to exclude cash of customer and PAB account holders (including cash received after the daily cutoff time for a sweep program and other "transitory credits") from its customer and PAB reserve computations because the intent is to sweep the cash out of the accounts or otherwise deploy it before the next deposit into the customer and PAB reserve accounts is due. Uninvested cash (such as cash received after a sweep cut-off time) held for customers and PAB account holders remains in the customer's or

²²⁷ In addition, with respect to accounts of high net worth individuals, the staff has issued no-action positions regarding smaller carrying broker-dealers that receive substantial deposits from individual customers for a current specific purpose. *See, e.g.*, NYSE Letter.

²²⁸ *See* section II.A.2. of this release (discussing the \$500 Million Threshold).

²²⁹ Customer securities are protected under the possession and control requirements under paragraphs (b) and (c) of Rule 15c3-3. *See* section I.C.1. of this release (discussing the possession and control requirements of Rule 15c3-3).

PAB account holder's securities account and on a carrying broker-dealer's balance sheet. A carrying broker-dealer must include this cash in its customer or PAB reserve computation for that particular business day because the carrying broker-dealer owes that cash to its customer and PAB account holders, and it will not receive FDIC protection until it is swept the next business day.

As discussed in section I.C.1. of this release, preexisting Rule 15c3-3 is designed to protect customers by segregating their securities and cash from the carrying broker-dealer's proprietary business activities. This is accomplished through the customer and PAB reserve computations. If a carrying broker-dealer excludes customer and PAB cash that is included in its books and records from its reserve computation, it increases the risk that—if the carrying broker-dealer fails—the cash and securities may not be readily available to be returned to customers and PAB account holders. This, in turn, would increase the risk that a carrying broker-dealer may be unable to promptly return cash and securities to customer and PAB account holders in the event the carrying broker-dealer fails financially. This risk is exacerbated for PAB account holders, as they are not entitled to advances from the SIPC Fund.

In response to the comment that the Commission should permit cash held for a customer that is intended to be swept not be treated as a credit in the customer reserve computation, a carrying broker-dealer cannot include this debit in the reserve computation because the receivable is from the money market fund and not the customer. In other words, the carrying broker-dealer cannot treat the pre-funding like a margin loan collateralized by the money market shares carried in the account. Margin loans are debits in the reserve computation, but they are loans to the customers to purchase the securities and the customer owes the money to the carrying broker-dealer. In the case of cash intended to be swept, however, the carrying broker-dealer holds the cash for the customer, which is a credit item in the reserve computation. This cash is a customer payable (i.e., customer credit) until it is swept and is no longer on the carrying

broker-dealer's books and records. A carrying broker-dealer must include such customer credits in its customer reserve computation.

In response to comments that the issue related to cash in motion or transitory credits will be exacerbated under a daily computation requirement because a carrying broker-dealer will no longer have a week to resolve issues under a daily computation requirement because credit amounts vary each day,²³⁰ the scenario of having to account for cash that the carrying broker-dealer no longer holds also can occur under the preexisting weekly reserve computation requirement. For example, customer cash deposited at the carrying broker-dealer on Friday after the time when it can be swept to a money market fund or bank must be accounted for in the customer reserve computation performed the following Monday (using numbers as of the close of business Friday) and, to the extent it creates a deposit requirement, the required deposit must be made by 10 a.m. on Tuesday even though by that time the customer cash has been swept to the money market fund or bank. Moreover, unless the carrying broker-dealer performs an intra-week reserve computation, the cash must remain in the customer reserve bank account until the following Tuesday. A daily reserve computation requirement will shorten the time that the cash must be held in the customer reserve bank account.

While a daily reserve computation requirement will shorten the time that a carrying broker-dealer must hold cash in the customer reserve bank account, the Commission recognizes that a carrying broker-dealer performing a daily reserve computation will need to manage its sweep cash and other transitory credits daily rather than weekly. This increase in frequency in performing the customer and PAB reserve computations will not exacerbate the issue related to sweep-related cash and transitory credits as daily cash fluctuations may become more predictable over time, but it will require the carrying broker-dealer to manage this cash more quickly and efficiently, as compared to a weekly computation. This increase in efficiency, however, as a

²³⁰ See SIFMA Letter at 7; ASA Letter at 2; ASA Letter 2 at 1.

result of a daily reserve computation requirement will allow a carrying broker-dealer to withdraw funds more quickly from its customer reserve bank account, as compared to a weekly reserve computation, which will improve its liquidity.²³¹

Further, while the amount of credits related to cash that is not swept in a particular business day or other “cash in motion” would vary each day under a daily reserve computation requirement, the same is true for all customer credits and debits in the customer and PAB reserve computations. Therefore, a carrying broker-dealer must maintain sufficient capital or access to funding to make any required deposit into its customer or PAB reserve bank account, including any increased deposit requirements related to “transitory credits” or “cash in motion,” including when cash is not swept soon enough. This ensures that broker-dealers maintain sufficient access to capital and funding to support the volume of customer and PAB account holder business that they are carrying.

While lowering the debit reduction to 2% and raising of the threshold to \$500 million mitigates concerns commenters raised regarding issues related to cash sweeps and other transitory credits, the Commission recognizes that carrying broker-dealers performing a daily reserve computation may sometimes experience liquidity issues with respect to unusual or large inflows of customer cash received late in the day that is intended to be transferred to a sweep program under paragraph (j)(2)(ii) under Rule 15c3-3. If the unusual or large inflow of cash is swept out of the broker-dealer on the day the computation is performed, it nonetheless will be accounted for in the computation and may result in an increased deposit requirement. This issue merits further consideration. However, any potential solution must not diminish customer protection and be practical. Further, attempting to develop an appropriate solution would be a

²³¹ See section I.A. of this release (discussing the need for daily reserve computations and ability of carrying broker-dealers to be able to withdraw excess cash or qualified securities more quickly from the reserve bank account under a daily reserve computation requirement, which will improve their liquidity); section IV.D. of this release (discussing increase in operational efficiency for carrying broker-dealers as a result of the amendments allowing for the more efficient management of funds); section IV.E.10. of this release (discussing exemptions for cash in motion as a reasonable alternative, including the costs).

complex undertaking and could affect a range of carrying broker-dealers depending on their business model, the types of accounts the carrying broker-dealer services, and the products offered in the carrying broker-dealer's sweep program. The Commission would need to assess many factors, for example, the amount of cash that would be considered large or unusual (i.e., not routine) on a particular business day, the size of cash inflows that typically may be received by the broker-dealer on the business days following a large or unusual cash inflow, the types of customer accounts or firm business models affected by unusual or large cash inflows (e.g., retail or institutional accounts), and the practices of carrying broker-dealers currently performing daily computations. For these reasons, the Commission is not excluding credits arising from unusual or large inflows of cash from a carrying broker-dealer's daily reserve computation at this time. The Commission encourages market participants to engage with Commission staff regarding their particular facts and circumstances on this issue.

Finally, a commenter stated that if a carrying broker-dealer must use its own funds to make a required deposit because customer transitory credits are no longer available, it could result in commingling of carrying broker-dealer and customer assets and/or constitute a misuse of the special reserve account.²³² In response, the commenter appears to have misunderstood the requirements of Rule 15c3-3. Carrying broker-dealers may deposit their own cash and/or qualified securities in a customer or PAB reserve bank account to meet any minimum deposit requirements under Rule 15c3-3 or as an additional buffer above the minimum deposit amount. These deposits to the customer and PAB reserve bank accounts comply with the requirements of Rule 15c3-3.²³³

²³² See ASA Letter at 4.

²³³ Customer cash is a balance sheet item of the carrying broker-dealer (i.e., the amount of cash received from a customer increases the amount of the carrying broker-dealer's assets and creates a corresponding liability to the customer). The customer reserve computation is designed to isolate these carrying broker-dealer assets so that an amount equal to the net liabilities to customers is held as a reserve in the form of cash or U.S. Government securities. The requirement to maintain this reserve is designed to effectively prevent the

2. Requests for Interpretations and Clarifications

A commenter stated that the Commission should allow carrying broker-dealers to notify their DEA if they will be unable to perform a customer or PAB reserve computation or make a required deposit on a specific day due to exigent circumstances.²³⁴ The commenter stated that carrying broker-dealers occasionally face unexpected circumstances that could make it difficult or impossible to perform their reserve computation (or part of the computation) on a specific day, or to make the required deposit into the special reserve bank account.²³⁵ For example, the commenter stated that an unexpected market close (which could result from a systems outage or a natural disaster) could temporarily prevent personnel from accessing systems necessary to make the reserve computation; a bank may be unable to accept deposits due to a systems outage; or the failure of a third-party system may make it impossible for a carrying broker-dealer to access data necessary to compute some element of the reserve computation.²³⁶ The commenter further stated these events actually occur and provided an example of a significant processing issue that a large financial market utility had in 2023 that affected the ability of carrying broker-dealers to accurately calculate their end-of-day balances.²³⁷ The commenter stated that the problems such exigent circumstances cause often cannot be resolved in a day, and because these events are beyond the carrying broker-dealer's control, the Commission should not penalize a carrying broker-dealer for its inability to perform the reserve computation or make a required deposit on a particular day because of them.²³⁸

carrying broker-dealer from using customer funds for proprietary business activities such as investing in securities. The goal is to put the carrying broker-dealer in a position to be able to readily meet its cash obligations to customers by requiring the carrying broker-dealer to make deposits of cash and/or U.S. Government securities into the customer reserve bank account in the amount of the net cash owed to customers. *See* Proposing Release, 88 FR at 45838, n.17.

²³⁴ *See* SIFMA Letter at 8-9.

²³⁵ *See* SIFMA Letter at 8.

²³⁶ *See* SIFMA Letter at 8.

²³⁷ *See id.*

²³⁸ *See id.*

More specifically, in order to address situations where there is an exigent circumstance, the commenter stated that the Commission should allow carrying broker-dealers to notify their DEA within 24 hours (including an explanation) if they will be unable to perform a customer or PAB reserve computation or make a required deposit on a specific day due to exigent circumstances.²³⁹ The explanation would describe the circumstances and why it prevents the carrying broker-dealer from performing the reserve computation or making the deposit. The commenter also stated that if the carrying broker-dealer cannot perform the computation, the Commission should permit it to use the prior day's figures to perform the computation, and suggested that the Commission should require carrying broker-dealers to subsequently notify their DEA of the steps taken to remedy the deficiency.²⁴⁰

The Commission recognizes that there may be exigent circumstances beyond the control of the carrying broker-dealer that could interfere with its ability to perform its customer or PAB reserve computation or make a required deposit into the customer or PAB reserve bank accounts.²⁴¹ For example, exigent circumstances beyond the control of the carrying broker-dealer may include, among other things, a natural disaster; the failure of a third-party data provider's system that affects the carrying broker-dealer's ability to access data necessary to compute the

²³⁹ See SIFMA Letter at 8-9. Paragraph (i) of Rule 15c3-3 currently provides that if a carrying broker-dealer fails to make a deposit in its customer or PAB reserve bank account, as required by Rule 15c3-3, the carrying broker-dealer must immediately notify the Commission and its DEA. Notification requirements for broker-dealers generally range from immediate, promptly (but within 24 hours), within 24 hours, and within 48 hours. See, e.g., paragraphs (f), (d)(1), (b), (d)(2) of Rule 17a-11, respectively. Given the importance of the customer protection requirements of Rule 15c3-3, a 24-hour notification requirement pertaining to the failure to make a required deposit would be inappropriate. Consequently, the final amendments do not modify the immediate notification requirement of paragraph (i) of Rule 15c3-3.

²⁴⁰ See SIFMA Letter at 9.

²⁴¹ The Commission has previously provided exemptive relief and other relief and guidance for circumstances that have affected market participants, including carrying broker-dealers, for events such as the COVID-19 pandemic and for Hurricane Sandy in 2012. See, e.g., Commission, Coronavirus (COVID-19) Response, available at: <https://www.sec.gov/sec-coronavirus-covid-19-response> (Commission statement summarizing the operational initiatives, market-focused actions, guidance and targeted assistance and relief, investor protection efforts and other work of the Commission in response to the effects of COVID-19). See also Letter from Michael A. Macchiaroli, Associate Director, Division of Trading and Markets, Commission to Ira Hammerman, General Counsel, SIFMA (Dec. 21, 2012) (staff no-action position about regulatory issues under Rules 15c3-1 and 15c3-3 related to the lack of access to the physical securities located at the vault of the Depository Trust & Clearing Corporation due to Hurricane Sandy), available at <https://www.sec.gov/divisions/marketreg/mr-noaction/2012/sifma-122112-15c3.pdf>.

customer or PAB reserve computation, or part of the computation; or where a carrying broker-dealer cannot make a required deposit at a specific bank because the bank cannot accept deposits due to a systemwide outage. The Commission expects that these exigent circumstances would be rare. The Commission further recognizes that performing a daily computation—as compared to a weekly computation—increases the potential that exigent circumstances could interfere with the operations necessary to comply with the computation and deposit requirements of Rule 15c3-3, given the greater frequency of the necessary computations and deposits. Moreover, this interference—in certain circumstances—could occur even though the carrying broker-dealer has established and maintained effective internal controls over compliance.²⁴²

If the exigent circumstances interfere with the carrying broker-dealer’s ability to perform the reserve computation, the firm is encouraged to notify its DEA of the situation, explain how the exigent circumstances are interfering with its ability to perform the customer or PAB reserve computation,²⁴³ and describe any steps it is taking to address the situation such as using the prior day’s figures to perform the computation, depositing an additional buffer into the customer or PAB reserve account, or opening a reserve account at an alternative bank.

Commenters also stated that the Commission should not require carrying broker-dealers to perform a computation (or make it optional) on certain days on which markets are closed or

²⁴² See 17 CFR 240.17a-5(d)(3). This rule requires a carrying broker-dealer to include a compliance report in its annual reports filed with the Commission and a report of an independent public accountant covering the compliance report. The compliance report must include, among other statements, statements that the carrying broker-dealer has established and maintained “Internal Control Over Compliance” as that term is defined in the rule and that the Internal Control Over Compliance was effective during the most recent fiscal year and as of the end of the fiscal year. See 17 CFR 240.17a-5(d)(3)(i). The rule defines “Internal Control Over Compliance” in pertinent part as controls that have the objective of providing the broker-dealer with reasonable assurance that non-compliance with Rule 15c3-3 will be prevented or detected on a timely basis. See 17 CFR 240.17a-5(d)(3)(i). Failure to perform a customer or PAB reserve computation due to exigent circumstances beyond the control of the carrying broker-dealer would not necessarily constitute a material weakness for purposes of the compliance report. See 17 CFR 240.17a-5(d)(3)(iii) (stating that a broker-dealer is not permitted to conclude that its Internal Control Over Compliance was effective during the most recent fiscal year if there were one or more material weaknesses in its Internal Control Over Compliance during the most recent fiscal year).

²⁴³ As noted above, the carrying broker dealer must immediately notify the Commission and its DEA if it fails to make a required deposit into its customer or PAB reserve accounts. See paragraph (i) of Rule 15c3-3.

close early because it is not practical to perform a computation on these days.²⁴⁴ In particular, one commenter stated that exchanges and financial market utilities often close early on the business day before a major holiday, and that this makes it difficult to receive on a timely basis certain information needed to perform the reserve computation, as exchanges and financial market utilities may not update the systems and data needed to conduct the computation.²⁴⁵ This commenter suggested that the Commission should treat New Year's Eve, the Friday before Memorial Day, the Wednesday before Thanksgiving, the Friday after Thanksgiving, and Christmas Eve as non-business days for purposes of the customer and PAB reserve computations.²⁴⁶ Commenters also suggested that the Commission also should not treat days on which either exchanges or banks, but not both, are open, or where exchanges or banks close early, as non-business days for purposes of the reserve computations (including Veterans Day, Columbus Day, and Good Friday).²⁴⁷ One commenter stated that this flexibility could improve operational efficiency and mitigate the burden on carrying broker-dealers during unusual market conditions.²⁴⁸ Another commenter stated that it has found that customers enjoy the same holidays and half-days, reducing the number of customer transactions and, thus, any fluctuations in required minimum account balances are likely to be within acceptable ranges.²⁴⁹

The Commission recognizes there may be days where it is more challenging for a carrying broker-dealer to perform a customer or PAB reserve computation due to staffing issues related to holidays or when banks or exchanges are closed or close early. Performing a daily

²⁴⁴ See SIFMA Letter at 9; ASA Letter at 4; Raymond James Letter at 4-5.

²⁴⁵ See SIFMA Letter at 9.

²⁴⁶ See SIFMA Letter at 9.

²⁴⁷ See SIFMA Letter at 9-10; Raymond James Letter at 4-5. One commenter stated that the Commission staff has previously recognized that carrying broker-dealers should not be required to make deposits and certain transfers in connection with the special reserve bank account on certain days where exchanges are open but banks are closed, as carrying broker-dealers may be unable to actually process or make such deposits or transfers. See SIFMA Letter at 9.

²⁴⁸ See ASA Letter at 4.

²⁴⁹ See Raymond James Letter at 5.

computation—as compared to a weekly computation—means that the work necessary to perform the daily computations will need to be performed on these days. Carrying broker-dealers should contact the Commission or Commission staff, as well as their DEA, if they anticipate that performing the reserve computations or making the required deposits will be challenging for these or other reasons. The Commission or Commission staff will evaluate these requests and may provide exemptive or other relief as appropriate. For example, the Commission or Commission staff could consider that in some circumstances many employees of a carrying broker-dealer may not be working certain days before major holidays, and as such, carrying broker-dealers may need an additional day to complete their customer and PAB reserve computations and deposits.²⁵⁰ Finally, when a deposit requirement falls on a day that banks are closed, the carrying broker-dealer should make the deposit by 10 a.m. of the next business day that the banks are open.

F. Reserve Account Requirements for Security-Based Swaps

The Commission sought comment in the proposal on whether carrying broker-dealers should perform the security-based swap customer reserve computation daily (rather than weekly).²⁵¹ One commenter stated that the Commission should not change the reserve account requirements for SBSDs.²⁵² The commenter stated that it is unnecessary to make any changes because as the Proposing Release stated that almost all carrying broker-dealers that have security-based swap credits already take those credits into account and stand-alone SBSDs

²⁵⁰ See, e.g., FINRA Regulatory Notice 18-41 (Dec. 17, 2018) (notifying FINRA members of an optional one-day extension for customer and PAB reserve computations and required deposits around the December 2018 month-end holidays). Similar extensions were announced in 2007 and 2012. *Id.* See also FINRA Interpretations of Financial and Operational Rules, 15c3-3(e)(3)/021, Reserve Deposits Focusing Around Bank Holidays.

²⁵¹ See Proposing Release, 88 FR at 45847. In 2019, the Commission adopted customer segregation requirements for broker-dealers and security-based swap dealers (“SBSDs”) with respect to customer money, securities, and property related to security-based swaps. See *Capital, Margin, and Segregation Requirements for Security-Based Swap Dealers and Major-Security-Based Swap Participants and Capital and Segregation Requirements for Broker-Dealers*, Exchange Act Release No. 86175 (June 21, 2019) [84 FR 43872, 43930-43 (Aug. 22, 2019)] (“SBS Segregation Adopting Release”).

²⁵² See SIFMA Letter at 11-12.

generally operate under an exemption from reserve computation requirements under 17 CFR 240.18a-4(f) (“Rule 18a-4(f”). Therefore, the commenter stated requiring a daily computation for security-based swap activity would have virtually no benefit.²⁵³

The Commission agrees with the commenter that amending Rule 15c3-3 to require a broker-dealer (including a broker-dealer (other than an OTC derivatives dealer) also registered as an SBSB) to perform a security-based swap customer reserve computation daily would have virtually no impact because the credits related to security-based swap activity for security-based swap customers generally are being included in the customer reserve computation.²⁵⁴ The Commission also agrees with the commenter that there would be virtually no benefit to requiring stand-alone SBSBs to perform a reserve computation daily since all of them operate under the exemption under Rule 18a-4(f).²⁵⁵ Therefore, the Commission is not adopting a daily reserve requirement for the security-based swap customer reserve computation under Rule 15c3-3 or 17 CFR 240.18a-4 as part of the final amendments.

III. COMPLIANCE DATE

In the Proposing Release, the Commission sought input from commenters on the appropriate compliance date or implementation schedule for the proposed amendments. Specifically, the Commission requested comment regarding various aspects of the proposal that would impact a carrying broker-dealer’s ability to comply with the new amendments, including the amount of time a carrying broker-dealer would need to comply with the requirement to perform a customer and PAB reserve computation daily, whether there are any technological or

²⁵³ See SIFMA Letter at 11. This commenter also stated the Commission previously proposed a daily reserve computation requirement for security-based swap activity and did not adopt the proposed approach. The commenter stated that there is no need for the Commission to revisit this conclusion. *Id.* at 11-12.

²⁵⁴ This is based on FOCUS Report data for calendar year 2023. The Commission notes that staff has stated its views in Question 1 of *Responses to Frequently Asked Questions Regarding Financial Responsibility Requirements as Applied to Security-Based Swap Activities of Broker-Dealers and Security-Based Swap Dealers* (Oct. 8, 2021), available at <https://www.sec.gov/tm/faqs-financial-responsibility-req-applied-sbs> (“SBS FAQ 1”). Based on FOCUS data for December 31, 2023, no broker-dealer reported Total Credits greater than \$0 (Line 12089) in its security-based swap customer reserve computation.

²⁵⁵ These SBSBs are not SIPC members.

operational issues that should be considered, or whether a staggered compliance date depending on the size of the average total credits would be appropriate, among other things.²⁵⁶

The Commission received a few comments relating to the compliance date.²⁵⁷ Stating that there are complexities associated with moving from weekly to daily customer and PAB reserve computations, commenters requested various time periods for implementation of the daily customer and PAB reserve computation requirements. These commenters suggested computing the 12-month rolling average starting one year after publication of the final rule,²⁵⁸ a compliance timeline of at least 18-months from the final rule,²⁵⁹ as well as implementation dates of no earlier than January 2025 and mid- to late-2025.²⁶⁰ One commenter stated that carrying broker-dealers do not need an additional compliance period beyond the six months prescribed in the proposed rule after a carrying broker-dealer exceeds the proposed \$250 Million Threshold.²⁶¹ Commenters stated the proposal would require significant time, experience, and expense to implement, would present significant operational challenges, and that the transition to a daily computation would require significant time to find, hire and train new staff to conduct the computation as well as complete the extensive systems and operations changes.²⁶² One commenter also stated that third party data providers, such as service bureaus, would need to be able to provide carrying broker-dealers with more timely information than is currently available.²⁶³

²⁵⁶ See Proposing Release, 88 FR at 46846-45847.

²⁵⁷ SIFMA Letter at 12; Raymond James Letter at 4; ASA Letter at 5-6; ASA Letter 2 at 1; Letter from ASA (Oct. 3, 2024) (“ASA Letter 4”).

²⁵⁸ See SIFMA Letter at 12.

²⁵⁹ See ASA Letter 4 at 1.

²⁶⁰ See Raymond James Letter at 4; ASA Letter at 6; ASA Letter 2 at 1.

²⁶¹ See SIPC Letter at 2.

