

Supplemental FOCUS Information

SEC Approves Supplemental Inventory Schedule

Implementation Date: The initial Supplemental Inventory Schedule disclosing inventory positions as of December 31, 2014, must be filed with FINRA on or before January 30, 2015.

Executive Summary

The SEC has approved the adoption of the Supplemental Inventory Schedule (SIS),¹ a supplemental schedule that must be filed by a firm that is required to file FOCUS Report Part II, FOCUS Report Part IIA or FOGS Report Part I, and has inventory positions as of the end of the FOCUS or FOGS reporting period, unless the firm has (1) a minimum dollar net capital or liquid capital requirement of less than \$100,000 or (2) inventory positions consisting only of money market mutual funds.² The initial SIS disclosing inventory positions as of December 31, 2014, must be filed with FINRA on or before January 30, 2015.³

The SIS can be found at www.finra.org/notices/14-43.

Questions concerning this *Notice* should be directed to:

- ▶ Kris Dailey, Vice President, Risk Oversight & Operational Regulation, at (646) 315-8434 or kris.dailey@finra.org; or
- ▶ Matthew E. Vitek, Associate General Counsel, Office of General Counsel, at (202) 728-8156 or matthew.vitek@finra.org.

October 2014

Notice Type

- ▶ New Supplemental Schedule

Suggested Routing

- ▶ Compliance
- ▶ Legal
- ▶ Operations
- ▶ Regulatory Reporting
- ▶ Senior Management

Key Topics

- ▶ FOCUS Reporting

Referenced Rules & Notices

- ▶ FINRA Rule 4524

Background & Discussion

FINRA Rule 4524 requires each firm, as FINRA shall designate, to file such additional financial or operational schedules or reports as FINRA may deem necessary or appropriate for the protection of investors or in the public interest as a supplement to the FOCUS Report. The SEC has approved the SIS, a supplemental schedule to the FOCUS Report Part II, FOCUS Report Part IIA and the FOGS Report Part I that would provide more detailed information about the inventory positions held by firms.⁴ The SIS must be filed by a firm that is required to file FOCUS Report Part II, FOCUS Report Part IIA or FOGS Report Part I, with inventory positions as of the end of the FOCUS or FOGS reporting period unless the firm has (1) a minimum dollar net capital or liquid capital requirement of less than \$100,000; or (2) inventory positions consisting only of money market mutual funds. A firm with inventory positions consisting only of money market mutual funds will need to affirmatively indicate through functionality on the eFOCUS system that no SIS filing is required for the reporting period.

The SIS will provide a more detailed categorization of a firm's long and short inventory positions than what is required by the FOCUS Report Part II, FOCUS Report Part IIA and FOGS Report Part I. For example, FOCUS Report Part II, FOCUS Report Part IIA and FOGS Report Part I require total inventory of securities sold short to be reported in aggregate (Item 1620), and do not provide any information on the types of securities sold short by firms. Similarly, FOGS Report Part I requires that all long inventory be reported in aggregate (Item 850). Further, on FOCUS Report Part II and IIA, long inventory is reported in categories that aggregate securities with different market risk profiles (*e.g.*, the Corporate Obligations category on the FOCUS Report Part II (Item 400) and Debt Securities category on the FOCUS Report Part IIA (Item 419) include single name corporate bonds, private-label mortgage-backed securities and foreign issuer debt obligations). The SIS will enhance FINRA's ongoing surveillance monitoring of firms' financial condition by providing greater transparency into the market risk posed by a firm's inventory positions and the potential impact to a firm's net capital or liquid capital, as well as related funding and liquidity requirements. In addition, the information provided by the SIS will enable FINRA staff to perform more targeted examinations of firms' market risk exposure.

The SIS includes instructions that provide definitions and guidance with respect to the information required to be reported. The SIS is due within 20 business days of the end of a firm's FOCUS or FOGS reporting period and must be filed using the eFOCUS system available through FINRA's Firm Gateway. Firms must use their current FINRA entitlement user ID and password to access the Firm Gateway. Questions regarding access to the Firm Gateway should be directed to the firm's Super Account Administrator (SAA).⁵

The initial SIS disclosing inventory positions as of December 31, 2014, must be filed with FINRA on or before January 30, 2015.

Endnotes

1. See Securities Exchange Act Release No. 73192 (September 23, 2014), 79 FR 58390 (September 29, 2014) (Order Approving Proposed Rule Change; File No. SR-FINRA-2014-025).
2. Firms that are government securities broker-dealers registered under Section 15C of the Securities Exchange Act are required to file a FOGS Report (Report on Finances and Operations of Government Securities Brokers and Dealers) in lieu of a FOCUS Report.
3. See Securities Exchange Act Release No. 73392 (October 21, 2014) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Revise the Implementation Date of the SIS; File No. SR-FINRA-2014-044).
4. For purposes of the SIS, the term “inventory positions” means securities or commodities positions (long, short or both) which are required to be reported on the balance sheet pursuant to GAAP.
5. For more information about system entitlement and SAA, please visit FINRA’s [Entitlement Program](#) page.