²⁶² See SIFMA Letter at 12; Raymond James Letter at 3-4; ASA Letter at 6; ASA Letter 2 at 1.

²⁶³ See SIFMA Letter at 12.

Commenters also suggested that the Commission consider the cumulative burdens of implementing the amendments and other regulatory obligations with potentially overlapping compliance dates.²⁶⁴ Specifically, one commenter stated that the same carrying broker-dealers who will be required to move to a daily computation are also managing multiple other regulatory requirements.²⁶⁵ The commenter further stated that unless the Commission provides adequate time to manage the new regulatory requirements together, carrying broker-dealers will face an unmanageable clash of compliance requirements all converging at the same time.²⁶⁶ Commenters also stated that many finance, operations, and information technology employees of carrying broker-dealers needed to create and test new programs and systems, among other requirements, are also involved in the implementation of other large-scale, complex initiatives mandated by other new regulations.²⁶⁷ Commenters stated that these initiatives call on the same personnel, technology, and monetary resources to implement them properly.²⁶⁸

After consideration of the comments, the Commission agrees that carrying broker-dealers need sufficient time to comply with the requirement to perform daily customer and PAB reserve computations beyond the six months provided in the rule after a carrying broker-dealer exceeds the \$500 Million Threshold.²⁶⁹ Carrying broker-dealers must begin calculating their average total credits using the 12 most recently filed month-end FOCUS Reports ending with the FOCUS Report for June 30, 2025. As a result, carrying broker-dealers that exceed the \$500 Million

²⁶⁴ See, e.g., ASA Letter 2 at 1; SIFMA Letter at 12; Raymond James Letter at 4; ASA Letter at 6.

²⁶⁵ ASA Letter at 6.

²⁶⁶ See *id.* In determining compliance dates, the Commission considers the benefits of the rules as well as the costs of delayed compliance dates, and potential overlapping compliance dates. For the reasons discussed throughout the release, to the extent that there are costs from overlapping compliance dates, the benefits of the rule justify the costs. See *infra* sections IV.B.1. and D. in the Economic Analysis for a discussion of the interaction of the final rule with certain other Commission rules.

²⁶⁷ See SIFMA Letter at 12; Raymond James Letter at 4; ASA Letter at 6. New requirements or regulations commenters highlighted included T+1 initiatives, amendments to FINRA Rule 4210 about margin requirements for covered agency transactions, and compliance with requirements of the national Consolidated Audit Trail or “CAT.”

²⁶⁸ See SIFMA Letter at 12; see also Raymond James Letter at 4.

²⁶⁹ See paragraph (e)(3)(i)(B)(I) of Rule 15c3-3, as amended.

Threshold using each of the 12 filed month-end FOCUS Reports from July 31, 2024, through June 30, 2025, must perform customer and PAB computations daily beginning no later than December 31, 2025. This aligns with the requirements of the final amendments, as carrying broker-dealers are provided six months under paragraph (e)(3)(i)(B)(1) of Rule 15c3-3, as amended, to begin performing customer and PAB reserve computations daily after exceeding the \$500 Million Threshold.

While one commenter stated that the 12-month rolling average for total credits should start one year after publication of the final rule, given the importance of addressing the mismatch risk the final amendments are designed to address, it is important for carrying broker-dealers to comply with the requirement to perform customer and PAB reserve computations daily as soon as practicable, while also having sufficient time to modify and/or upgrade existing technology, to employ additional staff, and to adjust internal processes to comply with the daily reserve computation requirement. The Commission agrees with commenters that stated an implementation date no sooner than January 2025 is appropriate. Thus, as described above in this section, by requiring carrying broker-dealers to begin computing a daily customer and PAB reserve computation beginning no later than December 31, 2025, carrying broker dealers will have sufficient time to perform the tasks necessary to be able to begin daily customer and PAB reserve computations as required by the final amendments.

Further, the additional six month compliance period provided for carrying broker-dealers in this section beyond the six month compliance period in the rule is appropriate (for a total compliance period of approximately one year) and recognizes that numerous carrying broker-dealers will prepare to transition to a daily customer and PAB reserve computation at the same time.²⁷⁰ This additional time considers that these carrying broker-dealers may need to interview and hire new employees and may use common service providers. Therefore, the extra six

²⁷⁰ See paragraph (e)(3)(i)(B)(1) of Rule 15c3-3, as amended.

months will apply to all affected carrying broker-dealers, and a common transition period will be easier to administer and more equitable.

The Commission also recognizes the need for third-party data providers to provide data for a customer or PAB reserve computation on a timelier basis. Although commenters did not specify a period of time necessary for third-party service providers to transition to a more frequent provision of information, carrying broker-dealers will have approximately one year from adoption to make arrangements with such third-party service providers. As multiple carrying broker-dealers already perform daily customer and PAB reserve computations on a voluntarily basis, to the extent third-party service providers supply needed data to these carrying broker-dealers, they should be in a position to implement the processes and agreements necessary to provide additional carrying broker-dealers with the necessary data. The requirement to begin daily customer and PAB reserve computations beginning no later than December 31, 2025, is an adequate time period to accomplish these tasks.

Further, the compliance period also will provide carrying broker-dealers whose average total credits may hover close to the \$500 Million Threshold a sufficient period of time between the date the amendments are adopted and the June 30, 2025 calculation date for average total credits to determine if they will be subject to the requirement to perform a customer and PAB reserve computation daily or whether they will manage their customer and PAB credits to remain below the \$500 Million Threshold. Because the requirement to calculate average total credits ends with the FOCUS Report for June 30, 2025, part of this time period is forward looking to enable carrying broker-dealers to make these determinations or adjustments after the Commission adopts the final amendments.

A carrying broker-dealer that elects the alternative method for net capital and voluntarily elects to perform the customer reserve computation daily pursuant to paragraph (e)(3)(v) of Rule 15c3-3, as amended, and reduces aggregate debit items by 2% may do so on or after the effective date of the final amendments, provided that the required notification to the carrying broker-

dealer's DEA has been made at least 30 days prior to beginning the daily computation (with the 2% debit reduction).

Finally, the compliance date for the amendments to the Form X-17A-5, Part II (i.e., Part II of the FOCUS Report) is March 1, 2026. This will allow carrying broker-dealers the opportunity to become familiar with the changes and make any necessary updates to their policies, procedures, systems, and practices. In addition, it allows FINRA to develop and test these updates to its eFOCUS system.²⁷¹

IV. ECONOMIC ANALYSIS

A. Introduction

The Commission is mindful of the economic effects, including the benefits and costs, of the final amendments. Section 3(f) of the Exchange Act provides that when engaging in rulemaking that requires the Commission to consider or determine whether an action is necessary or appropriate in the public interest, to also consider, in addition to the protection of investors, whether the action will promote efficiency, competition, and capital formation.²⁷² Section 23(a)(2) of the Exchange Act also requires the Commission to consider the effect that the rules and rule amendments would have on competition, and it prohibits the Commission from adopting any rule that would impose a burden on competition not necessary or appropriate in furtherance of the Exchange Act.²⁷³ The analysis below addresses the likely economic effects of the final amendments, including the anticipated benefits and costs of the amendments and their likely effects on efficiency, competition, and capital formation. The Commission also discusses the potential economic effects of certain alternatives to the approaches taken in this adoption.

²⁷¹ The carrying broker-dealers subject to the final amendments file the FOCUS Report electronically on the FINRA eFOCUS system. These carrying broker-dealers file the FOCUS Report pursuant to a plan established by the carrying broker-dealer's self-regulatory organization, the procedures and provisions of which have been submitted to and declared effective by the Commission pursuant to paragraph (a)(3) of Rule 17a-5. 17 CFR 240.17a-5(a)(3).

²⁷² See 15 U.S.C. 78c(f).

²⁷³ See 15 U.S.C. 78w(a)(2).

As part of their business, carrying broker-dealers regularly receive cash related to customers' and PAB account holders' securities transactions, such as cash realized from sales of securities. While it is common that customers' and PAB account holders' cash is quickly re-invested or swept out to a bank account or money market fund by the customer or PAB account holder, it is also common for this cash to remain undeployed for or on behalf of customers and PAB account holders for several days or longer prior to the next required customer and PAB reserve computations and deposits into the customer and PAB reserve bank accounts.²⁷⁴

Under preexisting paragraph (e)(3)(i) of Rule 15c3-3, the required balances in customer and PAB reserve bank accounts (net cash owed to customers or PAB account holders) are required to be calculated weekly, and the resulting amount must be held in the customer and PAB reserve bank accounts until the date of next required deposit.²⁷⁵ However, the value of the net cash owed to customers or PAB account holders may change daily due to customers' and PAB account holders' transactions and re-deployment of undeployed funds. On a weekly basis, this could result in a large intra-week mismatch between the customer or PAB reserve bank account balances and actual net cash owed to customers or PAB account holders. This intra-week mismatch introduces several potential risks that are not internalized by carrying broker-dealers.

First, the mismatch between the calculated and the actual amounts of net cash owed to customers and PAB account holders introduces a risk to other SIPC members. More specifically, if a liquidation of a carrying broker-dealer with a large mismatch of cash in its customer and PAB reserve bank accounts is carried out under SIPA, it increases the risk that the SIPC Fund balance would be used if there are not enough assets in the carrying broker-dealer's estate to

²⁷⁴ See section I.A of this release (discussing the risk of a mismatch of funds owed and funds reserved under Rule 15c3-3).

²⁷⁵ See section I.C.1. of this release (discussing customer protection requirements of Rule 15c3-3 for customers and PAB account holders).

cover the difference between the net cash owed to customers and the amount in the reserve bank account,²⁷⁶ which may trigger a subsequent increase in contributions from other SIPC members. This risk may be exacerbated for carrying broker-dealers experiencing large aggregate intra-week mismatches. As a result, the SIPC Fund may be at a higher risk of depletion. For example, as discussed in section IV.B.2. below, mismatches are common among carrying broker-dealers of all sizes (as measured by average total credits). The largest carrying broker-dealers with average total credits of at least \$500 million²⁷⁷ had mismatches of between 11% and 20% during 2023.²⁷⁸

Second, this mismatch introduces a risk to customers and PAB account holders of carrying broker-dealers. To the extent that there is mismatch of funds in the customer or PAB reserve bank account, a failure of a carrying broker-dealer may result in the delayed reimbursement of customer or PAB securities and cash. In this scenario, the funds owed to customers or PAB account holders may be tied up in liquidation proceedings and these customers or PAB account holders would have to wait to receive their funds back until the broker-dealer liquidation process is carried out under SIPA, which may take a significant amount of time. In addition, customers and PAB account holders may not receive their funds in full if the liquidation proceedings do not result in a full recovery of funds owed to customers and PAB account holders. This risk may be exacerbated for potential failures of carrying broker-dealers

²⁷⁶ See section I.C.2. of this release (discussing broker-dealer liquidations and SIPA, including the funding and balance of the SIPC Fund). For an example of a customer reserve bank account mismatch, one carrying broker-dealer had a deficit in its customer reserve bank account equal to \$5 billion, yet the level of the SIPC Fund at the time was at \$2 billion. See Merrill Lynch, Pierce, Fenner & Smith Incorporated and Merrill Lynch Professional Clearing Corp., Order Instituting Administrative and Cease-and-Desist Proceedings, Pursuant to sections 15(b) and 21C of the Securities Exchange Act of 1934, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order, Exchange Act Rel. No. 78141 (June 23, 2016).

²⁷⁷ The Proposing Release contained a typographical error stating that the largest carrying broker-dealers with average total credits of at least \$500 billion (instead of \$500 million) had mismatches of between 10 and 18% in 2022. Despite this typographical error in the text, the Proposing Release correctly calculated the mismatches using the carrying broker-dealers with at least \$500 million average total credits.

²⁷⁸ Based on FOCUS Report data for 2023. A mismatch is calculated as a carrying broker-dealer's deposit (FOCUS Report Line 4520) divided by its reserve account balance from any month (Line 4530). These data are discussed in detail in section IV.B.2 of this release, see table 5 in that section and related discussion.

with large amounts of customer or PAB reserve bank account balances, such as when these carrying broker-dealers experience large aggregate intra-week mismatches between the reserve bank account balances and actual net cash owed to customers or PAB account holders.

The requirement to perform daily customer and PAB reserve computations for carrying broker-dealers with large amounts of total credits is aimed to address these risks and is expected to benefit customers, PAB account holders, and other stakeholders of the affected carrying broker-dealers by more dynamically matching the net cash owed to customers or PAB account holders and the customer and PAB reserve bank account balances. More specifically, the daily customer and PAB reserve computations will safeguard customers and PAB account holders of the affected carrying broker-dealers by covering the mismatches promptly, and hence neutralizing the potential of some of these mismatches to build over the week, and thereby reducing the risk of a potential delay in the return of cash and securities in the event of a failure of the affected carrying broker-dealer. Daily computations will also decrease the risk that other stakeholders, such as contributors to the SIPC Fund, would need to provide additional resources (e.g., in the form of increased assessments) to address a failure of a carrying broker-dealer.²⁷⁹

The final amendments may result in increased compliance costs for the affected carrying broker-dealers. To the extent that each customer or PAB reserve computation takes a significant amount of time or involves manual processes, affected carrying broker-dealers will experience a one-time set up cost related to switching to a daily computation, as well as an increase in ongoing costs related to more frequent computations. These costs, like the aforementioned benefits, may ultimately be passed through to customers and PAB account holders of the affected carrying broker-dealers.

Below, the Commission discusses many of the benefits and costs that are likely to result from the adoption of these amendments. To the extent practicable, the effects are quantified

²⁷⁹ If the SIPC Fund is used to advance money to customers, reducing its balance, this reduction may trigger increased contributions from member broker-dealers, as displayed in table 1 in section I.C.2. of this release.

based on available data. Although the Commission is providing estimates of direct compliance costs where possible, customer and PAB account holders' may modify their activity in accounts maintained by the affected carrying broker-dealers and customers and PAB account holders of non-affected carrying broker-dealers might shift their capital to the affected carrying broker-dealers due to such increased protections; and carrying broker-dealers near the \$500 Million Threshold may adjust their business activities as a result of the final amendments. Moreover, the complexity of customers' and PAB account holders' activities for different carrying broker-dealers makes it challenging for the Commission to estimate the potential costs for various groups of the affected carrying broker-dealers. While the Commission has attempted to quantify economic effects where possible, much of the discussion of economic effects is qualitative in nature. The Commission sought comment on all aspects of the economic analysis,²⁸⁰ especially any data or information that would enable a quantification of the proposal's economic effects and the analysis below takes into consideration relevant comments received.

B. Baseline

1. Regulatory Baseline

The baseline against which the costs, benefits, and the effects on efficiency, competition and capital formation of the final amendments are measured consists of current requirements for carrying broker-dealers under the customer protection rule and the current market structure and regulatory framework. As discussed in detail below, the economic analysis appropriately considers existing regulatory requirements as part of its economic baseline against which the benefits and costs of the final amendments are measured.²⁸¹

²⁸⁰ See Proposing Release, 88 FR at 45859.

²⁸¹ See, e.g., *Nasdaq v. SEC*, 34 F.4th 1105, 1111-15 (D.C. Cir. 2022). This approach also follows Commission staff guidance on economic analysis for rulemaking. See Commission staff's "Current Guidance on Economic Analysis in SEC Rulemaking" (Mar. 16, 2012), available at https://www.sec.gov/divisions/riskfin/rsfi_guidance_econ_analy_secrulemaking.pdf ("The economic consequences of proposed rules (potential costs and benefits including effects on efficiency, competition,

Several commenters expressed concern about the need to concurrently comply with the final amendments and “other core regulatory obligations.”²⁸² Specifically, commenters mentioned the rule and amendments adopted in the Settlement Cycle Adopting Release²⁸³ and two other regulatory obligations, namely the new margin requirements under FINRA Rule 4210 and the CAT CAIS amendments.²⁸⁴ Although the specific regulatory obligations mentioned by commenters have been implemented,²⁸⁵ the Commission has considered the potential effects on

and capital formation) should be measured against a baseline, which is the best assessment of how the world would look in the absence of the proposed action. The baseline includes both the economic attributes of the relevant market and the existing regulatory structure.”). The best assessment of how the world would look in the absence of the proposed or final action typically does not include recently proposed actions, because doing so would improperly assume the adoption of those proposed actions.

²⁸² See, e.g., ASA Letter 2 at 2 (stating “Our concern is that many of the same resources in the business and technology groups are delivering against other core regulatory obligations including T+1, CAT CAIS and others with 2024 compliance dates causing resource strain to effectively deliver the necessary analysis and technology solutions needed to move to a daily calculation”). See also SIFMA Letter at 12; Raymond James Letter at 6.

²⁸³ *Shortening the Securities Transaction Settlement Cycle*, Exchange Act Release No. 96930 (Feb. 15, 2023) [88 FR 13872 (Mar. 6, 2023)] (“Settlement Cycle Adopting Release”). The rules and rule amendments adopted in the Settlement Cycle Adopting Release shorten the standard settlement cycle for most broker-dealer transactions from two business days after the trade date to one business day after the trade date. To facilitate orderly transition to a shorter settlement cycle, a new rule also establishes requirements related to completing allocations, confirmations, and affirmations no later than the end of trade date for the processing of institutional transactions subject to the rule; requires registered investment advisers to make and keep records of each confirmation received, and of any allocation and each affirmation sent or received, with a date and time stamp for each indicating when it was sent or received; and requires clearing agencies that provide a central matching service (“CMSPs”) to establish, implement, and enforce policies and procedures reasonably designed to facilitate straight-through processing (“STP”) and to file an annual report regarding progress with respect to STP. The rule has a compliance date of May 28, 2024. Settlement Cycle Adopting Release, sections VII, VII.B.3.

²⁸⁴ See, e.g., ASA Letter 2 at 2 (stating “Our concern is that many of the same resources in the business and technology groups are delivering against other core regulatory obligations including T+1, CAT CAIS and others with 2024 compliance dates causing resource strain to effectively deliver the necessary analysis and technology solutions needed to move to a daily calculation”); SIFMA Letter at 12 (stating that the implementation of the final amendments will “call on the same personnel, technology, and monetary resources as [the T+1 initiative, the implementation of the changes to margin requirements under FINRA Rule 4210 and the implementation of the CAIS requirements] to implement them properly”); Raymond James Letter at 6 (noting that other broker-dealers are implementing systems to comply with the new requirements and regulations for the amendments to FINRA Rule 4210 and the standards of the national Consolidated Audit Trail (“CAT”), each of which will become effective in May 2024).

²⁸⁵ The date of the settlement requirements for the transition set forth in the Settlement Cycle Adopting Release as well as the requirements under FINRA Rule 4210 and CAT CAIS have passed. See *supra* note 283 discussing the relevant filing and compliance dates for the Settlement Cycle Adopting Release. For compliance dates for the FINRA Rule 4210 requirements, see FINRA, Regulatory Notice 23-14 (Aug. 18, 2023); see also Exchange Act Release No. 98349 (Sept. 11, 2023) [88 FR 63633 (Sept. 15, 2023)] (Notice of filing for immediate effectiveness File No. SR-FINRA-2023-011). For compliance dates for the CAT CAIS requirements, see Interim Reporting Obligation 4 and Full CAIS Go-Live (Jan. 22, 2024), available at <https://www.catnmsplan.com/sites/default/files/2024-01/01.22.24-CAT-Alert-2023-01.pdf> (establishing May 31, 2024 as the compliance date for compliance with the CAT CAIS requirements).

entities affected by the final amendments that are implementing other recently adopted rules during the compliance period for these amendments. These recently adopted rules include the Rule 10c-1a Adopting Release,²⁸⁶ the Treasury Clearing Release,²⁸⁷ the Rule 605 Adopting Release,²⁸⁸ the Electronic Submission Adopting Release,²⁸⁹ and the Customer Notification

²⁸⁶ *Reporting of Securities Loans*, Exchange Act Release No. 98737 (Oct. 13, 2023) [88 FR 75644 (Nov. 3, 2023)] (“Rule 10c-1a Adopting Release”). This rule is designed to increase the transparency of information available to brokers, dealers, and investors with respect to loans or borrowing securities, and requires any covered person who agrees to a covered securities loan on behalf of itself or another person to report specified information about the covered securities loan to a registered national securities association (currently FINRA is the only registered national securities association)—or rely on a reporting agent to do so—and requires the registered national securities association to make certain information it receives available to the public. Covered persons will include market intermediaries, securities lenders, and broker-dealers, while reporting agents include certain brokers, dealers, or registered clearing agencies. The rule’s compliance dates require that the registered national securities association propose rules pursuant to Rule 10c-1a(f) by May 2, 2024, and the proposed rules shall be effective no later than January 2, 2025; that covered persons report Rule 10c-1a information to a registered national securities association on or by January 2, 2026 (which requires that the registered national securities association have implemented data retention and availability requirements such for reporting); and that the registered national securities association publicly report Rule 10c-1a information by April 2, 2026. Rule 10c-1a Adopting Release, section VIII.

²⁸⁷ *Standards for Covered Clearing Agencies for U.S. Treasury Securities and Application of the Broker-Dealer Customer Protection Rule with Respect to U.S. Treasury Securities*, Exchange Act Release No. 99149 (Dec. 13, 2023) [89 FR 2714 (Jan. 16, 2024)] (“Treasury Clearing Release”). Among other things, the amendments require covered clearing agencies for U.S. Treasury securities to have written policies and procedures reasonably designed to require that every direct participant of the covered clearing agency submit for clearance and settlement all eligible secondary market transactions in U.S. Treasury securities to which it is a counterparty. The compliance date is March 18, 2024, for covered clearing agencies to file any proposed rule changes pursuant to final Rule 17Ad-22(e)(6)(i), 17Ad-22(e)(18)(iv)(c), and 15c3-3, which must be effective by March 31, 2025. With respect to the changes to Rule 17Ad-22(e)(18)(iv)(A) and (B), (i) covered clearing agencies will be required to file any proposed rule changes regarding those amendments no later than June 14, 2024, and those changes must be effective by December 31, 2025, for cash market transactions encompassed by section (ii) of the definition of an eligible secondary market transaction, and by June 30, 2026 for repo transactions encompassed by section (i) of the definition of an eligible secondary market transactions. Compliance by the direct participants of a U.S. Treasury securities covered clearing agency with the requirement to clear eligible secondary market transactions would not be required until December 31, 2025, and June 30, 2026, respectively, for cash and repo transactions. See Treasury Clearing Release, section III. Finally, the Commission amended the broker-dealer customer protection rule to permit margin required and on deposit with covered clearing agencies for U.S. Treasury securities to be included as a debit in the reserve formulas for accounts of customers and proprietary accounts of broker-dealers, subject to certain conditions.

²⁸⁸ *Disclosure of Order Execution Information*, Exchange Act Release No. 99679 (Mar. 6, 2024) [89 FR 26428 (Apr. 15, 2024)] (“Rule 605 Adopting Release”). The Commission adopted amendments to rules requiring disclosures for order executions in NMS stocks, including expanding the scope of reporting entities, modifying the scope of orders covered by the rule, and modifying the information required to be reported under the rule. The rule has an effective date of June 14, 2024 and, with a few exceptions, a compliance date of December 14, 2025. See Rule 605 Adopting Release, section VII.

²⁸⁹ *Electronic Submission of Certain Materials Under the Securities Exchange Act of 1934; Amendments Regarding the FOCUS Report*, Release Nos. 33-11342; 34-101925; IC-35420 (Dec. 16, 2024) (“Electronic Submission Adopting Release”). Under the amendments, certain forms and other filings or submissions must be filed or submitted electronically on the Commission’s Electronic Data Gathering, Analysis, and

Adopting Release.²⁹⁰ These adopted rules were not included as part of the baseline in the Proposing Release because they were not yet adopted at that time, but they are part of the baseline against which this economic analysis considers the benefits and costs of the final amendments. Accordingly, this economic analysis also considers potential economic effects arising from any overlap that may exist between the compliance period for the final amendments and the compliance periods for these other adopted rules.²⁹¹

a. Rule 15c3-3

Carrying broker-dealers are broker-dealers that maintain custody of customer securities and cash. Rule 15c3-3, known as the broker-dealer customer protection rule, is designed to give specific protection to customer funds and securities. For example, a broker-dealer is “virtually” precluded from using customer funds to buy securities for its own account.²⁹²

Preexisting Rule 15c3-3 specifies that a carrying broker-dealer must undertake two primary steps to safeguard these customer assets. First, carrying broker-dealers are required to maintain physical possession or control over customers’ fully paid and excess margin

Retrieval (“EDGAR”) system, using structured data where appropriate. This includes certain forms, reports, notices, schedules and exhibits provided by broker-dealers, security-based swap dealers, self-regulatory organizations (“SROs”) and major security-based swap participants. The amendments also require the information currently contained in Form 19b-4(e) to be publicly posted on the SRO’s website, and they remove the manual signature requirements for SRO proposed rule change filings. The amendments are effective 60 days after publication in the Federal Register, and the compliance dates range from June 30, 2025, to June 30, 2028, depending on the type of filing or submission and on whether the filing firm’s minimum fixed dollar net capital requirement is less than \$250,000 as of Dec. 31, 2024. Electronic Submission Adopting Release, section VIII.

²⁹⁰ *Regulation S-P: Privacy of Consumer Financial Information and Safeguarding Customer Information*, Release Nos. 34-100155; IA-6604; IC-35193 (May 15, 2024) [89 FR 47688 (June 3, 2024)] (“Customer Notification Adopting Release”). The Commission amended Regulation S-P to require brokers, dealers, funding portals, investment companies, registered investment advisers, and transfer agents to adopt written policies and procedures for incident response programs to address unauthorized access to or use of customer information. These must include procedures for providing timely notification to individuals affected by an incident involving sensitive customer information with details about the incident and information designed to help affected individuals respond appropriately. Among other things, the amendments also extended to transfer agents the requirements to safeguard customer records and information, and they broadened the scope of the information covered by those requirements. The compliance date for larger entities is December 3, 2025, and June 3, 2026, for smaller entities. Customer Notification Adopting Release, section II.F.

²⁹¹ *See infra* section IV.C.3. of this release.

²⁹² *See* section I.C.1. of this release (describing the purposes of Rule 15c3-3).

securities.²⁹³ Second, a carrying broker-dealer must maintain a customer reserve bank account that must hold funds and/or qualified securities that are at least equal in value to the net cash owed to customers. The amount of net cash owed to customers is computed weekly as of the close of the last business day of the week pursuant to the customer reserve computation.²⁹⁴ Performing a customer reserve computation requires a carrying broker-dealer to add up customer credit items and then subtract from that amount customer debit items. To ensure accuracy of the computations, these credit and debit items are reconciled with other firm data and the computations pass through pre-established internal controls.²⁹⁵ If credit items exceed debit items, the net amount must be on deposit in the customer reserve bank account.²⁹⁶ A carrying broker-dealer also is required to make and maintain a record of each computation.²⁹⁷ Rule 15c3-3 also specifies the way a carrying broker-dealer carries accounts that hold proprietary securities and cash of other broker-dealers, known as PAB accounts.²⁹⁸ Broker-dealers are not within the definition of “customer” for purposes of Rule 15c3-3, however, the definition of “customer” under SIPA, includes broker-dealers with a proprietary securities account at a carrying broker-dealer. As discussed in more detail in section I.C.2. of this release, broker-dealers—as SIPA customers—have the right to share *pro rata* with other customers in the customer property in a SIPA liquidation if there is a shortfall in the amount the failed broker-dealer owes its customers. Because broker-dealers that are SIPA customers are entitled to a *pro rata* share of customer

²⁹³ See section I.C.1. of this release (describing possession and control requirements for customers’ securities).

²⁹⁴ Some carrying broker-dealers choose to perform a daily computation. See paragraph (e)(3)(iv) of Rule 15c3-3. Further, the rule permits carrying broker-dealers in certain limited circumstances to perform a monthly computation. See paragraph (e)(3)(i) of Rule 15c3-3. See also section I.C.1. of this release (describing the customer reserve bank account and customer reserve computation).

²⁹⁵ See SIFMA Letter at 4.

²⁹⁶ See paragraph (e) of Rule 15c3-3. See also section I.C.1. of this release (describing the customer reserve bank account and customer reserve computation).

²⁹⁷ See paragraph (e)(3)(v) of Rule 15c3-3. Each record must be preserved in accordance with Rule 17a-4. *Id.*

²⁹⁸ See section I.C.1. of this release (describing Rule 15c3-3 and PAB accounts).

property,²⁹⁹ Rules 15c3-3 and 15c3-3a require carrying broker-dealers to: (1) perform a PAB reserve computation in addition to the customer reserve computation;³⁰⁰ (2) establish and hold cash and/or qualified securities in their PAB reserve bank account in an amount determined by the PAB reserve computation; and (3) obtain and maintain physical possession or control of securities carried for a PAB account holder, unless the carrying broker-dealer has provided written notice to the PAB account holder that it may use those securities in the ordinary course of its securities business and has provided opportunity for the PAB account holder to object to such use.³⁰¹

b. SIPA and the SIPC Fund

As described in section I.C.2. of this release, SIPA established SIPC and directed SIPC to establish the SIPC Fund.³⁰² At the end of 2023, SIPC reported 3,297 members.³⁰³ The SIPC Fund totaled approximately \$4.47 billion as of December 31, 2023, and currently the objective is to build it to a level of \$5 billion. To date, SIPC has carried out 330 liquidations since its inception with approximately \$141.6 billion in assets distributed to customers.³⁰⁴ Of that, about \$141.6 billion came from debtors' estates (i.e., SIPC broker-dealer members' estates), while \$915.7 million came from the SIPC Fund.³⁰⁵

²⁹⁹ See section I.C.2. of this release (describing broker-dealer liquidations and SIPA).

³⁰⁰ See section I.C.1. of this release (describing Rule 15c3-3 and customer accounts).

³⁰¹ See section I.C.1. of this release (describing Rule 15c3-3 and PAB accounts).

³⁰² See 15 U.S.C. 78ccc(a)(1) and 78ddd(a)(1).

³⁰³ See 2023 SIPC Annual Report, table 2, at 10.

³⁰⁴ As of the end of 2023. See section I.C.2. of this release, describing broker-dealer liquidations and SIPA. The volume of proceedings was highest in the 1970s (15 per year), while between 1980 and 2003 the number averaged about seven per year. Since 2003 the average has been one per year (with the highest number, five, occurring in 2008, while there were 10 years with none). See 2023 SIPC Annual Report, Figure 1, at 8.

³⁰⁵ See 2023 SIPC Annual Report at 8-9, for the statistics in this paragraph. SIPC refers to distributions to customers as "advances," though the 2023 SIPC Annual Report does not detail the timing of those advances in the 330 proceedings.

c. Reserve Account Requirement for Security-Based Swaps

In 2019, the Commission adopted customer segregation requirements for broker-dealers and SBSDs with respect to customer money, securities, and property related to security-based swaps.³⁰⁶ Under these requirements, broker-dealers (including broker-dealers that are also SBSDs) are required to perform a separate weekly security-based swap customer reserve computation and have a separate security-based swap customer reserve account that must hold the net amount of cash owed to security-based swap customers.³⁰⁷ These requirements were based in part on the requirements of Rules 15c3-3 and 15c3-3a discussed above.³⁰⁸

2. Affected Broker-Dealers

Table 2 presents the universe of broker-dealers by presence of carrying activities.³⁰⁹ As of December 2023, 157 broker-dealers identified in Line 40 of the FOCUS Report reported that they carry their own customer accounts. Among these, 64 reported having only customer credits, 64 reported having both customer and PAB credits, none reported having only PAB credits,³¹⁰ and 14 broker-dealers reported having no customer credits or debits. Further, 15 broker-dealers reported having exemptions from the requirements of Rule 15c3-3, including performing a customer reserve computation.³¹¹ In addition, 34 broker-dealers that did not identify themselves

³⁰⁶ See SBS Segregation Adopting Release. See also section II.F. of this release (discussing reserve account requirements for security-based swaps).

³⁰⁷ See paragraph (p) of Rule 15c3-3; 17 CFR 240.15c3-3b. See also section II.F. of this release (discussing reserve account requirements for security-based swaps, and SBS FAQ 1 for staff views). SBSDs that are not broker-dealers (other than OTC derivatives dealers) are subject to the segregation requirements of Exchange Act Rules 18a-4 and 18a-4a.

³⁰⁸ See *id.* See also section I.C.1. of this release (discussing the requirements of Rules 15c3-3 and 15c3-3a).

³⁰⁹ Based on monthly FOCUS Report data for the reporting year 2023. The Commission assumes that broker-dealers that did not file FOCUS Reports for the last month of 2023 are no longer in business.

³¹⁰ PAB account holders are not considered customers under paragraph (a)(1) of Rule 15c3-3. See section I.C.1. of this release (describing Rule 15c3-3 and PAB accounts).

³¹¹ There are three exemptions to Rule 15c3-3, each related to the procedure broker-dealers follow when they receive customer funds and securities. The first exemption is for broker-dealers that partake in limited mutual fund and insurance-related business. The exemption allows such firms to briefly handle customer funds, but not maintain indefinite custody of those funds or securities. The second exemption applies to broker-dealers that clear their transactions on what is known as a “receive versus payment/delivery versus payment (RVP/DVP) basis.” In an RVP/ DVP settlement, a broker-dealer executes simultaneous

as those that carry their own customer accounts in Line 40 of the FOCUS Report reported customer and/or PAB credits in their customer or PAB reserve computations. Among these, five broker-dealers had both customer and PAB credits, 28 broker-dealers had customer credits only, and one broker-dealer had PAB account credits only.

When the Commission computed average total credits using data for January 2023 through December 2023, the Commission estimated that there are 191 broker-dealers (“carrying broker-dealers”) that currently fall within the scope of the Rule 15c3-3 (though of this group, 29 carrying broker-dealers reported zero customer or PAB credits in 2023). In aggregate, these carrying broker-dealers hold approximately 83% of all broker-dealer assets,³¹² and report approximately \$1.1 trillion in total credits and approximately \$0.93 trillion in total debits, as of December 2023.³¹³

Table 2. Broker-Dealers by Carrying Activity, 2023.^a

Broker-Dealer Type	#	Total Assets, \$B	Total Credits, \$B		Total Debits, \$B	
			Monthly Average	Year-End	Monthly Average	Year-End
<i>Carrying its own customer accounts:</i>	157	4,782.7	1,027.4	1,102.7	825.7	922.4
- with positive customer and PAB credits	64	4,143.0	993.8	1,079.0	794.5	901.1
- with positive customer credits only	64	570.6	33.5	23.7	31.2	21.3
- with zero reported credits	14	64.2	0	0	0	0
- with reporting exemptions	15	5.0	-	-	-	-
<i>Not carrying its own customer accounts:</i>	34	110.1	20.5	21.9	6.3	7.8
- with positive customer and PAB credits	5	49.6	2.0	2.4	1.8	2.3

exchanges of an equal value of funds for securities. As such, the broker-dealer does not end up holding any residual customer funds or securities. The third exemption is also available to broker-dealers that temporarily handle customer funds. This broker-dealer, called an “introducing broker,” establishes accounts in the name of its customers at another broker-dealer, a “clearing broker.” The clearing broker then maintains custody of those customers’ cash and securities in those accounts on a fully disclosed basis. See paragraph (k) of Rule 15c3-3.

³¹² Total assets are reported on Line 940 of the FOCUS Report.

³¹³ The Commission uses monthly FOCUS Reports to calculate total credits and total debits. For each carrying broker-dealer, total credits are calculated as the sum of customer credits reported on Line 4430 and the PAB credits reported on Line 2170. Similarly, for each carrying broker-dealer, total debits are calculated as the sum of the customer debits reported on Line 4472 and the PAB debits reported on Line 2230.

- with positive customer credits only	28	59.7	18.4	19.2	4.4	5.2
- with positive PAB credits only	1	0.8	0.06	0.4	0.07	0.4
<i>Without any carrying activities</i>	3,208	1013.8	-	-	-	-
Total	3,399	5,906.6	1,047.9	1,124.6	832.0	930.2

^a Data are for calendar year 2023. The Commission uses monthly FOCUS Reports to calculate average monthly total credits and total debits. For each carrying broker-dealer, total credits are calculated as the sum of the average monthly amount of customer credits reported on Line 4430 and the average monthly amount of PAB credits reported on Line 2170. Similarly, for each broker-dealer, total debits are calculated as the sum of the average monthly amount of customer debits reported on Line 4472 and the average monthly amount of PAB debits reported on Line 2230.

Table 3 displays the carrying broker-dealers that reported positive customer or PAB credits in 2023 into groups based on the size of their average monthly total customer and PAB credits (averaged over January 2023 to December 2023).³¹⁴

Table 3. Carrying Broker-Dealers by Size of Average Total Credits, 2023

	#	Total assets (\$B)	Total Customer Credits, \$MM			Total PAB Credits, \$MM			Total Credits, \$MM	
			#	Mean	Median	#	Mean	Median	Mean	Median
>\$0-100MM	87	272.2	87	13.6	1.9	22	0.9	0	14.5	2.2
\$100-250MM	14	132.3	14	157.1	152.3	8	3.2	0	160.3	153.9
\$250-500MM	12	341.6	12	296.1	296.6	8	61.0	13.5	357.2	315.3
\$500MM-1B	8	122.7	8	673.6	633.1	7	24.1	2.5	697.7	633.2
\$1-5B	17	337.3	17	2,239.8	2,103.3	15	104.6	6.3	2,344.3	2,136.5
\$5-10B	6	122.9	6	6,554.2	6,702.3	6	646.8	64.8	7,201.0	6,734.2
≥\$10B	18	3,494.7	18	46,919.0	33,591.7	16	5,939.0	183.0	52,858.1	36,846.2
Total^a	162	4,823.6	162	5,767.1	57.7	82	701.3	0.0	6,468.4	63.0

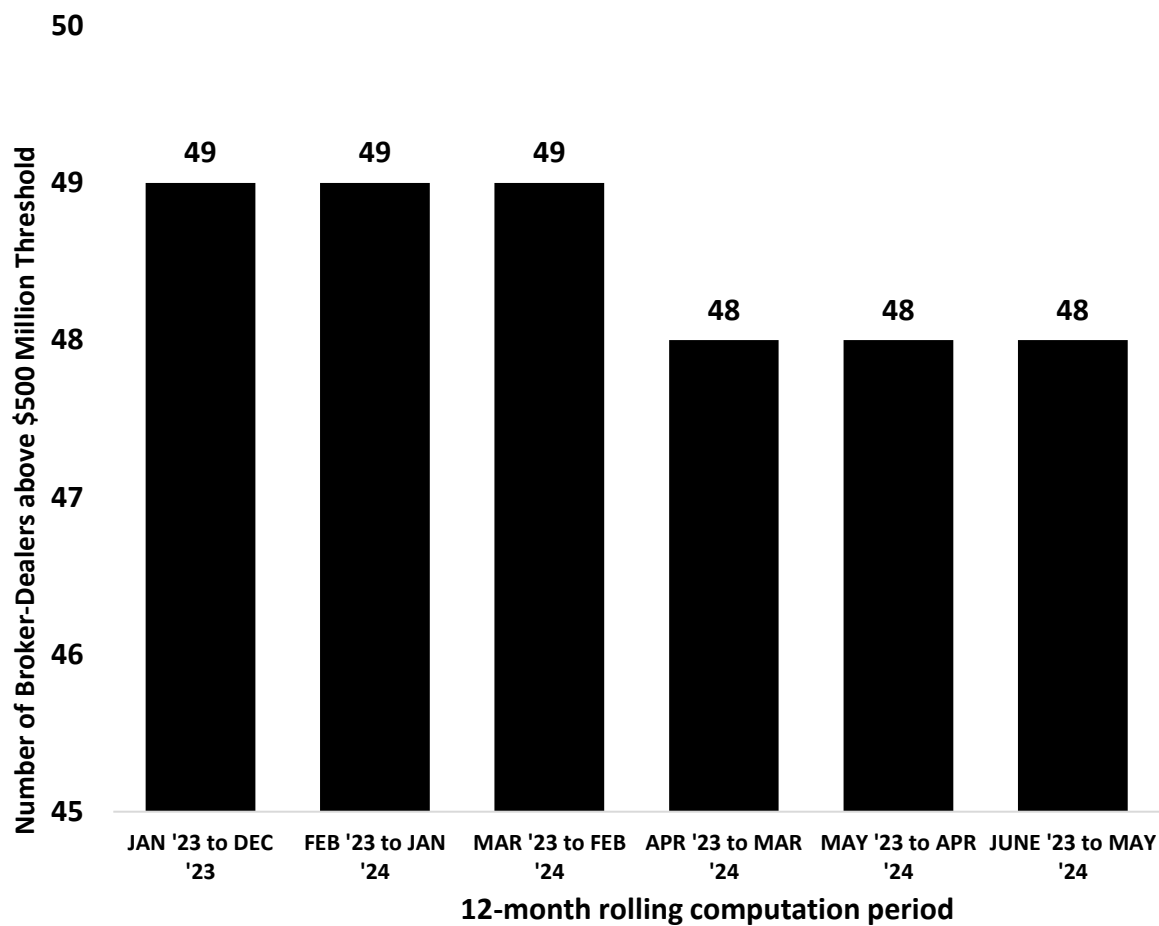
^aTable excludes carrying broker-dealers with zero reported credits in 2023.

The final amendments modify the proposal by raising the proposed \$250 Million Threshold to \$500 million. Thus, the daily computation requirement applies only to carrying broker-dealers whose average total credits are above the \$500 Million Threshold. Therefore, the Commission estimates that, based on data for January 2023 through December 2023, the scope of affected entities was 49 carrying broker-dealers, which held 99.3% of aggregate total credits of all carrying broker-dealers.

³¹⁴ The grouping is based on the average monthly amount of customer credits reported on Line 4430 and the average monthly amount of PAB credits reported on Line 2170.

The number of affected carrying broker-dealers may vary month to month since a 12-month rolling average is used for the calculation of the \$500 Million Threshold. To provide information on how the number of entities may thus vary over time, Figure 1 displays the number of affected carrying broker-dealers for a sequence of 12-month rolling averages beginning with January 2023 and extending through May 2024.³¹⁵

Figure 1. Number of Affected Broker-Dealers under 12-Month Rolling Average, Over the Period from January 2023 – May 2024



As shown in Figure 1, the number of affected carrying broker-dealers varied monthly from 49 to 48 over the period from January 2023 through May 2024. There was little variation,

³¹⁵ Figure created from monthly FOCUS Reports, from January 2023 through May 2024. The first 12-month computation period is January 2023 to December 2023, the second period is February 2023 through January 2024, and so on. The total number of carrying broker-dealers that reported positive total credits in each of the six rolling periods shown in Figure 1 equaled 162, 160, 160, 159, 158 and 160, respectively.

however, in the identity of the affected carrying broker-dealers. The same 47 carrying broker-dealers met the \$500 Million Threshold in each month, and from one to two additional carrying broker-dealers met the \$500 Million Threshold in any given month.³¹⁶ In total, over this period, 50 different carrying broker dealers would have been affected.

With respect to the frequency of computation, based on the January 2023 to December 2023 period (12-month period), table 4 displays the number of carrying broker-dealers performing their computations daily, weekly, and monthly in each size category for average total credits.³¹⁷

Table 4. Reserve Formula Computation Frequency, 2023

Average Total Credits	#	Customer Reserve Formula				PAB Reserve Formula			
		#	Daily	Weekly	Monthly	#	Daily	Weekly	Monthly
>\$0-100MM	87	87	1	72	11	22	0	18	1
\$100-250MM	14	14	0	14	0	8	0	6	0
\$250-500MM	12	12	0	12	0	8	0	8	0
\$500MM-1B	8	8	0	8	0	7	0	7	0
\$1-5B	17	17	1	16	0	15	1	14	0
\$5-10B	6	6	0	6	0	6	0	6	0
>= 10B	18	18	8	10	0	16	8	8	0
Total	162	162	10	138	11	82	9	67	1

As shown in table 4, out of 162 carrying broker-dealers that reported the frequency of their customer reserve computations, 10 carrying broker-dealers performed the customer reserve computation daily, among which 9 also performed the PAB reserve computation daily and one which does not report carrying PAB accounts. Among carrying broker-dealers performing the customer reserve computation daily, 9 had total credits above the \$500 Million Threshold. These

³¹⁶ One of the carrying broker-dealers above the \$500 Million Threshold withdrew its broker-dealer registration from the Commission in February 2024. This carrying broker-dealer is excluded from the number of affected carrying broker-dealers in each of the three rolling periods following the rolling period that covers March 2023 to February 2024.

³¹⁷ Data from monthly FOCUS Reports filed for the 2023 calendar year. A small number of carrying broker-dealers did not identify any customer or PAB reserve computation frequency (for example, for broker-dealers reporting positive credits in customer accounts, one failed to report reporting frequency in its FOCUS Report). Therefore, the total number of carrying broker-dealers exceeds the sum of the number of broker-dealers who identified a daily, weekly, or monthly computation frequency.

9 carrying broker-dealers accounted for 61.9% of the total amount of average total credits among all carrying-broker dealers with positive customer or PAB credits reported in 2023.³¹⁸ All the carrying broker-dealers performing the PAB reserve computation daily had total credits above the \$500 Million Threshold.³¹⁹

Based on the January 2023 to December 2023 period, there were 40 carrying broker-dealers with average total credits equal to \$500 million or above performing the customer reserve computation weekly and there were no carrying broker-dealers with average total credits equal to \$500 million or above performing the customer reserve computation monthly. Among the 40 carrying broker-dealers performing a weekly customer reserve computation, there were 35 carrying broker-dealers that performed the PAB reserve computation weekly and there were no carrying broker-dealers with average total credits equal to \$500 million or above that performed the PAB reserve computation monthly. Based on the data for 2023, the Commission estimates that 40 carrying broker-dealers will be affected by the final amendments.

Table 5 below shows the distribution of deposits required to be put into the customer and PAB reserve bank accounts or permitted withdrawals after the reserve computation performed at the end of the reporting period relative to the reserve bank account balance.³²⁰ These metrics provide a picture of the “mismatch” that occurs with respect to customer and PAB accounts. Specifically, this mismatch is calculated as a carrying broker-dealer’s deposit divided by its

³¹⁸ Calculated from monthly FOCUS Reports for 2023.

³¹⁹ The carrying broker-dealers identified as computing daily in the January 2023 to December 2023 sample were also computing daily in the June 2023 to May 2024 period (for both customer and PAB accounts). The June 2023 to May 2024 sample included one additional carrying broker-dealer with average total credits below the \$500 Million Threshold that performed customer reserve computations on a daily basis.

³²⁰ Calculated from monthly FOCUS Reports for 2023. The Commission isolated deposits (equal to or greater than zero) from any month (Line 4520), relative to the reserve account balance, (Line 4530). For PAB reserve bank accounts, deposits and amount in reserve account are FOCUS Lines 2290 and 2300, respectively. The distribution of the averages of the monthly deposits, withdrawals, and reserve account balances (over 2023) are presented in columns ‘Average Deposit’, ‘Average Withdrawal’, and ‘Average Reserve Balance’ of table 5. The Commission also recalculated by defining the deposit category as only values greater than zero, but the average mismatch did not change very much for each category, nor did the pattern seen in the table.

reserve account balance from any month.³²¹ The average of these mismatches for each broker-dealer over 2023 is computed to determine the “average mismatches.” For the “maximum mismatches,” each broker-dealer’s largest deposit amount in 2023 is divided by its reserve account balance for that month.³²² The distributions of the average and maximum mismatches are presented in the columns “Average Mismatch” and “Maximum Mismatch” of table 5.

The average mismatches and maximum mismatches were generally lower for carrying broker-dealers below the \$500 Million Threshold, than for carrying broker-dealers above the \$500 Million Threshold.

With respect to customer reserve accounts, shown in panel A, the mismatches were larger for the groups of carrying broker-dealers with over \$500 million in average total credits, with the largest occurring for carrying broker-dealers within the \$5 to \$10 billion range. On the aggregate level, for carrying broker-dealers above the \$500 Million Threshold, the average mismatch was 15.7%, while it was only 6.4% for carrying broker-dealers below the \$500 Million Threshold.³²³ Similarly, the maximum mismatch for carrying broker-dealers above the \$500 Million Threshold was 36.1%, while it was 20.9% for carrying broker-dealers below the \$500 Million Threshold.³²⁴

For PAB reserve accounts, shown in panel B, the largest average mismatches and the maximum mismatches occurred for the groups of carrying broker-dealers with over \$250 million in average total credits, with the largest occurring for carrying broker-dealers with over \$10 billion in average total credits.

³²¹ A deposit represents the amount that a carrying broker-dealer needs to deposit to close the gap between the amount prescribed by the reserve computation and the actual reserve balance in the bank account.

³²² The Commission isolated the largest monthly deposit amount in 2023 (Line 4520), relative to the reserve account balance for that month (Line 4530). The same was done for PAB reserve accounts (FOCUS Lines 2290 and 2300, respectively).

³²³ Calculated from monthly FOCUS Reports for 2023. The aggregated average mismatch of 15.7% is calculated as an average of the average mismatches for all carrying broker-dealers that met the \$500 Million Threshold. The same was done for carrying broker-dealers below the \$500 Million Threshold.

³²⁴ Calculated from monthly FOCUS Reports for 2023. The maximum mismatch of 36.1% was calculated as an average of the maximum mismatches for all carrying broker-dealers above the \$500 Million Threshold. The same was done for carrying broker-dealers below the \$500 Million Threshold.

Panels C and D of table 5 display the average mismatch and maximum mismatch metrics comparing the large carrying broker-dealers (over \$1 billion in average total credits) that currently compute their reserve accounts daily versus those that do so weekly. With respect to customer reserve accounts (panel C), carrying broker-dealers that compute daily have larger average reserve balances and deposits, and lower average and maximum mismatches than those that compute weekly.

For PAB reserve accounts (panel D), the average or maximum mismatch do not appear as correlated with daily versus weekly filing.

Table 5. Broker-Dealer Deposits and Withdrawals as a Share of Reserve Account Balance, 2023

Panel A: Customer Reserve Accounts

Broker-Dealer Group	#	Average Reserve Balance MM	Average Deposit MM	Average Withdrawal MM	Average Mismatch %	Maximum Mismatch %
>\$0-100MM	87	\$9.9	\$0.5	-\$3.0	6.5%	19.8%
\$100-250MM	14	\$69.7	\$3.5	-\$18.4	6.5%	26.5%
\$250-500MM	12	\$194.7	\$11.2	-\$25.6	5.0%	22.1%
\$500MM-1B	8	\$190.8	\$15.8	-\$24.1	20.8%	42.0%
\$1-5B	17	\$697.3	\$56.6	-\$62.9	15.8%	37.9%
\$5-10B	6	\$2,848.8	\$512.5	-\$142.9	24.3%	52.1%
>= 10B	18	\$11,626.0	\$784.7	-\$785.1	10.8%	26.7%

Panel B: PAB Reserve Accounts

Broker-Dealer Group	#	Average Reserve Balance MM	Average Deposit MM	Average Withdrawal MM	Average Mismatch %	Maximum Mismatch %
>\$0-100 MM	22	\$1.3	\$0.03	-\$0.3	1.7%	11.3%
\$100-250 MM	8	\$10.8	\$0.2	-\$2.0	1.3%	7.1%
\$250-500 MM	8	\$87.6	\$3.9	-\$21.8	4.5%	25.4%
\$500MM-1 B	7	\$3.2	\$0.3	-\$0.7	4.8%	21.4%
\$1-5 B	15	\$45.6	\$5.8	-\$20.0	9.8%	40.4%
\$5-10 B	6	\$79.3	\$12.8	-\$85.7	4.9%	37.6%
>= 10 B	16	\$528.0	\$101.8	-\$245.7	12.5%	49.4%

Panel C: Customer Reserve Accounts

Broker-Dealer Group	#	Average Reserve Balance MM	Average Deposit MM	Average Withdrawal MM	Average Mismatch %	Maximum Mismatch %
All (weekly and daily)						
>= 1B	41	\$5,810.1	\$443.0	-\$395.0	14.8%	35.1%
Daily						
>= 1B	9	\$13,028.4	\$423.9	-\$978.5	3.8%	15.2%
Weekly						
>= 1B	32	\$3,780.0	\$448.3	-\$200.5	17.9%	40.6%

Panel D: PAB Reserve Accounts

Broker-Dealer Group	#	Average Reserve Balance MM	Average Deposit MM	Average Withdrawal MM	Average Mismatch %	Maximum Mismatch %
All (weekly and daily)						

	>= 1B	37	\$259.7	\$48.4	-\$141.5	10.1%	43.8%
Daily							
	>= 1B	9	\$778.3	\$148.4	-\$278.2	10.5%	49.7%
Weekly							
	>= 1B	28	\$93.0	\$16.3	-\$77.1	10.0%	41.7%

3. Debit Reduction in the Customer Reserve Computation for Certain Broker-Dealers

Several commenters suggested that the Commission reduce the aggregate debit items charge that certain carrying broker-dealers must take when performing their customer reserve computation under Rule 15c3-3.³²⁵ Rule 15c3-1 requires broker-dealers to maintain a minimum level of net capital at all times. Carrying broker-dealers using the alternative method for computing their net capital must maintain minimum net capital of the greater of \$250,000 or 2% of their aggregate debit items computed under the customer reserve computation. In addition, a broker-dealer that uses the alternative method to compute its net capital must provide the Commission with an “early warning” notice when its aggregate debit items in its customer reserve computation fall below 5%. All carrying broker-dealers with total credits more than \$500 million in their customer reserve computation as of December 31, 2023, use the alternative method. A carrying broker-dealer using the alternative method to compute its minimum net capital requirement must reduce aggregate debit items by 3% when performing its customer reserve computation under Rule 15c3-3. This provision serves to increase the amount of funds a carrying broker-dealer must deposit into its customer reserve bank account.

Commenters recommended that the Commission eliminate the 3% debit reduction and instead apply the 1% debit reduction that currently applies to carrying broker-dealers using the basic method to compute their net capital. One commenter stated a reduction of the 3% debit

³²⁵

See SIFMA Letter at 5; Raymond James Letter at 2; ASA Letter at 5; ASA Letter 2 at 1.

reduction is warranted because under a daily customer reserve computation the value of debit items and amounts carrying broker-dealers owe customers on any given day are accounted for in the next day's customer reserve computation and the difference is protected in the next day's deposit into the customer reserve bank account.³²⁶ This commenter stated that the new requirement to perform a customer reserve computation daily would reduce the need for any cushion to account for a mismatch and, consequently, would increase liquidity and lower costs for customer financing by allowing carrying broker-dealers to use assets that would otherwise be locked up (in their customer reserve bank account).³²⁷ This commenter further stated that carrying broker-dealers could use the added liquidity to provide customers with more financing at a lower cost, and (reducing the debit reduction) would thereby benefit customers as well as carrying broker-dealers.³²⁸

Another commenter stated that when the Commission adopted the 3% debit reduction in 1975 it stated that the purpose was to provide, in the event of a liquidation, an additional cushion of secured debit items which will be available to satisfy customers with whom the carrying broker-dealer effects transactions.³²⁹ This commenter stated that a shift to a daily customer reserve computation enabled by technological advancements since 1975 would result in a more precise and up-to-date computation, thereby mitigating the risk that the 3 debit reduction addresses in the customer reserve computation.³³⁰ The commenter went on to state that "a 1% debit reduction in line with that applied to other broker-dealers seems appropriate for firms that calculate net capital under the alternative method."

³²⁶ See SIFMA Letter at 6.

³²⁷ *Id.*

³²⁸ *Id.*

³²⁹ See Raymond James Letter at 2.

³³⁰ *Id.*

The Commission agrees that performing a customer and PAB reserve computation daily will reduce the mismatch risk and more dynamically match the amount a carrying broker-dealer owes its customers and PAB account holders and the amount on deposit in its customer reserve bank account. When the mismatch risk is reduced by moving from weekly to daily calculations, the aggregate debit items need not be reduced by the 3%. However, the Commission disagrees with commenters that performing a daily customer reserve computation merits a decrease of the 3% debit reduction to 1% of customer margin loan balances. The 1% debit reduction applies to carrying broker-dealers that use the basic method to calculate their minimum net capital requirements. Net capital requirements are formulated differently under the alternative and basic methods. While the basic method targets the overall leverage of a carrying broker-dealer directly, under the alternative method, the net capital rule is formulated as a percentage of total customer receivables. Under the weekly-computation regime, the 3% debit reduction has been designed to compensate for the potential lower minimum net capital requirement resulting from carrying broker-dealers electing the alternative method in lieu of the basic method. Consequently, the Commission strengthened the customer reserve computation requirements for carrying broker-dealers using the alternative method. A 1% debit reduction could lead to inadequate combined levels of liquidity and capital buffers at carrying broker-dealers that use the alternative method to calculate their minimum net capital requirements.

The Commission is modifying the final rule amendments to permit carrying broker-dealers that use the alternative method to reduce aggregate debit items by 2% rather than 3% if they perform a daily customer reserve computation. This amendment will apply to both carrying broker-dealers that are required to perform a daily customer reserve computation because they exceed the \$500 Million Threshold and carrying broker-dealers below the \$500 Million Threshold that voluntarily perform a daily computation. Performing a daily customer reserve computation reduces the risk that the net amount of cash owed to customers will be substantially

greater than the net amount on deposit in a carrying broker-dealer's customer reserve bank account.

A daily computation requirement allows for cash owed to customers from a particular day to be included in that day's customer reserve computation, computed the next business day and any required deposits made the following business day. Therefore, under a daily customer reserve computation, the amount on deposit in the customer reserve bank account will more quickly reflect the net amount of cash the carrying broker-dealer owes its customers, and therefore, reduces the need for the current 3% "cushion." Performing a daily customer reserve computation will reduce the maximum time between required deposits into a customer reserve bank account to two business days.

A 2% debit reduction is reasonable given the lower mismatch risk under a daily customer reserve computation. This 2% "buffer" also will provide carrying broker-dealers with a safeguard to ensure a carrying broker-dealer maintains adequate balances in its customer reserve bank account to ensure that the customer securities and cash should be readily available to return to customers and PAB account holders in the event the carrying broker-dealer fails financially. Further, carrying broker-dealers will be able to use this extra liquidity to pay the initial and ongoing compliance costs to transition from a weekly to daily customer reserve computation under the final rule amendments. Carrying broker-dealers below the \$500 Million Threshold also may choose to voluntarily perform a daily customer reserve computation to use the 2% debit reduction. The combined requirement of a daily customer reserve computation and a 2% debit reduction will provide this additional flexibility while enhancing customer protection requirements under Rule 15c3-3.

C. Economic Effects of the Final Amendments

1. Benefits

Customers and PAB account holders of the affected carrying broker-dealers are expected to benefit from the requirement to perform daily customer and PAB reserve computations. As

reflected in the discussion in section I.A. of this release noting the large amounts of deposits carrying broker-dealers may receive, and as evidenced from the information in table 5, a weekly customer and PAB reserve computation can result in a carrying broker-dealer owing a net amount of cash to customers or PAB account holders for a number of days that is greater than the current amounts deposited into the customer and PAB reserve bank accounts. Hence, if a carrying broker-dealer fails before the next reserve account computation and the reserve bank account balances do not represent the actual net amount of cash owed to customers or PAB account holders, these customers and PAB account holders may be at risk of having their funds tied up in a liquidation proceeding. Performing daily customer and PAB reserve computations would likely decrease this risk.

Under the scenario where a carrying broker-dealer does not have sufficient funds to repay what it owes to customers or PAB account holders, SIPC likely would need to initiate a liquidation of the carrying broker-dealer under SIPA.³³¹ Although the SIPC Fund can be used to advance funds to customers that are owed money, PAB account holders are not entitled to such advances; therefore, they may not receive the funds owed to them by a failed carrying broker-dealer as promptly as other customers of such broker-dealer may. In addition, there is a limit on advances to customers in the amount of \$500,000 per customer (of which \$250,000 can be used to cover cash claims). If some customers are owed more than such limit, these customers would have to wait along with PAB account holders until a trustee is appointed who would consequently attempt to recover assets of the failed carrying broker-dealer via asset sales or other recovery methods. This recovery process may, in some cases, be lengthy.³³² In an extreme case, the amounts the trustee is able to recover may still be insufficient to make all customers and PAB

³³¹ See section I.C.2. of this release (discussing broker-dealer liquidations and SIPA).

³³² For example, it has been the case that customers of a liquidated carrying broker-dealer have had to wait up to six months or more to access their assets during the liquidation period. See Michael P. Jamroz, *The Customer Protection Rule*, 57 BUS. LAW. 1069 (May 2002), available at <https://www.jstor.org/stable/40688076>.

account holders whole, which means that these customers and PAB account holders would absorb the loss.

Based on these various circumstances, from the customer's or PAB account holder's perspective, there are varying degrees of risk related to a potential failure of a carrying broker-dealer, depending on whether it can promptly return cash and securities to customers and PAB account holders, or whether it has enough funds to make all customer and PAB account holders whole at the time of its failure. Therefore, maintaining levels of customer and PAB reserve bank account balances that more closely represent the actual amounts of net cash owed to customers and PAB account holders will benefit these customers and PAB account holders by decreasing the risk of not completely recovering their funds from the carrying broker-dealer or having these funds tied up in a liquidation proceeding.³³³

In addition, performing daily computations will benefit customers and PAB account holders of the affected carrying broker-dealers by more quickly applying the protective measures of the Rule 15c3-3 reserve requirements to cash of customers and PAB account holders that is newly deposited into the carrying broker-dealer. This reduces the likelihood of carrying broker-dealers inadvertently using customers' or PAB account holders' funds to finance any part of their business.³³⁴

Other carrying broker-dealers that are SIPC members may also benefit from the requirement to perform daily customer and PAB reserve computations. Specifically, if a failing carrying broker-dealer with a mismatch between the reserve bank account balances and actual

³³³ The Commission notes that, with daily computing, there will still be a mismatch between the actual net cash owed to customers and the reserve account balance because of the deposit timing delay, which is the morning of the second business day after the day of calculation. Should a carrying broker-dealer computing daily fail, and the amount of the mismatch is lower than in the case of a weekly computation, the customer may receive their funds more promptly from the carrying broker-dealers' available assets than in the case where mismatches are larger (which may imply a longer liquidation process), underscoring the potential benefit from daily computing.

³³⁴ With respect to each customer reserve computation required pursuant to Rule 15c3-3, a broker-dealer must not accept or use any of the amounts under items comprising total credits under the customer reserve formula except for the specified purposes indicated under items comprising total debits under the formula. *See* paragraph (e)(2) of Rule 15c3-3.

cash owed to customers and PAB account holders is put into SIPA liquidation, SIPC may be required to use the SIPC Fund to advance money to customers from the SIPC Fund, reducing its balance and potentially depleting the SIPC Fund. Consequently, a reduction in the SIPC Fund balance and/or SIPC's unrestricted net assets may trigger increased contributions from member broker-dealers, as displayed in table 1 in section I.C.2. of this release, with more substantive balance reductions requiring larger increases in assessments of member broker-dealers, which may be passed on to investors in the form of higher fees or commissions. Therefore, the requirement to perform daily computations will benefit SIPC member broker-dealers by reducing the risk of SIPC Fund depletion and a consequent increase in SIPC assessments.

The requirement to perform daily computations will apply only to carrying broker-dealers whose average total credits exceed the \$500 Million Threshold. Given the information from the 12-month average based on the 2023 monthly FOCUS Reports as an example, the Commission estimates that 40 carrying broker-dealers will be required to switch to a daily computation of the customer reserve formula and 35 carrying broker-dealers will be required to switch to a daily computation of the PAB reserve formula.³³⁵ As shown in table 5, carrying broker-dealers with average total credits above the \$500 Million Threshold are more likely to experience larger mismatches and the dollar amounts underlying those mismatches are significantly larger.³³⁶ And as shown in panel C of table 5, those carrying broker-dealers that compute daily tend to have smaller mismatches than those that compute weekly. Hence, the final amendments may reduce the likelihood of mismatches, benefitting customers and PAB account holders of the affected carrying broker-dealers.

Further, in cases where carrying broker-dealers with greater amounts of total credits are more interdependent with other carrying broker-dealers than carrying broker-dealers with smaller

³³⁵ See table 3.

³³⁶ See discussion in section IV.B.2. of this release for more details on table 5.

amounts of total credits, having additional large carrying broker-dealers computing daily may benefit financial markets overall without imposing the costs of daily computation onto carrying broker-dealers that do not have significant amounts of total credits.

Carrying broker-dealers above the \$500 Million Threshold are more likely to have PAB accounts, and these PAB accounts hold much greater amounts of total credits. To be specific, 89.8% of carrying broker-dealers above the \$500 Million Threshold hold PAB accounts, and they have an average value of \$2.3 billion in total PAB credits; whereas only 33.6% of carrying broker-dealers below the threshold hold PAB accounts, and they have an average value of \$7.6 million in total PAB credits. Therefore, the carrying broker-dealers above the \$500 million threshold are likely to pose greater risk to other broker-dealers. That is, should a carrying broker-dealer fail and not have sufficient funds in its PAB reserve bank account to make whole its PAB account holders, a broker-dealer that is a PAB account holder of the failed carrying broker-dealer may experience delays in the reimbursement of its securities and cash and consequently be exposed to financial stress, which could further propagate to its PAB account holders, and so on. This risk is exacerbated for PAB account holders because they are not entitled to advances from the SIPC Fund. In that way, a failure of one large carrying broker-dealer with a mismatched PAB reserve bank account may result in other carrying broker-dealers experiencing financial stress and increased risk of liquidation. Insofar as a daily computation for carrying broker-dealers with total credits above the \$500 Million Threshold reduces the chance that a large carrying broker-dealer has mismatched funds in its PAB reserve bank account, the potential for stress propagation associated with a failure of a carrying broker-dealer will be reduced.

As discussed in the baseline section, a carrying broker-dealer using the alternative method to compute its minimum net capital requirement must currently reduce aggregate debit items by 3% when performing its customer reserve computation under Rule 15c3-3. This provision serves to increase the amount of funds a carrying broker-dealer must deposit into its

customer reserve bank account. Also, as mentioned in the baseline section, commenters recommended that the Commission eliminate the 3% debit reduction and instead apply the 1% debit reduction that currently applies to carrying broker-dealers using the basic method to compute their net capital.³³⁷

The Commission is modifying the final rule amendments to permit carrying broker-dealers to reduce aggregate debit items by 2% rather than 3% if they perform a daily customer reserve computation. This amendment will apply to both carrying broker-dealers that are required to perform a daily customer reserve computation because they exceed the \$500 Million Threshold and carrying broker-dealers below the \$500 Million Threshold that voluntarily perform a daily computation. This amendment creates an incentive for smaller carrying broker-dealers to voluntarily perform a daily customer reserve computation. To the extent that they do so, this would reduce the likelihood of a mismatch of funds in their customer and PAB reserve bank accounts, thereby also reducing the risk that customers and PAB account holders experience delays in recovering their funds from the carrying broker-dealer in case of its failure as well as other risks associated with the failure.³³⁸

For the 49 broker-dealers on Figure 1 of the baseline section that met the threshold in 2023, the Commission used FOCUS data on aggregate debits to estimate that the change from 3% to 2% adopted by the rule amendments would have freed up a monthly average of \$7.41 billion of liquidity. The reduction in aggregate debit items from 3% to 2% mitigates the additional costs to carrying broker dealers who change to a daily calculation while still being congruent with investor protection; the change to a daily calculation, which lowers mismatch risk,³³⁹ allows for this change.

2. Costs

³³⁷ See SIFMA Letter at 5; Raymond James Letter at 2; ASA Letter at 5; ASA Letter 2 at 1.

³³⁸ See section II.C. of this release (discussing the 2% debit reduction).

³³⁹ See section I.A. of this release (discussing the mismatch risk).

Affected broker-dealers may experience an increase in costs resulting from the shift to the daily computation requirement. If under the weekly computation requirement, the carrying broker-dealers relied on staff who fulfilled other functions to also perform the weekly computations,³⁴⁰ under the daily computation requirement, these carrying broker-dealers will need to make operational changes in order to re-allocate the effort of this staff across the week or hire new personnel who will be assigned the task of performing daily computing.³⁴¹ The Commission also expects that the carrying broker-dealers may need to upgrade their systems and internal controls³⁴² or potentially create or purchase new programming and systems, and update the infrastructure of various functions,³⁴³ to facilitate the increased frequency of computations and accelerate the coordination of departments and groups involved in providing the necessary information on credit and debit items used to perform the computations.³⁴⁴ Implementing these operational changes, potential staff increases, and upgrades may require the carrying broker-dealers to incur initial start-up compliance costs.

The Commission received comments offering estimates of these start-up costs. One commenter stated that for a carrying broker-dealer that currently performs daily reserve computations, it took over 25,000 man-hours to complete the shift from weekly to daily computing.³⁴⁵ This commenter also stated that it may require anywhere from 12,000 to 25,000

³⁴⁰ See Raymond James Letter at 4.

³⁴¹ See SIFMA Letter at 5 (stating “Firms required to conduct daily computations under any final rule will likely have to hire or train substantially more employees given this labor- and skill-intensive process.”).

³⁴² See SIFMA Letter at 4 (stating “...firms must have internal controls over their reserve account computations in accordance with Exchange Act Rule 17a-5. These controls include checks, approval processes, data analytics, and data valuations to ensure accurate computations.”)

³⁴³ See ASA Letter at 6; Raymond James Letter at 4 (stating “the process of implementing the proposed changes to Rule 15c3-3 will itself require the firm to assign multiple staff members to the creation and testing of new programming and systems”).

³⁴⁴ See SIFMA Letter at 4 (stating “Numerous personnel from various departments and groups, including regulatory reporting teams, treasury teams, operations teams, fixed income finance desks, cash management teams, various middle office teams, and business teams, are needed to complete the reserve account calculations”)

³⁴⁵ See SIFMA Letter at 5. This is congruent with a statement from another commenter about the carrying broker-dealers that have also completed the shift. See ASA Letter at 6 (stating “these firms have shared that it took them approximately 25,000 hours of staff and technology work”).

man-hours to complete the technology and systems changes necessary to make the shift, at cost estimates of \$2 million to \$3 million.³⁴⁶ The estimated figure of the man-hours spent by a carrying broker-dealer that has already implemented the shift to daily computing reasonably represents the man-hours for a large carrying broker-dealer, and therefore can be interpreted as an upper bound of the effort required to implement the necessary technology and systems changes.³⁴⁷ The commenter did not provide additional information about assumptions or methodologies used to derive a cost of \$2 to \$3 million from the stated range of 12,000 to 25,000 man-hours. Given that on average the 40 of 49 affected broker-dealers who compute weekly have smaller amounts of total credits and assets than the carrying broker-dealers who currently perform daily reserve computations, the stated cost estimate of \$3 million can be interpreted as an upper bound of the initial costs that a carrying broker-dealer may incur in the course of implementing the necessary technology and systems changes to comply with the final amendments.³⁴⁸ The Commission, however, will lower the 3% debit reduction to 2% for the carrying broker-dealers using the alternative method for net capital purposes, if they perform a daily customer reserve computation. This will free-up liquidity of these carrying broker-dealers, thus partially mitigating their compliance costs.

The Commission received comments regarding the ongoing costs. One commenter stated that performing a weekly computation requires numerous personnel from various departments and groups to obtain thousands of credit and debit items, reconcile these items with other firm data, and ensure accurate computations.³⁴⁹ A different commenter stated that implementing the final amendments will require carrying broker-dealers to devote the full-time efforts of multiple

³⁴⁶ See SIFMA Letter at 5.

³⁴⁷ As of December 2023, 9 out of 10 carrying broker-dealers, that performed computations on a daily basis, had over \$1 billion in average total credits and held assets with an average value of \$320 billion.

³⁴⁸ Using the stated cost estimate of \$3 million as an upper bound of a carrying broker-dealer's initial compliance costs, the upper bound of the total initial compliance costs for the 40 carrying broker-dealers can be estimated as \$120 million.

³⁴⁹ See SIFMA Letter at 4.

new personnel in order to perform daily calculations and deposits.³⁵⁰ This commenter stated that when performing and documenting each weekly calculation, no fewer than 55 employees are involved in some aspect of the reserve computations.³⁵¹

The Commission acknowledges that the ongoing costs may increase as a result of implementing the final amendments. The Commission also agrees that completing a reserve computation requires a successful coordination of multiple personnel across various departments within a carrying broker-dealer, while the team responsible for performing the computation collects and validates information on credit and debit items ensuring the accuracy of computations. Thus, the estimate of 55 employees involved in various aspects of the reserve computations may be a reasonable approximation of the number of personnel that participate in providing and processing information about the credit and debit items for the reserve computations. However, as a result of implementing the operational changes and technology upgrades to comply with the final amendments, the increase in the carrying broker-dealers' ongoing costs can be partially mitigated through automation and an accelerated coordination of departments and groups involved in providing the necessary information on credit and debit items. The Commission also recognizes that not all work related to performing the reserve computation can be automated.³⁵² However, the workload associated with the manual verification and validation of the transactions underlying the reserve computations can be reallocated across the week, as a result of operational changes. For example, if a carrying broker-dealer performed the work of verifying and investigating all the transactions at the end of the week, when a weekly computation was conducted, under the daily computation requirement, this carrying broker-dealer will be verifying the transactions daily, as they happen, and hence this

³⁵⁰ See Raymond James Letter at 4.

³⁵¹ See Raymond James Letter at 3. Another commenter stated that the daily computation processes may involve the participation of numerous departments, as well as up to 50 different people, depending on firm size. See ASA Letter at 6.

³⁵² See ASA Letter at 6.

workload will be spread out across the week. If the effort of the existing staff cannot be reallocated across the week effectively, implementing the final amendments will require the carrying broker-dealers to hire new personnel. However, as the new personnel takes over the task of performing daily reserve computations, the workload of the staff previously involved in performing weekly reserve computations could be reduced.

One commenter stated that a realistic estimate of the time it takes to complete a reserve computation runs into the dozens of hours, depending on the complexity of the carrying broker-dealer's business, with some carrying broker-dealers spending 60 to 75 man-hours per week on computations.³⁵³ This commenter concluded that moving to daily computing would mean a burden of over 400 man-hours a week for some carrying broker-dealers, meaning that the burden would increase more than five times.

The Commission recognizes that it may take up to 60 to 75 man-hours per week to complete a (weekly) reserve computation for carrying broker-dealers with complex operations. However, the Commission does not expect a more than five times increase in man-hours for the carrying broker-dealers required to transition from weekly to daily reserve computations, as it was suggested by one of the commenters.

To the extent that the carrying broker-dealers successfully implement the operational changes and technology upgrades discussed above, with automation, accelerated coordination of departments and groups involved in providing the information for the reserve computations, and staff effort being reallocated across the week, the number of man-hours spent on performing one reserve computation is unlikely to increase (and therefore stay below 75 man-hours). As a result, the weekly number of man-hours spent on complying with the final amendments is unlikely to increase more than five times for carrying broker-dealers making the shift from weekly to daily

³⁵³

See SIFMA Letter at 4.

computations, as it was suggested by one of the commenters, and hence will be lower than 400 man-hours.

The daily computation requirement will also lead to an increase in the recordkeeping costs.³⁵⁴ The Commission estimates that it will cost a carrying broker-dealer \$184,000 annually per reserve computation to prepare the records of that computation.³⁵⁵ The 9 carrying broker-dealers that already perform such computations daily (as shown in table 4, based on data for the period for January 2023 through December 2023) may not experience an increase in recordkeeping costs, however. Given the 40 carrying broker-dealers required to switch to a daily computation of the customer reserve formula and the 35 carrying broker-dealers required to switch to a daily computation of the PAB reserve formula, that implies that the aggregate annual costs of preparing records of reserve computations will increase by approximately \$11 million.³⁵⁶

One commenter stated that the 2.5 hour burden provided in the Proposing Release significantly underestimated the costs associated with shifting to the daily computation requirement.³⁵⁷ Another commenter also stated that the Commission underestimated the staffing and time that will be needed to transition to daily computations and deposits. These commenters suggested that these costs are larger than the figures estimated in the Proposing Release. In response, the 2.5 hour burden reflects solely the costs of making a record of each customer or PAB reserve computation, only one of the components of the costs of implementing the final

³⁵⁴ See *infra* section V. of this release (discussing PRA). For an additional discussion of the costs associated with the recordkeeping requirements related to customer and PAB reserve computations, including changes to (or the acquisition of) technology or systems, see *infra* section V.D.1. of this release.

³⁵⁵ The \$184,000 estimate is based on the following calculations: \$184,375 (hourly rate for financial reporting manager at \$295 for 2.5 hours for 250 business days) \approx \$184,000. This cost estimate is the same for daily customer and PAB reserve computations. It is not an estimate of the time it takes a carrying broker-dealer to perform the customer and PAB reserve computations or to fulfill current regulatory requirements.

³⁵⁶ The \$11 million estimate is based on the following calculation: 46,875 of total burden hours under the final amendments minus the decrease of 9,750 in burden hours (5,200 hours + 4,550 hours), multiplied by the hourly rate of \$295 for financial reporting manager. For an additional discussion of the burden hours, see *infra* section V.D.1. of this release.

³⁵⁷ See SIFMA Letter at 4.

amendments. This estimate does not represent any other (initial or ongoing) economic costs that carrying broker-dealers may incur while fulfilling the daily computation requirements.³⁵⁸

To the extent that the affected carrying broker-dealers that are just above the \$500 Million Threshold do not experience the same economies of scale as carrying broker-dealers that are well above the threshold, they may be disproportionately affected by the daily computation requirements and the related costs. If these costs are significant, some carrying broker-dealers may decide to alter their business to fall below the threshold and avoid the costs related to performing the customer and PAB reserve computations daily. If so, the benefits of the final amendments may be reduced.

Carrying broker-dealers just below or above the \$500 Million Threshold may also experience uncertainty related to being scoped into compliance with the daily computation requirement and may experience costs related to this uncertainty. As displayed in Figure 1, some carrying broker-dealers are likely to drop below the \$500 Million Threshold over time, and then once again exceed the threshold in later months. The costs related to these fluctuations are uncertain, but are likely to add, for such carrying broker-dealers, to the costs cited above (for example, if additional staff is needed by these carrying broker-dealers to monitor their customer reserve accounts more closely than carrying broker-dealers well above the \$500 Million Threshold).

Furthermore, while switching back and forth between daily and weekly computations may tailor the compliance costs to the size of customer activity, these fluctuations may also be confusing for customers and PAB account holders of carrying broker-dealers who decide to switch. However, this potential cost or concern may be trivial as many customers may be unaware of, or unconcerned by, the switch.

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See infra section V. of this release.

Finally, in order to avoid incurring the costs related to the uncertainty of having to switch back and forth between daily and weekly computations, some of these carrying broker-dealers may prefer to voluntarily perform daily computations after being scoped into compliance for the first time and paying the start-up costs associated with the final amendments, even if their average total credits temporarily fall below the \$500 Million Threshold.

The Commission received several comments supporting the proposal to require carrying broker-dealers with large amounts of credits to perform daily customer and PAB reserve computations;³⁵⁹ however, some of the commenters suggested modifications to the proposed threshold.

For example, some commenters suggested that the Commission should apply the final rule requirements to all carrying broker-dealers.³⁶⁰ One commenter stated that customer protection rationale applies equally to clients of both small and large broker-dealers.³⁶¹ Furthermore, the same commenter stated that requiring all carrying broker-dealers to perform daily computations eliminates the need for carrying broker-dealers to monitor their average total credits over the twelve-month period.³⁶²

The final amendments do not extend to carrying broker-dealers with average total credits below the \$500 Million Threshold. Applying the daily computation requirement to these carrying broker-dealers would impose compliance costs on 113 more broker-dealers with relatively less customer and PAB account activity.³⁶³ Furthermore, as shown in panels A and B of table 5, carrying broker-dealers with average total credits below the \$500 Million Threshold are less likely to experience larger mismatches, and the dollar amounts of these mismatches are

³⁵⁹ See Better Markets Letter; SIPC Letter; NASAA Letter.

³⁶⁰ See Better Markets Letter at 8; Cory Letter; Letter from J.R. Rothwell (Sept. 8, 2023).

³⁶¹ See Better Markets Letter at 8.

³⁶² See Better Markets Letter at 9.

³⁶³ See section IV.E.3 of this release.

smaller, relative to carrying broker-dealers above the \$500 Million Threshold. Thus, extending the daily computation requirement to these broker-dealers would subject them to increased compliance costs while they do not have potential for large mismatch risks.

Several commenters also suggested establishing alternative thresholds.³⁶⁴ One commenter proposed that the Commission define the threshold as a formula that could be adjusted periodically to ensure that the systemic risk mitigation aims can be reevaluated if necessary.³⁶⁵ Another commenter suggested incorporating risk and liquidity factors into the threshold as they may be better predictors of a failing carrying broker-dealer.³⁶⁶

The Commission disagrees with these commenters' recommendations to establish alternative thresholds. Setting formula-based thresholds that incorporate dynamic risk or liquidity factors instead of a fixed-dollar threshold would make the rule requirements less predictable and more complex to monitor for the carrying broker-dealers above the threshold. Furthermore, a dynamic formula-based threshold would increase the uncertainty of the carrying broker-dealers that would expect to be scoped into compliance with the requirements of the rule due to being just below the threshold, and, as a result, experience higher costs related to this uncertainty. As displayed in Figure 1 and discussed above, if the threshold is fixed, some carrying broker-dealers are likely to drop below it and then exceed the threshold again in later months. These fluctuations would be larger and more costly for the carrying broker-dealers if they are expected to comply with a formula-based threshold that incorporates dynamic factors. A uniform fixed-dollar threshold will make the rule requirements more predictable and easier to monitor over time for the carrying broker-dealers. Another commenter suggested to require carrying broker-dealers to perform daily computations if their average total credits exceed the

³⁶⁴ See ASA Letter at 5; NASAA Letter at 2; SIFMA Letter at 6.

³⁶⁵ See NASAA Letter at 2.

³⁶⁶ See ASA Letter at 5.

proposed \$250 Million Threshold and their average net credits are more than \$10 million.³⁶⁷ This commenter stated that including this additional metric would ensure that the rule requirements exclude broker-dealers without a large excess of credits over debits, as these carrying broker-dealers do not present a large mismatch risk.³⁶⁸ The Commission disagrees with this commenter's suggestion. Although carrying broker-dealers may have lower average excess of credits over debits, these carrying broker-dealers remain at risk for a large mismatch.³⁶⁹ The net credit metric does not take into account fluctuations in the value of net cash owed to customers and PAB account holders, and hence lower average net credits do not necessarily indicate that the carrying broker-dealer is at a lower risk of large intra-week mismatches. Furthermore, the commenter did not provide any data supporting the suggestion that carrying broker-dealers with net credits below \$10 million necessarily experience lower mismatches.

The Commission is adopting a \$500 Million Threshold to narrow the scope of the final amendments to carrying broker-dealers that tend to have larger mismatches. The \$500 Million Threshold excludes 12 carrying broker-dealers, as compared to the proposed \$250 Million Threshold. The final amendments are designed to reduce the mismatch risk for carrying broker-dealers with large amounts of total credits by reducing the time between the inflows of customer funds and when the carrying broker-dealers perform their next reserve computations and fund their reserve accounts, as these carrying broker-dealers are more likely to have larger mismatches, and the dollar amounts underlying these mismatches are significantly larger. Also, as stated above, a uniform threshold will make it easier for the carrying broker-dealers to comply with the final amendments.

Some commenters also suggested that carrying broker-dealers should perform the reserve computations in real time, given that the technical prerequisites for complex computational

³⁶⁷ See SIFMA Letter at 6.

³⁶⁸ See SIFMA Letter at 6.

³⁶⁹ See section IV.E.2. of this release.

operations are already present.³⁷⁰ The Commission disagrees with these commenters.

Performing the reserve computations in real time may not be feasible, as these computations are often accompanied by manual validations of the underlying transactions. Automating these components of computations is technically difficult and would be comparatively costlier for the carrying broker-dealers than the final amendments.

One commenter suggested establishing conditions under which either the customer or PAB reserve computations would be exempt from the daily computation requirement.³⁷¹ The commenter stated that if one of the computations (customer or PAB) has significantly less credits relative to the other, it may not be necessary or appropriate to require a daily reserve computation for the smaller category of account.³⁷² The commenter's suggestion included setting separate threshold requirements for each category of computations.³⁷³ One commenter also proposed to exempt PAB reserve computations from the rule requirements entirely.³⁷⁴ The Commission disagrees with these commenters. As stated above, having a daily computation requirement with a uniform threshold that applies to average total credits will be less costly to monitor for carrying broker-dealers expecting to be scoped into compliance, than a requirement prescribing a more complex threshold. Furthermore, exempting PAB reserve computations from the rule requirements would increase the risks of the PAB account holders as they are not entitled to advances from the SIPC Fund in case of the carrying broker-dealer's liquidation.

One commenter stated that the Commission has not appropriately weighed the costs of implementing the rule requirements against any potential benefits that could derive from the

³⁷⁰ See Linder Letter; O'Donnell Letter; and Santos Letter.

³⁷¹ See Raymond James Letter at 2.

³⁷² See Raymond James Letter at 2.

³⁷³ See Raymond James Letter at 3.

³⁷⁴ See ASA Letter at 4.

rule.³⁷⁵ This commenter also suggested that these costs could be passed down to investors buying and selling securities.³⁷⁶

The Commission recognizes that complying with the rule requirements may be costly for the carrying broker-dealers. However, the customers and PAB account holders are expected to significantly benefit from the protections provided by the final amendments. Performing daily customer and PAB reserve computations will decrease the risk of delays in recovering their funds from the carrying broker-dealer in case of its failure. Moreover, maintaining customer and PAB reserve account balances that more closely represent the amounts of cash owed to customers and PAB account holders will reduce the risk of not completely recovering their funds from the carrying broker-dealer. These risks are exacerbated for PAB account holders as they are not entitled to advances from SIPC Fund, and hence their benefits from the protections provided by the final amendments are expected to be larger. Performing daily computations will also benefit customers and PAB account holders of carrying broker-dealers by more quickly applying the protective measures of the Rule 15c3-3 reserve requirements to cash of customers and PAB account holders that is newly deposited into the carrying broker-dealer. This is expected to reduce the likelihood that customer funds may be inadvertently used to finance any part of the carrying broker-dealer's business. In addition, other carrying broker-dealers may also benefit from the final amendments, since the requirement to perform daily computations may reduce the risk of SIPC Fund depletion.

3. Other Compliance Costs

Several commenters suggested that the Commission should consider the cumulative burdens of implementing the proposed rule amendments and other regulatory obligations with potentially overlapping compliance dates.³⁷⁷ Specifically, one commenter stated that “the same

³⁷⁵ See ASA Letter at 1.

³⁷⁶ See ASA Letter at 1.

³⁷⁷ See, e.g., ASA Letter 2 at 2; SIFMA Letter at 12; Raymond James Letter at 4; ASA Letter at 6.

firms who will be required to move to a daily computation are also managing multiple other regulatory requirements.”³⁷⁸ The commenter further stated that “unless the SEC provides adequate time to manage the new regulatory requirements together, firms will face an unmanageable clash of compliance requirements all converging at the same time.”³⁷⁹ The Commission has considered the potential effects on carrying broker-dealers that are implementing other recently adopted Commission rules during the compliance period for these amendments.

Consistent with its long-standing practice, the Commission’s economic analysis in each adopting release considers the incremental benefits and costs for the specific rule – that is, the benefits and costs stemming from that rule compared to the baseline. The Commission acknowledges the possibility that complying with more than one rule in the same time period may entail costs that could exceed the costs if the rules were to be complied with separately. One of the rules mentioned by commenters which culminated in the recent adoption of the rules and amendments in the Settlement Cycle Adopting Release has a compliance date that occurred before the effective date of the final amendments,³⁸⁰ such that there is no overlap in transition periods.³⁸¹

With respect to the other recently adopted Commission rules discussed above, for which the compliance periods overlap, in part with the compliance period for the final amendments,³⁸² carrying broker-dealers subject to the amendments will be subject to one or more of those other

³⁷⁸ See ASA Letter at 6.

³⁷⁹ *Id.*

³⁸⁰ See, e.g., ASA Letter 2 at 2; SIFMA Letter at 12; Raymond James Letter at 4; ASA Letter at 6. Although the date of the requirements for the T+1 transition has passed, see *supra* note 283 for relevant compliance and filing dates, the Commission considers other recently adopted Commission rules in this analysis.

³⁸¹ Commenters also mentioned the new margin requirements under FINRA Rule 4210 and the CAT CAIS amendments as two regulatory obligations that could potentially overlap with the obligations of these final amendments. See, e.g., ASA Letter 2 at 2; SIFMA Letter at 12; Raymond James Letter at 6. The requirements under both FINRA Rule 4210 and the CAT CAIS amendments have been implemented such that there is no overlap with the requirements of these final amendments.

³⁸² See *supra* section IV.B.1. (listing recent rule adoptions and their respective compliance dates) and section III. (listing compliance dates).

recently adopted rules only when those carrying broker-dealers' activities fall within the scope of the other rules. Specifically, the rules and amendments adopted in the Rule 605 Adopting Release apply to market centers, which includes certain carrying broker-dealers.³⁸³ The Rule 10c-1a Adopting Release and the Customer Notification Adopting Release also apply to certain carrying broker-dealers, although due to differing requirements, these rules may not all apply to any given carrying broker-dealer.³⁸⁴ The Electronic Submission Adopting Release applies to entities that file FOCUS Reports, which includes all carrying broker-dealers.³⁸⁵ The Treasury Clearing Release applies to certain clearing agencies for U.S. Treasury securities and certain participants of the covered clearing agencies, which could include carrying broker-dealers.³⁸⁶ Where rules affecting the same entities have overlapping compliance periods, the Commission acknowledges that there may be additional costs on those carrying broker-dealers subject to one or more other rules.

D. Effects on Efficiency, Competition, and Capital Formation

The final amendments may affect competition among carrying broker-dealers. First, to the extent that compliance costs would be passed onto customers and PAB account holders, affected carrying broker-dealers that experience greater economies of scale may become more competitive than other affected carrying broker-dealers. Second, to the extent that customers of carrying broker-dealers value daily reserve computations more than the weekly computations, the affected carrying broker-dealers may become more competitive relative to the unaffected carrying broker-dealers. However, the Commission does not anticipate such an effect to be large. Given the fact that ten carrying broker-dealers already compute daily, if such a competitive advantage existed and was sufficiently large, and carrying broker-dealers performing

³⁸³ See Rule 605 Adopting Release at 26496-97.

³⁸⁴ See Rule 10c-1a Adopting Release at 75647, 75717-18; Customer Notification Adopting Release at 47689, 47725.

³⁸⁵ See Electronic Submission Adopting Release section VI.

³⁸⁶ See Clearing Agency Governance Adopting Release at 84498; Treasury Clearing Release at 2717, 2791.

weekly computations were losing customers, then more carrying broker-dealers would have likely already converted to daily computing. On the other hand, to the extent that the some of the affected carrying broker-dealers that are just above the \$500 Million Threshold do not experience the same economies of scale as carrying broker-dealers that are well above the threshold, they may decide to alter their business or adjust the size of their activities to fall below the threshold and avoid incurring the compliance costs associated with implementing the final amendments, which may in turn adversely impact competition.

As discussed above, the Commission acknowledges that overlapping compliance periods may in some cases increase costs.³⁸⁷ The Commission acknowledges that to the extent overlap occurs between the compliance periods of this rule and the compliance periods of other rules, there could be costs that could affect competition. However, the compliance date is spread over a period extending to December 2025. The Commission therefore does not expect the risk of negative competitive effects from increased compliance costs from overlapping compliance periods to be significant.

The final amendments may increase liquidity in the securities markets, as they will promote confidence in the broker-dealer industry by increasing its resilience and result in an increase of customer and PAB account activities. As a consequence, market efficiency and capital formation in the underlying markets may increase. Under the baseline there is a greater chance of a larger mismatch with weekly reserve computations than with daily reserve computations, potentially suggesting a greater risk in doing business with a carrying broker-dealer that performs its customer and PAB reserve computations weekly. Also, to the extent that the mismatch reflects an overfunding, there may also be a greater cost to the carrying broker-dealer (and by extension its customers), since it ties up capital that the carrying broker-dealer could have put to more productive use.

³⁸⁷ *See supra* section IV.C.3. (discussing potentially overlapping compliance dates and the potential costs to carrying broker-dealers subject to the final amendments).

Therefore, should customers and PAB account holders have a concern over mismatch in reserve bank accounts and potential failures affect market participants' willingness to expose themselves to carrying broker-dealers, there may be less capital committed to this market as otherwise. However, similar to the point above, if customers of carrying broker-dealers were aware and concerned of mismatches, the Commission might have already observed more carrying broker-dealers computing daily, in order to retain customers, than is currently the case under the baseline. Therefore, the Commission does not anticipate any effect on capital formation in this market to be significant.

In addition, insofar as capital loss could arise in times of market stress due to an increased likelihood of carrying broker-dealer failures, market participants may become concerned with the possibility of not getting their cash promptly or not getting paid in full in an event of a carrying broker-dealer failure and reduce their exposure to carrying broker-dealers. To the extent that the daily computation requirement alleviates this concern, the risk of flight of capital from securities markets may decrease during stressed market conditions and capital inflow during normal market conditions may increase.

Finally, the daily computation requirement may benefit the affected carrying broker-dealers by increasing their operational efficiency. For example, in a scenario where customer reserve or PAB reserve bank accounts are over-funded, a carrying broker-dealer that performs a weekly computation cannot withdraw excess cash from the customer reserve bank account until the following reserve computation date, even if the value of the account exceeds the actual net cash owed to customers, exposing this carrying broker-dealer to operational inefficiency. A daily computation would permit the affected carrying broker-dealers to withdraw these excess funds in a timely manner and would allow them to manage their funds and operations more effectively.

Since the final amendments do not impact the scope of information available to investors, the Commission does not anticipate effects on informational efficiency to be significant.

E. Reasonable Alternatives

1. Over-Funding of the Customer and PAB Reserve Bank Accounts

As an alternative to daily computation requirements, the Commission considered an over-funding approach which would have applied to the customer and PAB reserve bank accounts. For example, carrying broker-dealers would have performed the required reserve computations and deposits weekly and deposited a multiple of this amount (e.g., 105% or 110%) into the customer or PAB reserve bank account. Under this alternative approach, carrying broker-dealers would have avoided an increase in compliance costs associated with a daily computation requirement (hence, this alternative would have applied to carrying broker-dealers choosing weekly funding). Insofar as the compliance costs associated with the daily computation would be passed onto customers and PAB account holders of the affected carrying broker-dealers, this alternative approach would have been more beneficial for these customers and PAB account holders because it would not have implied an operational change and compliance costs related to the customer and PAB reserve computation while offering extra protection for customers and PAB account holders.

However, under this alternative the carrying broker-dealer would have needed to fund the excess with its own cash, which could have resulted in funding costs, decreased liquidity, and opportunity costs from not being able to deploy this cash in the carrying broker-dealer's business. As a result, requiring carrying broker-dealers to place extra cash in a customer or PAB reserve bank account could have resulted in an operational efficiency decrease and potential reduction of carrying broker-dealers' profits, which may be passed onto customers, PAB account holders, and other stakeholders. In addition, this approach would not have accounted for the actual net cash owed to customers and PAB account holders if reserve bank account mismatches exceeded the buffer that this alternative would have required.

2. A Threshold Based on a Different Metric

As an alternative, the Commission considered setting a threshold for compliance with a daily computation requirement based on a different metric. For example, the Commission could have set a threshold based on total assets of \$1 billion or net capital of \$50 million. A threshold based on such metrics could have been more representative of the economies of scale that carrying broker-dealers experience and could have better indicated a carrying broker-dealer's ability to comply with enhanced requirements without substantial increases in compliance costs that could have ultimately been passed onto their customers.

Based on the monthly 2023 FOCUS Reports, the Commission estimates that under the alternative threshold of \$1 billion in total assets 78 carrying broker-dealers would have been required to perform the customer and PAB reserve computations daily. Of the 49 carrying broker-dealers that are at or above the \$500 Million Threshold for average total credits, one has total assets below \$1 billion, while 30 carrying broker-dealers below the \$500 Million Threshold have total assets over \$1 billion.

With respect to a \$50 million net capital threshold, 100 carrying broker-dealers would have been required to perform the customer and PAB reserve computations daily. Of the carrying broker-dealers that are below \$500 Million Threshold for average total credits, 51 have net capital exceeding \$50 million, while of the group above \$500 Million Threshold for average total credits, none have net capital below \$50 million.

If the alternative had stated that the carrying broker-dealer has over \$1 billion in total assets, *or* has over \$50 million net capital threshold, 101 carrying broker-dealers would have been required to perform the customer and PAB reserve computations daily.

A drawback to this alternative is that some large broker-dealers with minimal amounts of carrying activity would have borne the added cost of switching to a daily computation. For example, the group of 30 carrying broker-dealers below the \$500 Million Threshold with \$1 billion in assets or more, had a combined total of average total credits of approximately \$4.6

billion as of the end of 2023. That amounted to only about 0.44% of average total credits for all carrying broker-dealers for that year.³⁸⁸

The Commission received a comment suggesting the Commission require carrying broker-dealers to perform daily reserve computations if the average total credits exceed the proposed \$250 Million Threshold and average net credits exceed \$10 million.³⁸⁹ This commenter stated that including this additional net credits metric would ensure that the rule requirements exclude carrying broker-dealers without a large excess of credits over debits, as these carrying broker-dealers do not present a large mismatch risk.

Under this alternative, based on the monthly 2023 FOCUS Reports, 51 carrying broker-dealers would have been required to perform the reserve computations daily, compared to the 49 under the final amendments with the threshold set to \$500 Million.³⁹⁰ The potential drawback to this alternative is that some of the carrying broker-dealers with large amounts of average total credits would have been excluded from the daily computation requirement. To be specific, out of 10 carrying broker-dealers above the \$500 Million Threshold that would have been scoped out of the compliance under this alternative, 7 carrying broker-dealers have over \$1 billion in average total credits. Given the information displayed in table 5, carrying broker-dealers in this group are more likely to have larger mismatches, which suggests that under this alternative approach, there is a potential for more carrying broker-dealers to have a large mismatch, than under the final amendments.

3. Daily Computation Requirement for All Carrying Broker-Dealers

As an alternative, the Commission considered requiring the daily computation requirement to apply to all carrying broker-dealers with positive average total credits. Under this

³⁸⁸ See table 7 below in section IV.E.6. of this release for numbers based on the June 2023 to May 2024 period.

³⁸⁹ See SIFMA Letter at 6.

³⁹⁰ The average net credits are calculated as an average of excess total credits over total debits, where total debits exclude 3% of aggregate debits (i.e. based on the baseline 3% debit reduction).

alternative, a greater number of carrying broker-dealers would have performed their customer and PAB reserve computations daily, which would have benefitted more customers and PAB account holders compared to the final amendments. Specifically, under the zero threshold, 113 more carrying broker-dealers would have experienced the benefits and costs discussed in section IV.C. of this release (compared to the 49 affected based on the January 2023 to December 2023 period).

Further, to the degree that carrying broker-dealers with smaller amounts of total credits are interdependent with other broker-dealers to the same degree as carrying broker-dealers with larger amounts of total credits, this approach would have benefitted all PAB account holders equally and potentially reduced the systemic risk to a greater degree relative to the final amendments. The number of credits held in the PAB reserve bank accounts of the 44 carrying broker-dealers (with PAB accounts) above the \$500 Million Threshold makes up approximately 99% of the total amount held in PAB reserve bank accounts (of the 82 broker-dealers that reported carrying PAB accounts in 2023).³⁹¹

In particular, insofar as a daily computation for all carrying broker-dealers reduces the chance that any carrying broker-dealer has funds in its PAB reserve bank account that are less than the net amount of cash owed to PAB account holders, the potential for stress propagation associated with a failure of a carrying broker-dealer could be reduced.

However, this alternative would have imposed compliance costs on a greater number of carrying broker-dealers, which could have been passed onto customers and PAB account holders. In addition, customer protection benefits may have been not justified by the reduction in operational efficiency of carrying broker-dealers with little customer and PAB account activity that may arise from disproportional dedication of resources towards a de minimis business

³⁹¹ See table 7 below in section IV.E.6. of this release for numbers based on the June 2023 to May 2024 period.

activity. Finally, this alternative would have also imposed significant economic impact on small businesses.

4. A Higher or Lower Threshold for Daily Computation

As an alternative, the Commission considered a threshold higher or lower than \$500 million in average total credits. Under these alternatives, fewer or more carrying broker-dealers would have been required to perform their customer and PAB reserve computations daily. For example, if the threshold was set at \$100 million, a total of 75 carrying broker-dealers would have been scoped into the new requirements compared to the 49 under the final amendments. Similarly, if the threshold was set at \$1 billion, only 41 carrying broker-dealers would have been scoped into the new requirements.³⁹²

If the threshold were \$100 million, more carrying broker-dealers would perform daily computations, which would mean that fewer broker-dealers would have a mismatch between the net cash owed to the carrying broker-dealer's customers and the amounts deposited in their customer or PAB reserve bank accounts. On the other hand, more broker-dealers would have incurred the burden of performing their customer and PAB reserve computations daily. If the threshold were set at \$1 billion, fewer carrying broker-dealers would face the costs of a daily computation than under the final amendments. However, there would have been fewer carrying broker-dealers computing daily, suggesting the potential for more carrying broker-dealers having a mismatch than under the final amendments.

5. Calculation based on the Maximum Value over the Past Year

The \$500 Million Threshold is the arithmetic mean of the total credits in the customer and PAB reserve computations reported on the twelve most recently filed month-end FOCUS

³⁹² See table 7 below in section IV.E.6. of this release for numbers based on the June 2023 to May 2024 period.

Reports.³⁹³ As an alternative, the Commission considered a threshold based on the maximum value for total credits during the most recently ended calendar year. This alternative may have more appropriately accounted for the implied capacity of the carrying broker-dealer’s reserve bank accounts. For example, if total credits related to customers or PAB account holders’ activity fluctuated throughout a year or based on economic cycles and such fluctuations are predictable, the maximum value of total credits may have been more representative of the customer transactions’ volume. As another example, if a carrying broker-dealer experiences trending growth of its customer base, the maximum value of total credits would have also been more representative of the current size of the customer base.

Table 6 below regroups carrying broker-dealers based on the maximum number reported for total credits within a given year. Under this alternative, 59 carrying broker-dealers would have been scoped into the final rule, compared to the 49 that are scoped into the rule under the final amendments.

Table 6. Threshold based on Maximum Total Credits during 2023

	#	Total assets (\$B)	Total Customer Credits, \$MM			Total PAB Credits, \$MM			Total Credits, \$MM	
			#	Mean	Median	#	Mean	Median	Mean	Median
>\$0-100MM	76	212.8	76	14.4	2.7	17	0.3	-	14.7	2.9
\$100-250MM	16	91.3	16	159.0	140.2	7	0.1	-	159.1	140.2
\$250-500MM	11	147.8	11	323.8	303.7	6	37.7	1.2	360.3	333.6
\$500MM-1B	12	301.7	12	540.8	554.9	10	135.6	32.7	643.4	614.1
\$1-5B	22	412.7	22	2,386.7	2,257.6	19	168.8	12.4	2,491.6	2,516.9
\$5-10B	5	133.1	5	7,261.8	7,421.5	5	212.1	76.0	7,460.7	7,457.7
>= 10B	20	3,524.2	20	49,360.3	30,366.1	18	8,336.9	330.1	57,157.6	33,833.3
Total ^a	162	4,823.6	162	6,726.6	122.1	82	1,071.5	0	7,719.8	125.6

^a Table excludes carrying broker-dealers with zero reported credits in 2023.

A benefit of this alternative is those carrying broker-dealers with the largest amounts of total credits would be scoped into daily computing, where the largest credits reported (as

³⁹³ This means, for example, if a carrying broker-dealer is required to file 12 FOCUS Reports for a calendar year, the carrying broker-dealer adds up the Total Credits reported in both the customer and PAB reserve formulas in each of the 12 FOCUS Reports filed, and divides the total by 12 to compute the arithmetic mean.

opposed to the average) could be more indicative of a potential mismatch between the net cash owed to customers and the reserve account balances. However, this alternative may also create uncertainty if any cyclical behavior of total credits that has occurred over some historical period, changes unexpectedly, leading to potential for a carrying broker-dealer oscillating between weekly and daily computations and deposits from year to year.

Table 7 summarizes the number of affected broker-dealers under the alternatives thus far versus the final amendments, both for the rolling sample period defined from January 2023 to December 2023 and for the period defined from June 2023 to May 2024.

Table 7. Summary of Affected Broker-Dealers under the Final Amendments versus Alternatives

Alternatives vs. Final Amendments	Number of Affected Broker-Dealers (based on period January 2023 to December 2023)	Number of Affected Broker-Dealers (based on period June 2023 to May 2024)
Final Amendments	49	48
Alternatives		
Alt 1 Over-Funding	162	160
Alt 2 \$1B in Total Assets	78	79
Alt 2 \$50MM in Net Capital	100	103
Alt 2 \$10MM in Net Credits and Average T.C.>\$250MM	51	51
Alt 3 Daily for all	162	160
Alt 4 Average T.C. > \$1B	41	40
Alt 4 Average T.C. > \$100MM	75	76
Alt 5 Maximum Total Credits	59	57

6. Daily Computation if an Average Required Deposit Exceeds a Threshold

As an alternative to performing the customer and PAB reserve computations daily for carrying broker-dealers over a threshold (defined by average total credits), the Commission considered an approach that would have required a daily computation in the case where the required reserve bank account deposit as a share of the reserve bank account balance prior to such deposit exceeds a certain percentage threshold (e.g., 5% or 10%).³⁹⁴

This alternative approach would have accounted for broker-dealer-specific trends related to customer transactions. If the customer base differed substantially between carrying broker-dealers, with customers of some carrying broker-dealers trading more often or doing account activities that increased the carrying broker-dealer’s total credits by more compared to the

³⁹⁴ See discussion related to table 5 in section IV.B.2. of this release.

customer base of other broker-dealers, this alternative approach would have focused only on those carrying broker-dealers that typically experience larger reserve mismatches. However, given the information displayed in table 5, there does not appear to be a perfect correlation with carrying broker-dealer size (measured by average total credits), and the deposit “mismatch.”³⁹⁵ Smaller-broker dealers can have an average mismatch of more than 5% (based on the January 2023 to December 2023 period), implying the possibility of an undue burden with respect to compliance costs. That latter could have ultimately been passed onto the carrying broker-dealers’ customers and PAB account holders.

7. Daily Computation Requirement Based on Average Total Credits Per Number of Customer and PAB Accounts

As an alternative to performing the customer and PAB reserve computations daily for carrying broker-dealers over a threshold (defined by average total credits), the Commission considered requiring daily computations based on *average total credits per number of customer accounts*. While a failure of carrying broker-dealers with smaller amounts of total credits may not have posed a significant risk of depletion to the SIPC Fund, a threshold based on the average total credits may have had limitations from an individual customer or PAB account holder prospective. This is because such a threshold does not account for the number of customers and PAB account holders a carrying broker-dealer might have and is disconnected from the per-customer protection approach that is used by SIPC.³⁹⁶

For example, consider two carrying broker-dealers, both with \$150 million in total credits, which is below the \$500 Million Threshold. The first carrying broker-dealer has three customers, each contributing \$50 million in credits towards the carrying broker-dealer’s

³⁹⁵ Computed by dividing the numbers in column four by the numbers in column three of panel A of table 5.

³⁹⁶ Per 15 U.S.C. 78fff-2(c), customers of a failed broker-dealer have the right to share *pro rata* with other SIPC customers in the customer property held by that broker-dealer. See section I.C.2. of this release for more details.

aggregate value of total credits, and the second carrying broker-dealer has 100 customers each contributing \$1.5 million in credits towards the carrying broker-dealer’s aggregate value of total credits. Recall that the maximum advance from the SIPC Fund is \$500,000 per customer. Consider a situation where both carrying broker-dealers fail and their reserve bank accounts are underfunded by more than 1% of what is owed to customers (i.e., the shortage is above \$1.5 million). In this situation, the customers of the second carrying broker-dealer would be made whole promptly with an advance from the SIPC Fund, but the customers of the first carrying broker-dealer would not be made whole (because the per-customer loss is above maximum per-customer SIPC advance of \$500,000) until SIPC recovers funds from the carrying broker-dealer, which may take some time.

The above example notwithstanding, data from the FOCUS Reports for 2023 suggests the potential for this concern is likely negligible. Table 8 displays the amounts of average total credits per total accounts for each size grouping of carrying broker-dealers. For the 162 carrying broker-dealers that reported positive total credits in December 2023, the average amount of average total credits per account (with the number of customer accounts and PAB accounts combined) was notably larger for the carrying broker-dealers above the \$500 Million Threshold than for carrying broker-dealers below the threshold. Carrying broker-dealers above the \$500 Million Threshold had about \$13 million per customer account, while carrying broker-dealers below the \$500 Million Threshold had about \$.5 million on average per customer account.³⁹⁷

Table 8. Threshold based on Average Total Credits per Accounts during 2023

	#	Number of Accounts (Cust + PAB)	Total Credits \$MM	Total Credits Per Account \$MM
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³⁹⁷ Calculated from monthly FOCUS Reports for 2023. The Commission divided average total credits in 2023 for each carrying broker-dealer by the number of total customer and PAB accounts for each carrying broker-dealer (Lines 8080 and 8081, respectively), then computed the average of the per customer amount for each size category, and above and below the \$500 Million Threshold. Lines 8080 and 8081 are reported in the December FOCUS Report each year, hence those numbers are not yet available for the rolling averages beyond 2023.

		Mean	Mean	Mean
>\$0-100MM	87	214,951	14.5	0.6
\$100-250MM	14	480,321	160.3	0.1
\$250-500MM	12	469,612	357.2	0.4
\$500MM-1B	8	141,807	697.7	1.3
\$1-5B	17	1,964,257	2,344.3	33.6
\$5-10B	6	11,133,250	7,201.0	2.1
>= 10B	18	7,783,768	52,858.1	2.1
Total	162	1,682,066	6,468.4	5.1

8. Daily Computation based on Average Total Credits from the Most Recent Calendar Year

As an alternative to performing the customer and PAB reserve computations daily based on a 12-month rolling average of total credits, the Commission considered requiring computation based on the arithmetic mean of the sum of total credits over the 12 months in the most recent calendar year. For example, whether a carrying-broker dealer exceeded the \$500 Million Threshold at any point in 2024, would have been based on the average total credits from January 2023 through December 2023.

The potential benefit of basing the average total credit amount on the most recent calendar year is that carrying broker-dealers would have known with certainty if they fell above or below the \$500 Million Threshold and would have been subject to daily or weekly computing for the entirety of the next calendar year. This potential benefit contrasted with the possible uncertainty that the rolling average computation would have introduced for carrying broker-dealers that are close to the \$500 Million Threshold. That uncertainty may have created an added cost for those carrying broker-dealers as they would have needed to constantly monitor their standing with respect to the \$500 Million Threshold. This monitoring may have involved additional staff, or existing staff devoting additional time to that task, and suggests the cost of the final amendments may be marginally higher for some carrying broker-dealers than the cost

estimates cited earlier in this release.³⁹⁸ Or, wishing to avoid this monitoring cost, the carrying broker-dealer may have had to decide to switch to daily (or weekly) once and for all, which may have also implied additional costs.

However, a potential cost of this alternative was that, over the course of a year, a carrying broker-dealer computing weekly (for example) may exceed the \$500 Million Threshold. This may have resulted in a situation where a carrying broker-dealer with average total credits above the \$500 Million Threshold would not have been engaging in daily computation—as it would have with a timelier and up-to-date rolling average—and the risks of weekly computing discussed in this release would have remained present for that carrying broker-dealer.

9. Reduction of the Aggregate Debit Items Charge from 3% to 1%

The Commission could have implemented a debit-items charge reduction from 3% to 1%, as suggested by some commenters³⁹⁹. This change would have freed up double the amount of liquidity (\$14.82 billion) compared to the reduction from 3% to 2% finally chosen by the Commission.

As mentioned in the baseline, however, a 1% debit reduction already applies to firms that use the basic method to calculate their net capital requirements. Net capital requirements are formulated differently under the alternative and basic methods. While the basic method targets the leverage of a carrying broker-dealer directly, under the alternative method, the net capital rule is formulated as a percentage of total customer receivables. The 1% debit reduction should not be applied to firms that calculate their net capital requirements under the alternative method. Otherwise, their combined levels of liquidity and capital buffers under the customer protection and net capital rules may fall below adequate levels. The 2% debit reduction will be appropriate because moving from weekly to daily computations, the mismatch risk, which has been

³⁹⁸ See *infra* section V. of this release (discussing PRA).

³⁹⁹ See SIFMA Letter at 5; Raymond James Letter at 2; ASA Letter at 5; ASA Letter 2 at 1.

discussed earlier, will be reduced, and so the original 3% debit reduction will not be required in the new regime.

10. Exemption for Cash in Motion

The Commission could have adopted an alternative that exempts from the reserve computations cash that has been “directed off of the [carrying broker dealer’s] balance sheet,”⁴⁰⁰ for example, cash that is subject to a sweep program in accordance with paragraph (j)(2)(ii) of Rule 15c3-3.⁴⁰¹ Commenters raised the following scenario: a customer deposits cash with the carrying broker-dealer near the close of the business (say, Monday for example). It is sufficiently late in the day that the carrying broker-dealer cannot sweep the cash into the money market fund or bank; however, according to the customer’s preset instructions, the carrying broker-dealer will automatically sweep the funds into the money market fund or bank account the first thing next morning (Tuesday). Such funds would become part of the customer reserve computation and would need to be deposited in the customer reserve bank account on Wednesday, even though, as of the next morning (on Tuesday), they are no longer held by the carrying broker-dealer. Thus, the carrying broker-dealer would need to fund the customer reserve bank account from its own reserves. Commenters stated that this situation creates new costs in the daily versus the weekly computation. Under the weekly computation, cash deposited on Monday would be swept out on Tuesday, and therefore would not be subject to the weekly reserve computation the next Monday (using numbers as of the close of business the previous Friday).⁴⁰²

⁴⁰⁰ See ASA Letter 2 at 1.

⁴⁰¹ See ASA Letter at 2; SIFMA Letter at 7; ASA Letter 3.

⁴⁰² However, this scenario of having to account for cash that is no longer held by the carrying broker-dealer also can occur under the existing weekly reserve computation requirement. For example, customer cash deposited at the broker-dealer on Friday after the time when it can be swept to a money market fund or bank must be accounted for in the customer reserve computation performed the following Monday (using numbers as of the close of business Friday) and, to the extent it creates a deposit requirement, the required deposit must be made by 10 a.m. on Tuesday even though by that time the customer cash has been swept to

The Commission recognizes that this alternative would lower costs for carrying broker-dealers in that it would reduce the amount of cash they would need to set aside. However, the Commission does not believe the relative cost savings to be substantial, as the carrying broker-dealer would only be required to fund the reserve bank account overnight (in the example above from Wednesday to Thursday), because, under the commenter’s assumption, the cash is swept out as of Tuesday morning and therefore would not be required to be held (in the customer reserve bank account) as of Thursday. Moreover, the cost only applies to cash that is received before close of business and yet after the sweep deadline. Any cash received before the sweep deadline on Monday would not be part of the reserve computation as of Monday afternoon.

On the other hand, retaining this requirement maintains the current level of customer protection, providing a buffer against the situation where the funds in the customer reserve bank account turn out to be insufficient to pay customers in the event of broker-dealer failure.

V. PAPERWORK REDUCTION ACT

Paragraph (e) of Rule 15c3-3 contains “collection of information” requirements within the meaning of the Paperwork Reduction Act (“PRA”).⁴⁰³ Specifically, paragraph (e) of Rule 15c3-3 requires carrying broker-dealers to make and maintain a record of each customer and PAB reserve computation and to preserve each such record in accordance with Rule 17a-4.⁴⁰⁴ The Commission has submitted the final collection of information to the Office of Management and Budget (“OMB”) for review and approval in accordance with the PRA and its implementing regulations.⁴⁰⁵ For the amendments, the title of the existing information collection is “Customer

the money market fund or bank. Moreover, unless the carrying broker-dealer performs an intra-week reserve computation, the cash must remain in the customer reserve bank account until the following Tuesday. Thus, the new cost arises from the fact that a daily customer reserve computation can increase the frequency of having to account for customer cash that is no longer held by the carrying broker-dealer, but—as discussed below—the daily requirement also shortens the time that the cash must be held in the customer reserve bank account.

⁴⁰³ See 44 U.S.C. 3501 *et seq.*

⁴⁰⁴ See 17 CFR 240.15c3-3(e)(3)(v).

⁴⁰⁵ See 44 U.S.C. 3507; 5 CFR 1320.11.

Protection – Reserves and Custody of Securities” (OMB Control No. 3235-0078), and the amendments revise that collection. An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless it displays a currently valid OMB control number.⁴⁰⁶ The Commission published notice soliciting comments on the collection of information requirements in the Proposing Release⁴⁰⁷ and submitted the proposed collections of information to OMB for review in accordance with the PRA.⁴⁰⁸ The initial burden estimates from the Proposing Release have been adjusted, as discussed below, to reflect updated information used to make the current estimates, including updated FOCUS Report data.⁴⁰⁹

The burden estimates contained in this section are recordkeeping and notification burdens. The recordkeeping burden relates solely to the requirement for carrying broker-dealers to make and maintain a record of the customer and PAB reserve computations and do not include any other possible costs or economic effects beyond the burdens required to be calculated for PRA purposes.⁴¹⁰

A. Summary of Collections of Information under the Final Amendments

Rule 15c3-3 requires each carrying broker-dealer to maintain a reserve of cash and/or qualified securities in a customer reserve bank account that is at least equal in value to the net cash owed to customers.⁴¹¹ Carrying broker-dealers also maintain a reserve of cash and/or qualified securities in a PAB reserve bank account in an amount that is at least equal in value to the net cash owed to PAB account holders.⁴¹² In order to determine the amount required to be

⁴⁰⁶ See 5 CFR 1320.11(l).

⁴⁰⁷ See Proposing Release, 88 FR at 45859-62.

⁴⁰⁸ 44 U.S.C. 3507(d); 5 CFR 1320.11.

⁴⁰⁹ The PRA estimates derived from FOCUS Reports have been updated in this final release to reflect more recently available information, including FOCUS Report data for the 2023 calendar year. The estimates in the Proposing Release were based on FOCUS Report data for the 2022 calendar year.

⁴¹⁰ See the Economic Analysis in section IV. of this release.

⁴¹¹ See paragraph (e) of Rule 15c3-3. See also section I.C.1. of this release (discussing the customer reserve requirements of Rule 15c3-3 in more detail).

⁴¹² See paragraph (e) of Rule 15c3-3.

deposited in the customer and PAB reserve bank accounts, Rule 15c3-3 requires carrying broker-dealers to perform weekly customer and PAB reserve computations as of the close of the last business day of each week.⁴¹³ The rule requires carrying broker-dealers to make and maintain a record of each such computation, and to also preserve each such record in accordance with Rule 17a-4.⁴¹⁴ This recordkeeping requirement represents a collection of information for PRA purposes. This is an existing PRA burden. As described in this section below, the estimated hourly burden associated with this collection of information is not changing. Instead, the total burden is being revised to reflect that the number of respondents subject to the estimated burden will change as a result of the amendments to Rule 15c3-3 adopted by the Commission.

As a result of the amendments, carrying broker-dealers with average total credits equal to or greater than the \$500 Million Threshold must perform the customer and PAB reserve computations daily instead of weekly, and must make and maintain a record of each such daily computation, and also preserve each such record.⁴¹⁵ The amendments also provide that a carrying broker-dealer performing daily customer and PAB reserve computations may elect to perform weekly computations if its average total credits fall below the \$500 Million Threshold and it notifies its DEA, in writing, of this election at least 60 calendar days prior to starting weekly computations.⁴¹⁶ This notification requirement represents a collection of information for the purposes of the PRA.

Further, as a result of the amendments to Rule 15c3-3, carrying broker-dealers that elect to voluntarily perform the customer reserve computation daily and seek to reduce aggregate debit

⁴¹³ See paragraph (e) of Rule 15c3-3. Rule 15c3-3 also permits certain carrying broker-dealers to perform their reserve computations monthly. See paragraphs (e)(3)(i) and (iii) of Rule 15c3-3. Some carrying broker-dealers also elect to perform daily customer and PAB reserve computations. See paragraph (e)(3)(iv) of Rule 15c3-3.

⁴¹⁴ See paragraph (e)(3)(v) of Rule 15c3-3. This paragraph is being re-designated as paragraph (vi) as part of the final amendments.

⁴¹⁵ See paragraph (e)(3)(i)(B)(1) of Rule 15c3-3, as amended.

⁴¹⁶ See paragraph (e)(3)(i)(B)(2) of Rule 15c3-3, as amended.

items in the customer reserve computation by 2% instead of 3% must provide notification to their DEA 30 calendar days prior to operating under this provision.⁴¹⁷ This notification requirement represents a collection of information for PRA purposes.

In addition, as a result of the amendment to paragraph (a)(1)(ii)(A) of Rule 15c3-1,⁴¹⁸ a carrying broker-dealer required to perform a daily customer reserve computation may reduce aggregate debit items in such computation by 2% rather than 3%. This paragraph does not contain an information collection requirement. Therefore, the Commission is not estimating any new collection of information burdens, or revising any existing burden estimates, in connection with this amendment.

Finally, the Commission is adopting technical amendments to Part II of the FOCUS Report (OMB Control No. 3235-0123) to conform it to the amendments with respect to the lowering of the debit reduction from 3% to 2%.⁴¹⁹ Because these amendments, as described above in section II.C.2 of this release, add only two additional lines to a lengthy form, carrying broker-dealers can quickly familiarize themselves with them. Accordingly, the addition of the two new line items will not affect the current estimated burden.

B. Use of the Information

Rule 15c3-3 is an integral part of the Commission's financial responsibility program for broker-dealers. The requirement to document in writing the customer and PAB reserve computations facilitates the process by which the Commission and the carrying broker-dealer's DEA examine the broker-dealer's compliance with Rule 15c3-3. The purpose of the 60-day written notice requirement is to provide the DEA with prior notice that the carrying broker-dealer is switching from daily to weekly customer and PAB reserve computations and provide the DEA the opportunity to contact the carrying broker-dealer and ask how it intends to implement the

⁴¹⁷ See paragraph (e)(3)(v) of Rule 15c3-3, as amended.

⁴¹⁸ The OMB Control No. for Rule 15c3-1 (17 CFR 240.15c3-1) is 3235-0200.

⁴¹⁹ See *supra* section II.C.2. of this release (discussing the conforming amendments to the FOCUS Report).

change. This will assist the DEA in monitoring the carrying broker-dealer. Similarly, the 30-day notification requirement for carrying broker-dealers electing to voluntarily perform a daily customer reserve computation and deduct 2% of aggregate debit items is to ensure that the carrying broker-dealer's DEA is aware of the carrying broker-dealer's election and is able to monitor its compliance with those requirements.

C. Respondents

1. Recordkeeping Requirements

Under the amendments, respondents are carrying broker-dealers with average total credits equal to or exceeding the \$500 Million Threshold. The Commission estimates there are approximately 49 carrying broker-dealers that will have average total credits equal to or exceeding the \$500 Million Threshold based on a review of FOCUS Report data for the calendar year 2023. Of these carrying broker-dealers, the Commission estimates that 9 already perform the customer reserve computation daily, and therefore already make, maintain, and preserve a record of each such computation. Of the 49 carrying broker-dealers that would have average total credits equal to or exceed the \$500 Million Threshold, the Commission estimates that 44 perform a PAB reserve computation, with 9 of these carrying broker-dealers already performing the PAB reserve computation daily, and therefore already make, maintain, and preserve a record of each such computation. Consequently, for the purposes of the PRA, the Commission estimates that there are 40 respondents for the requirement to make, maintain, and to preserve a record of each customer reserve computation, and 35 respondents for the requirement to make, maintain, and to preserve a record of each PAB reserve computation. These respondents are currently included in the collection of information associated with Rule 15c3-3 related to weekly computations for the customer and PAB reserve computations and the requirement to make, maintain, and to preserve a record of each such computation. However, as a result of the amendments, these respondents will need to perform daily customer and PAB reserve

computations rather than weekly computations, and make, maintain, and preserve a record of each such computation.

2. Notification Requirement to Revert to Weekly Computations

Based on a review of FOCUS Report data for the calendar year 2023, the Commission estimates that one carrying broker-dealer per year will provide notice to their DEA that the carrying broker-dealer's average total credits has fallen below the \$500 Million Threshold, and that such carrying broker-dealer will switch from a daily computation to a weekly computation.

3. Notification Requirement to Voluntarily Perform Daily Customer Reserve Computation with 2% Debit Reduction

Based on a review of FOCUS Report data for the calendar year 2023, the Commission estimates that 9 carrying broker-dealers that are above the \$500 Million Threshold already voluntarily perform daily customer reserve computations.⁴²⁰ The Commission estimates that these nine carrying broker-dealers will notify their DEA of their intent to continuing to perform daily customer reserve computations voluntarily pursuant to paragraph (e)(3)(v) of Rule 15c3-3. Additionally, the Commission estimates that an additional 6 carrying broker-dealers that have significant debit balances may voluntarily elect to perform daily customer reserve computations in order to deduct 2% of aggregate debit items instead of 3% in connection with the computation. Consequently, the Commission estimates that there are 15 respondents associated with this collection of information.

D. Total Annual Burden Estimate

1. Recordkeeping Requirements

⁴²⁰ Based on FOCUS data for the year ending December 31, 2023, the Commission estimates that 10 carrying broker-dealers perform daily customer reserve computations. Of these 10 carrying broker-dealers, the Commission estimates that 9 exceed the \$500 Million Threshold. The one carrying broker-dealer that does not exceed the \$500 Million Threshold also does not compute net capital pursuant to Rule 15c3-1(a)(ii)(A), and therefore would not be eligible to avail itself of the 2% debit reduction.

Carrying broker-dealers subject to the requirement to perform daily customer and PAB reserve computations under the final amendments were previously required to perform such computations weekly. Under preexisting paragraph (e)(3)(v) of Rule 15c3-3, carrying broker-dealers subject to the requirement to perform customer and PAB reserve computations are also subject to the requirement to make and maintain a record of each such computation and to preserve it in accordance with Rule 17a-4.⁴²¹ Carrying broker-dealers are able to elect to maintain the required record of the customer and PAB reserve computation in a physical (i.e., paper format) or electronic format under the record preservation requirements of Rule 17a-4, but given the size and sophistication of carrying broker-dealers subject to the requirement to perform daily customer and PAB reserve computations, and the nature of the actual computations, based on staff experience with carrying broker-dealer operations, the Commission estimates that carrying broker-dealers subject to the requirement to perform daily customer and PAB reserve computations will likely have electronic systems, including electronic recordkeeping systems meeting the record preservation requirements of Rule 17a-4, in place and will use those systems to make and maintain, and preserve the record of the computations in electronic format. Because these electronic recordkeeping systems are part of the record preservation requirements of Rule 17a-4, the costs of those systems are accounted for in the collection of information for Rule 17a-4 because broker-dealers use these systems for their overall recordkeeping.

Because carrying broker-dealers already have in place processes, personnel, and the systems and technology necessary to meet the record preservation requirements of Rule 17a-4, including for the purpose of making and maintaining the record of the customer and PAB reserve

⁴²¹ See paragraph (e)(v) of Rule 15c3-3 and 17 CFR 240.17a-4 (“Rule 17a-4”). Paragraph (e)(3)(v) of preexisting Rule 15c3-3 will be renumbered as paragraph (e)(3)(vi) of Rule 15c3-3 as part of the final amendments. Rule 17a-4 sets forth record preservation requirements for physical records as well as for records maintained in electronic format but does not specify the format in which a carrying broker-dealer must maintain required records, though certain requirements related to electronic recordkeeping systems are set forth in the rule. See, e.g., paragraph (f)(2) of Rule 17a-4 (establishing minimum requirements for an electronic recordkeeping system). The costs for these electronic recordkeeping systems are contained in the PRA collection for Rule 17a-4.

computations, and preserving such records in compliance with Rule 17a-4, they will not need to hire additional staff or upgrade or develop new technology or systems, and have already expended the time, effort, and/or financial resources to generate and maintain the required records.⁴²² Therefore, the Commission estimates that the amendments will not impose any new one-time burdens or start-up costs (e.g., hardware acquisition, cloud storage costs, systems/tech upgrades, tech services, etc.) on carrying broker-dealers to set up the process of creating the required record of such computations.

Instead, the amendments will impose increased ongoing burdens on the respondent carrying broker-dealers because they must increase the frequency of the customer and PAB reserve computations and, therefore, must make, maintain, and preserve additional records of the computations. Specifically, there will be an increase in the burdens associated with the collections of information titled “Rule 15c3-3(e)(3) – daily computations” for both the customer and PAB reserve computations, and a corresponding decrease in the burdens associated with the collections of information titled “Rule 15c3-3(e)(3) – weekly computations” for the customer and PAB reserve computations as certain carrying broker-dealers will shift from weekly to daily computations in connection with the amendments. Based on experience with customer and PAB reserve computations, the Commission estimates that it takes between one and five hours to make a record of each such computation, and that the average time spent across all carrying broker-dealers is 2.5 hours.⁴²³

⁴²² As discussed in the Economic Analysis in section IV.C. of this release, carrying broker-dealers may be required to incur increased initial start-up compliance costs to comply with the requirement to perform a daily customer and PAB reserve computation under the final amendments. A carrying broker-dealer may incur these initial start-up compliance costs while implementing operational changes, potentially increasing staff, and upgrading systems and internal controls and infrastructure in order to facilitate the increased frequency of computations and accelerate the coordination of staff involved in providing the required information. These economic effects are not in the PRA and are discussed in the Economic Analysis in section IV.C. of this release.

⁴²³ This is consistent with the current collection of information for the customer and PAB reserve computations, available at <https://www.reginfo.gov/public/do/DownloadDocument?objectID=132914201>. The estimate is also based on the Commission’s experience with other recordkeeping requirements. For

The Commission received one comment on this estimate stating that the Proposing Release does not state a basis for this 2.5 hour estimate and that the estimate is so wide of the mark that it cannot support the Commission’s analysis of paperwork burdens (or costs, burdens, and effects on competition of the proposal). This commenter stated that each weekly calculation takes approximately 10 hours and that during these 10 hours more than 50 employees are involved in some part of the data collection, performing calculations, verifying figures, and transferring funds to banks that are part of performing the reserve computations.⁴²⁴ In response, the specific tasks the commenter listed do not specify what amount of the 10 hours is dedicated to making, maintaining, and preserving a record of the computation, as required by Rule 15c3-3. Instead, the tasks the commenter listed relate to the steps necessary to perform a computation. The 2.5 hours is based on staff experience with customer and PAB reserve computations and recordkeeping requirements and staff’s understanding that these records are made, maintained, and preserved either in an electronic format or as a paper copy. Some carrying broker-dealers may take more time, while others may take less time to make, maintain and preserve a record of the computations. As a result, the 2.5 hour burden estimate is the estimate of the time it takes a carrying broker-dealer to make a record of the computation for purposes of the PRA.⁴²⁵ As noted

example, the current estimated burden related to the requirement to maintain records pursuant to Rule 17a-3 (17 CFR 240.17a-3)(“Rule 17a-3”) is 1 hour per day, or 249 hours per year (based on 249 business days for that year) for each registered broker-dealer. This includes the requirement that a broker-dealer make a record of the broker-dealer’s computations for aggregate indebtedness and net capital. *See* Supporting Statement for Rule 17a-3, available at <https://www.reginfo.gov/public/do/DownloadDocument?objectID=123585601>. *See also* paragraph (a)(11) of Rule 17a-3.

⁴²⁴ *See* Raymond James Letter at 3, n.9. *See also* SIFMA Letter at 4. These commenters stated the 2.5-hour figure underestimates the actual burden associated with fulfilling current requirements. *Id.* These commenters also stated that carrying broker-dealers subject to the requirement to perform daily customer and PAB reserve computations will be required to hire and train additional employees, devote the full-time efforts of these personnel to performing the required daily computations, and to update or implement new systems and processes to comply with the daily computation requirements. *See* Raymond James Letter at 4. *See also* SIFMA Letter at 5. The costs associated with increases in personnel and changes or upgrades to systems and processes are not recordkeeping burdens for the purposes of this PRA analysis and are instead discussed as part of the Economic Analysis. *See supra* section IV.C. of this release.

⁴²⁵ This estimated burden involves the time it takes an employee such as a financial reporting manager to make, maintain, and preserve a record of the reserve computation and the supporting details of each credit

above, carrying broker-dealers already have in place the personnel, systems, and technology in place to make, maintain, and preserve the required records and to comply with the record preservation requirements of Rule 17a-4. As a result, the Commission is retaining the estimate of 2.5 hours for purposes of the PRA.⁴²⁶

Consequently, the Commission estimates that the amendments will impose aggregate annual ongoing burdens on respondent carrying broker-dealers required to perform daily customer and PAB reserve computations of 25,000 hours and 21,875 hours, respectively, or a total of 46,875 hours.⁴²⁷ When added to the currently approved burden hours of 9,375 hours and 6,875 hours for the customer and PAB reserve computations, respectively, the revised burden hour estimates are 34,375 hours for the daily customer reserve computation, and 28,750 hours for the daily PAB reserve computation.

In addition to this increase, the Commission estimates that there will be a corresponding decrease in the collections of information titled “Rule 15c3-3(e)(3) – weekly computations” for both the customer and PAB reserve computations. Specifically, the Commission estimates that the amendments will result in a revised burden hour estimate of 15,730 hours with respect to

and debit in the applicable reserve computation. The estimated range of 1 to 5 hours considers that smaller carrying broker-dealers may choose to print out paper copies of the computation and supporting details on a computer to comply with the recordkeeping requirement. Larger carrying broker-dealers may need additional time to make the record in their preexisting electronic recordkeeping system to maintain and preserve it in a format to meet the electronic preservation requirements of Rule 17a-4. Consequently, a 2.5 hour estimate is used. Therefore, the increase in the recordkeeping burden is accounted for in the 2.5 hour estimate and the increase in respondents for the daily reserve computations.

⁴²⁶ Costs of the amendments outside of the PRA are discussed in the Economic Analysis in section IV.C of this release.

⁴²⁷ This figure was calculated as follows: 40 respondent carrying broker-dealers that are required to perform daily customer reserve computations x 2.5 hours/day x 250 business days = 25,000 hours, plus 35 respondent carrying broker-dealers that are required to perform daily PAB reserve computations x 2.5 hours/day x 250 business days = 21,875 hours. Therefore, the total estimated burden is 25,000 hours + 21,875 hours = 46,875 hours. See also *supra* note 355 and the accompanying text (discussing the annual economic cost for one carrying broker-dealer associated with the recordkeeping requirements of the amendments to Rule 15c3-3).

weekly customer reserve computations⁴²⁸ (a decrease of 5,200 hours⁴²⁹), and 5,460 hours with respect to the weekly PAB reserve computations⁴³⁰ (a decrease of 4,550 hours⁴³¹).

2. Notification Requirement to Revert to Weekly Computations

Based on its experience with other notification requirements, in the Proposing Release, the Commission estimated that it will take a carrying broker-dealer 30 minutes to prepare and send the notification regarding its election to perform weekly customer and PAB reserve computations to its DEA. The Commission did not receive comments on the estimate and is adopting it as proposed. This burden represents a new collection of information. The Commission estimates that relatively few carrying broker-dealers will send the notice either because their average total credits will be substantially greater than the \$500 Million Threshold or because they will continue to perform daily computations, even if their average total credits fall below the \$500 Million Threshold, given the liquidity benefits of performing a daily computation. Consequently, the Commission estimates that one carrying broker-dealer per year will send the notice for a burden of 0.5 hours per year.⁴³²

3. Notification Requirement to Voluntarily Perform Daily Customer Reserve Computation with 2% Debit Reduction

⁴²⁸ This figure was calculated as follows: 161 respondents currently approved under the information collection related to weekly customer reserve computations titled “Rule 15c3-3(e)(3) – weekly computations” minus the 40 respondent carrying broker-dealers that are required under the adopted amendments to perform daily customer reserve computations = 121 respondents x 2.5 hours x 52 responses annually = 15,730 hours.

⁴²⁹ This figure was calculated as follows: 20,930 burden hours currently approved with respect to the collection of information related to weekly customer reserve computations minus the revised estimate of 15,730 hours resulting from fewer respondents performing weekly computations = 5,200 hours.

⁴³⁰ This figure was calculated as follows: 77 respondents currently approved under the information collection related to weekly PAB reserve computations titled “Rule 15c3-3(e)(3) – weekly computations” minus the 35 respondent carrying broker-dealers that are required under the adopted amendments to perform daily PAB reserve computations = 34 respondents x 2.5 hours x 52 responses annually = 5,460 hours.

⁴³¹ This figure was calculated as follows: 10,010 burden hours currently approved with respect to the collection of information related to weekly PAB reserve computations minus the revised estimate of 5,460 hours resulting from fewer respondents performing weekly computations = 4,550 hours.

⁴³² One response per year x 0.5 hours per response = 0.5 hours.

Based on its experience with other notification requirements, the Commission estimates that it will take a carrying broker-dealer 30 minutes to prepare and send the notification regarding its election to voluntarily perform a daily customer reserve computation. This burden represents a new collection of information. The Commission estimates that there are 15 respondents: 9 in the first year; 3 in the second year; and 3 in the third year, or alternatively, 5 respondents per year on average. Consequently, the Commission estimates that this will result in an annualized burden of approximately 2.5 hours per year.⁴³³

4. Summary of the Burden Revisions⁴³⁴

As a result of the amendments, the Commission estimates that the burdens associated with the requirement to make, maintain, and preserve a record of the daily customer reserve computations will increase by 25,000 hours and the burdens associated with the requirement to make, maintain, and preserve a record of the daily PAB reserve computations will increase by 21,875 hours. This increase will be accompanied by a decrease in burdens associated with the recordkeeping requirement for weekly customer and PAB reserve computations of 5,200 hours and 4,550 hours,⁴³⁵ respectively, as carrying broker-dealers with average total credits that exceed the \$500 Million Threshold shift from performing the customer and PAB reserve computations weekly to daily.

⁴³³ (Nine responses in year 1 x 0.5 hours per response) + (3 responses in year 2 x 0.5 hours per response) + (3 responses in year 3 x 0.5 hours per response) or 4.5 hours + 1.5 hours + 1.5 hour = 7.5 hours. Over three years the annualized burden would be 7 hours / 3 years = 2.5 hours per year. Alternatively, (5 respondents per year x 0.5 hours per response) = 2.5 hours per year.

⁴³⁴ OMB Control No. 3235-0078 for Rule 15c3-3 includes thirty separate information collections. This summary shows only those information collections that are being revised as a result of the amendments.

⁴³⁵ *See supra* notes 354-356 and the accompanying text (discussing the economic costs associated with the recordkeeping requirements of the amendments to Rule 15c3-3). The net increase in estimated annual burdens associated with the requirement to make, maintain, and preserve a record of the daily customer and reserve computations is estimated to be hours (25,000 hours + 21,875 hours) – (5,200 hours + 4,550 hours) = 37,125 hours. The 37,125 net increase, plus the increase in 3 hours (0.5 hours and 2.5 hours) for the new notification requirement totals a net increase in estimated annual burden hours of 37,128 hours.

Additionally, a new collection of information related to the notification requirement for carrying broker-dealers reverting to weekly customer and PAB reserve computations will result in an additional 0.5 burden hours per year.

Lastly, a new collection of information related to the notification requirement for carrying broker-dealers electing to voluntarily perform daily customer reserve computations and to reduce aggregate debit items by 2% instead of 3% will result in an additional 2.5 burden hours per year.

The net increase in estimated annual burdens associated with the amendments to Rule 15c3-3, as adopted, is estimated to be 37,128 hours. The table below summarizes these changes.

Name of Information Collection	Currently Approved Estimated Annual Industry Burden	Estimated Increase/Decrease in Annual Industry Burden	Revised Annual Industry Burden
Rule 15c3-3(e)(3) – daily computations for customer reserve account ¹	9,375 hours	25,000 hours	34,375 hours
Rule 15c3-3(e) – daily computations for PAB reserve account	6,875 hours	21,875 hours	28,750 hours
Rule 15c3-3(e)(3) – weekly computations for customer reserve account ²	20,930 hours	(5,200 hours)	15,730 hours
Rule 15c3-3(3)(3) – weekly computations for PAB reserve account	10,010 hours	(4,550 hours)	5,460 hours
Rule 15c3-3(e)(i)(B)(2) notification	N/A	0.5 hours	0.5 hours
Rule 15c3-3(e)	N/A	2.5 hours	2.5 hours
TOTAL CHANGE:		37,128 hours	

1. In the most recently approved supporting statement for Rule 15c3-3, the titles of the collections of information related to daily customer and PAB reserve computations are both listed as “Rule 15c3-3(e)(3) – daily computations.” The Commission is revising the titles of these collections of information as set forth in this table in order to clarify that they are distinct collections of information.
2. In the most recently approved supporting statement for Rule 15c3-3, the titles of the collections of information related to weekly customer and PAB reserve computations are both listed as “Rule 15c3-3(e)(3) – weekly computations.” The Commission is revising the titles of these collections of information as set forth in this table in order to clarify that they are distinct collections of information.

E. Collections of Information are Mandatory

The collections of information under the amendments to Rule 15c3-3 are mandatory as to the carrying broker-dealers that are subject to them.

F. Confidentiality of Response to Collections of Information

The Commission expects to receive confidential information in connection with the collections of information. A carrying broker-dealer requested by the Commission to produce records related to the amendments under Rule 15c3-3 could request confidential treatment of the information.⁴³⁶ If a confidential treatment request were made, the Commission anticipates that it would keep the information confidential subject to applicable law.⁴³⁷

G. Retention Period for Recordkeeping Requirements

The record of the customer and PAB reserve computations must be preserved in accordance with the requirements of Rule 17a-4.⁴³⁸ Written notifications from carrying broker-dealers electing to compute the customer and PAB reserve computations weekly after being subject to the daily requirement, and notifications from carrying broker-dealers that elect to perform a daily customer reserve computation and use the 2% debit reduction will be submitted to the carrying broker-dealer’s DEA. These notices constitute communications relating to a

⁴³⁶ See 17 CFR 200.83. Information regarding requests for confidential treatment of information submitted to the Commission is available on the Commission’s website at <https://www.sec.gov/foia/howfo2.htm#privacy>.

⁴³⁷ See, e.g., 15 U.S.C. 78x (governing the public availability of information obtained by the Commission); 5 U.S.C. 552 *et seq.*

⁴³⁸ See paragraph (e)(3)(v) of Rule 15c3-3; Rule 17a-4.

carrying broker-dealer’s “business as such” and, therefore, will need to be retained for three years.⁴³⁹

VI. REGULATORY FLEXIBILITY ACT CERTIFICATION

The Regulatory Flexibility Act (“RFA”) requires the Commission, in promulgating rules, to consider the impact of those rules on small entities.⁴⁴⁰ Section 603(a) of the Administrative Procedure Act,⁴⁴¹ as amended by the RFA, generally requires the Commission to undertake a regulatory flexibility analysis of all proposed rules to determine the impact of such rulemaking on “small entities.”⁴⁴² Section 605(b) of the RFA states that this requirement shall not apply to any proposed rule which, if adopted, would not have a significant economic impact on a substantial number of small entities.⁴⁴³ In the Proposing Release, the Commission certified that the proposed amendments to Rule 15c3-3 would not have a significant economic impact on a substantial number of small entities for purposes of the RFA.⁴⁴⁴ The Proposing Release solicited comment on the certification. The Commission received no comments on this certification.

For purposes of Commission rulemaking in connection with the RFA, a small entity includes a broker-dealer that: (1) had total capital (net worth plus subordinated liabilities) of less than \$500,000 on the date in the prior fiscal year as of which its audited financial statements were prepared pursuant to paragraph (d) of 17 CFR 240.17a-5 (“Rule 17a-5(d)”)⁴⁴⁵ or, if not required to file such statements, a broker-dealer with total capital (net worth plus subordinated liabilities) of less than \$500,000 on the last business day of the preceding fiscal year (or in the

⁴³⁹ See paragraph (b)(4) of Rule 17a-4.

⁴⁴⁰ See 5 U.S.C. 601 *et seq.*

⁴⁴¹ 5 U.S.C. 603(a).

⁴⁴² Section 601(b) of the RFA permits agencies to formulate their own definitions of “small entities.” See 5 U.S.C. 601(b). The Commission has adopted definitions for the term “small entity” for the purposes of rulemaking in accordance with the RFA. These definitions, as relevant to this rulemaking, are set forth in 17 CFR 240.0-10 (“Rule 0-10”).

⁴⁴³ See 5 U.S.C. 605(b).

⁴⁴⁴ See Proposing Release, 88 FR at 45862.

⁴⁴⁵ 17 CFR 240.17a-5(d).

time that it has been in business, if shorter); and (2) is not affiliated with any person (other than a natural person) that is not a small business or small organization.⁴⁴⁶

The amendments to Rule 15c3-3 will require certain carrying broker-dealers to perform the customer and PAB reserve computations daily rather than weekly. The amendments to Rule 15c3-3 also will permit carrying broker-dealers below the \$500 Million Threshold to voluntarily perform a daily customer reserve computation and to reduce aggregate debit items in such computation by 2% instead of 3%. Further, the amendments to Rule 15c3-1 will permit carrying broker-dealers that are required to perform a daily customer reserve computation to reduce aggregate debit items in such computation by 2% instead of 3%. Finally, the Commission is adopting technical amendments to the FOCUS Report to conform it to the amendments with respect to the lowering of the debit reduction from 3% to 2%. The amendments to Rules 15c3-3 and 15c3-1 and the FOCUS Report only will impact carrying broker-dealers.

Based on FOCUS Report data, the Commission estimates that as of December 31, 2023, there were approximately 735 broker-dealers that were “small” for the purposes of Rule 0-10. The Commission estimates that none of these small broker-dealers is a carrying broker-dealer. As a result, the amendments likely will not apply to small broker-dealers. Therefore, the amendments will not have a significant impact on a substantial number of small broker-dealers.

For the foregoing reasons, the Commission certifies that the amendments will not have a significant economic impact on a substantial number of small entities for purposes of the RFA.

VII. OTHER MATTERS

The Commission considers the provisions of the final amendments to be severable to the fullest extent permitted by law. “If parts of a regulation are invalid and other parts are not,” courts “set aside only the invalid parts unless the remaining ones cannot operate by themselves or unless the agency manifests an intent for the entire package to rise or fall together.” *Bd. of*

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See 17 CFR 240.0-10(c).

Cnty. Commissioners of Weld Cnty. v. EPA, 72 F.4th 284, 296 (D.C. Cir. 2023); *see K Mart Corp. v. Cartier, Inc.*, 486 U.S. 281, 294 (1988). “In such an inquiry, the presumption is always in favor of severability.” *Cnty. for Creative Non-Violence v. Turner*, 893 F.2d 1387, 1394 (D.C. Cir. 1990). Consistent with these principles, while the Commission believes that all provisions of the final amendments are fully consistent with governing law, if any of the provisions of these rules, or the application thereof to any person or circumstance, is held to be invalid, such invalidity shall not affect other provisions or application of such provisions to other persons or circumstances that can be given effect without the invalid provision or application.

Pursuant to the Congressional Review Act, the Office of Information and Regulatory Affairs has designated these rules as a “major rule,” as defined by 5 U.S.C. 804(2).

STATUTORY AUTHORITY

The Commission is adopting amendments contained in this release under the Commission’s rulemaking authority pursuant to the Exchange Act, 15 U.S.C. 78a *et seq.*, and particularly, sections 15 and 23(a) (15 U.S.C. 78o and 78w(a)), thereof.

List of Subjects

17 CFR Part 240

Reporting and recordkeeping requirements, Securities.

17 CFR Part 249

Brokers, Investment companies, Reporting and recordkeeping requirements, Securities.

Text of Amendments

In accordance with the foregoing, title 17, chapter II of the Code of Federal Regulations is amended as follows:

PART 240—GENERAL RULES AND REGULATIONS, SECURITIES EXCHANGE ACT OF 1934

1. The authority citation for part 240 continues to read, in part, as follows:

Authority: 15 U.S.C. 77c, 77d, 77g, 77j, 77s, 77z-2, 77z-3, 77eee, 77ggg, 77nnn, 77sss, 77ttt, 78c, 78c-3, 78c-5, 78d, 78e, 78f, 78g, 78i, 78j, 78j-1, 78j-4, 78k, 78k-1, 78l, 78m, 78n, 78n-1, 78o, 78o-4, 78o-10, 78p, 78q, 78q-1, 78s, 78u-5, 78w, 78x, 78dd, 78ll, 78mm, 80a-20, 80a-23, 80a-29, 80a-37, 80b-3, 80b-4, 80b-11, 1681w(a)(1), 6801-6809, 6825, 7201 *et seq.*, and 8302; 7 U.S.C. 2(c)(2)(E); 12 U.S.C. 5221(e)(3); 18 U.S.C. 1350; Pub. L. 111-203, 939A, 124 Stat. 1376 (2010); and Pub. L. 112-106, sec. 503 and 602, 126 Stat. 326 (2012), unless otherwise noted.

* * * * *

Section 240.15c3-3 is also issued under 15 U.S.C. 78c-5, 78o(c)(2), 78(c)(3), 78q(a), 78w(a); sec. 6(c), 84 Stat. 1652; 15 U.S.C. 78fff.

* * * * *

2. Section 240.15c3-1 is amended by revising paragraph (a)(1)(ii)(A) to read as follows:

§ 240.15c3-1 Net capital requirements for brokers or dealers.

(a) * * *

(1) * * *

(i) * * *

(ii) * * *

(A) Make the computation required by § 240.15c3-3(e) and set forth in Exhibit A, § 240.15c3-3a, on a weekly basis and, in lieu of the 1% reduction of certain debit items required by Note E (3) in the computation of its Exhibit A requirement, reduce aggregate debit items in such computation by 3%; provided, however, that, if a broker or dealer is required to make the computation required by § 240.15c3-3(e) and set forth in Exhibit A, § 240.15c3-3a, on a daily basis, the broker or dealer may reduce aggregate debit items in such computation by 2%;

* * * * *

3. Section 240.15c3-3 is amended by revising paragraphs (e)(3)(i), (iv), and (v) and adding paragraph (e)(3)(vi) to read as follows:

§ 240.15c3-3 Customer protection—reserves and custody of securities.

* * * * *

(e) * * *

(3) * * *

(i)(A) Except as provided in paragraphs (e)(3)(i)(B)(I) and (C) of this section, computations necessary to determine the amount required to be deposited in the Customer Reserve Bank Account and PAB Reserve Bank Account as specified in paragraph (e)(1) of this section must be made weekly, as of the close of the last business day of the week, and the deposit so computed must be made no later than one hour after the opening of banking business on the second following business day.

(B)(I) A broker or dealer with average total credits that are equal to or greater than \$500 million must make the computations necessary to determine the amount required to be deposited in the Customer Reserve Bank Account and PAB Reserve Bank Account, as specified in paragraph (e)(1) of this section, daily as of the close of the previous business day, and the deposit so computed must be made no later than one hour after the opening of banking business on the second following business day. A broker or dealer must comply with this paragraph

(e)(3)(i)(B)(I) no later than six months after having average total credits equal to or greater than \$500 million and until such time as it has average total credits of less than \$500 million and 60 days after having provided the 60-day notice required by paragraph (e)(3)(i)(B)(2) of this section. For purposes of this paragraph (e)(3), *average total credits* means the arithmetic mean of the sum of Total Credits in the Customer Reserve Bank Account computation and the PAB Reserve Bank Account computation reported in the 12 most recently filed month-end Forms X-17A-5.

(2) A broker or dealer computing the Customer Reserve Bank Account computation and the PAB Reserve Bank Account computation daily under paragraph (e)(3)(i)(B)(I) of this section whose average total credits falls below \$500 million may elect to compute the Customer Reserve

Bank Account and the PAB Reserve Bank Account computation weekly under paragraph (e)(3)(i)(A) of this section. Such broker or dealer must notify its designated examining authority, in writing, of this election at least 60 calendar days before computing the Customer Reserve Bank Account and the PAB Reserve Bank Account computation weekly under paragraph (e)(3)(i)(A) of this section.

(C) A broker or dealer which has aggregate indebtedness not exceeding 800% of net capital (as defined in § 240.15c3-1) and which carries aggregate customer funds (as defined in paragraph (a)(10) of this section), as computed at the last required computation pursuant to this section, not exceeding \$1,000,000, may in the alternative make the Customer Reserve Bank Account computation monthly, as of the close of the last business day of the month, and, in such event, must deposit not less than 105% of the amount so computed no later than one hour after the opening of banking business on the second following business day.

* * * * *

(iv) Computations in addition to the computations required in this paragraph (e)(3), other than computations made under paragraph (e)(3)(i)(B)(I) of this section, may be made as of the close of any business day, and the deposits so computed must be made no later than one hour after the opening of banking business on the second following business day.

(v) A broker or dealer may elect to voluntarily compute the Customer Reserve Bank Account computation daily under paragraph (e)(3)(iv) of this section and reduce aggregate debit items in such computation by 2% under § 240.15c3-1(a)(ii)(A). Such broker or dealer must notify its designated examining authority, in writing, of its election to operate under this paragraph (e)(3)(v) at least 30 calendar days before beginning such computation. If a broker or dealer has notified the broker or dealer's designated examining authority of its election to operate under this paragraph (e)(3)(v), the broker or dealer must continue to compute the Customer Reserve Bank Account computation daily unless a change is approved by its designated examining authority.

(vi) The broker or dealer must make and maintain a record of each such computation made pursuant to this paragraph (e)(3) or otherwise and preserve each such record in accordance with § 240.17a-4.

* * * * *

PART 249—FORMS, SECURITIES EXCHANGE ACT OF 1934

4. The authority citation for part 249 continues to read, in part, as follows:

Authority: 15 U.S.C. 78a *et seq.* and 7201 *et seq.*; 12 U.S.C. 5461 *et seq.*; 18 U.S.C. 1350; Sec. 953(b) Pub. L. 111–203, 124 Stat. 1904; Sec. 102(a)(3) Pub. L. 112–106, 126 Stat. 309 (2012), Sec. 107 Pub. L. 112–106, 126 Stat. 313 (2012), Sec. 72001 Pub. L. 114–94, 129 Stat. 1312 (2015), and secs. 2 and 3 Pub. L. 116–222, 134 Stat. 1063 (2020), unless otherwise noted.

* * * * *

Section 249.617 is also issued under Pub. L. 111-203, § 939, 939A, 124. Stat. 1376 (2010) (15 U.S.C. 78c, 15 U.S.C. 78o-7 note).

* * * * *

5. Amend Part II of the Form X-17A-5 (referenced in § 249.617) by revising the Computation for Determination of Customer Reserve Requirements section as shown in Appendix 1.

Note: The Computation for Determination of Customer Reserve Requirements in Part II of Form X-17A-5 is attached as Appendix 1 to this document. Form X-17A-5 will not appear in the Code of Federal Regulations.

By the Commission.

Dated: December 20, 2024.

Vanessa A. Countryman,

Secretary.

Note: The following appendix containing the text of Part II of Form X-17A-5 and the instructions thereto do not, and these amendments will not, appear in the Code of Federal Regulations.

Appendix 1

* * * * *

[FR Doc. 2024-31178 Filed: 1/10/2025 8:45 am; Publication Date: 1/13/2025]

COMPUTATION FOR DETERMINATION OF CUSTOMER RESERVE REQUIREMENTS

Items on this page to be reported by a: Stand-Alone Broker-Dealer
Broker-Dealer SBSB
Broker-Dealer MSBSP

CREDIT BALANCES

1. Free credit balances and other credit balances in customers' security accounts (see Note A).....	\$	4340	
2. Monies borrowed collateralized by securities carried for the accounts of customers (see Note B)	\$	4350	
3. Monies payable against customers' securities loaned (see Note C).....	\$	4360	
4. Customers' securities failed to receive (see Note D).....	\$	4370	
5. Credit balances in firm accounts which are attributable to principal sales to customers	\$	4380	
6. Market value of stock dividends, stock splits and similar distributions receivable outstanding over 30 calendar days	\$	4390	
7. **Market value of short security count differences over 30 calendar days old	\$	4400	
8. **Market value of short securities and credits (not to be offset by longs or by debits) in all suspense accounts over 30 calendar days.....	\$	4410	
9. Market value of securities which are in transfer in excess of 40 calendar days and have not been confirmed to be in transfer by the transfer agent or the issuer during the 40 days	\$	4420	
10. Other (List _____).....	\$	4425	
11. TOTAL CREDITS (sum of Lines 1-10).....	\$		4430

DEBIT BALANCES

12. **Debit balances in customers' cash and margin accounts, excluding unsecured accounts and accounts doubtful of collection (see Note E).....	\$	4440	
13. Securities borrowed to effectuate short sales by customers and securities borrowed to make delivery on customers' securities failed to deliver	\$	4450	
14. Failed to deliver of customers' securities not older than 30 calendar days.....	\$	4460	
15. Margin required and on deposit with the Options Clearing Corporation for all option contracts written or purchased in customer accounts (see Note F).....	\$	4465	
16. Margin required and on deposit with a clearing agency registered with the Commission under section 17A of the Exchange Act (15 U.S.C. 78q-1) or a derivatives clearing organization registered with the Commodity Futures Trading Commission under section 5b of the Commodity Exchange Act (7 U.S.C. 7a-1) related to the following types of positions written, purchased or sold in customer accounts: (1) security futures products and (2) futures contracts (and options thereon) carried in a securities account pursuant to an SRO portfolio margining rule (see Note G).....	\$	4467	
17. Margin required and on deposit with a clearing agency registered with the Commission under section 17A of the Exchange Act (15 U.S.C. 78q-1) resulting from the following types of transactions in U.S. Treasury securities in customer accounts that have been cleared, settled, and novated by the clearing agency: (1) purchases and sales of U.S. Treasury securities; and (2) U.S. Treasury securities repurchase and reverse repurchase agreements (see Note H).....	\$	12843	
18. Other (List _____).....	\$	4469	
19. **Aggregate debit items (sum of Lines 12-18).....	\$		4470
20. **Aggregate debit items reduction (for alternative method only)			
A. Less 3% (if applicable) (See Rule 15c3-1(a)(1)(ii)) (3% x Line Item 4470).....	\$		4471
B. Less 2% (if applicable) (See Rules 15c3-1(a)(1)(ii) and 15c3-3(e)(3)(v)) (2% x Line Item 4470).....	\$		12849
21. **TOTAL DEBITS (Line 19 less [Line 20A or 20B, as applicable])	\$		4472

RESERVE COMPUTATION

22. Excess of total debits over total credits (Line 21 less Line 11).....	\$		4480
23. Excess of total credits over total debits (Line 11 less Line 21).....	\$		4490
24. If computation is made monthly as permitted, enter 105% of excess of total credits over total debits	\$		4500
25. Amount held on deposit in "Reserve Bank Account(s)," including \$ _____ 4505 value of qualified securities, at end of reporting period.....	\$		4510
26. Amount of deposit (or withdrawal) including \$ _____ 4515 value of qualified securities.....	\$		4520
27. New amount in Reserve Bank Account(s) after adding deposit or subtracting withdrawal including \$ _____ 4525 value of qualified securities	\$		4530
28. Date of deposit (MM/DD/YY).....	\$		4540

Name of Firm: _____

As of: _____

COMPUTATION FOR DETERMINATION OF CUSTOMER RESERVE REQUIREMENTS

Items on this page to be reported by a: Stand-Alone Broker-Dealer
Broker-Dealer SBSD
Broker-Dealer MSBSP

FREQUENCY OF COMPUTATION

29. Daily 4332 Weekly 4333 Monthly 4334

30. If the reserve formula is computed daily, and the net capital requirement is computed under the alternative method, check the applicable aggregate debit items reduction percentage used:

3% 12850 2% 12851

**See Rules 15c3-1(a)(1)(ii) and 15c3-3(e)(3)(v). In the event the net capital requirement is computed under the alternative method, this reserve formula must be prepared in accordance with the requirements of paragraphs (a)(1)(ii) of Rule 15c3-1 and (e)(3)(v) of Rule 15c3-3, as applicable.

References to notes in this section refer to the notes to 17 CFR 240.15c3-1a.

Name of Firm: _____

As of: _____

* * * * *