

## Day of Closure

### Unexpected Close of Securities Markets

#### Summary

On occasion, the securities markets may unexpectedly close for business, for example, on the national day of mourning declared in memory of President George H.W. Bush on December 5, 2018.<sup>1</sup> This *Notice* provides guidance to members regarding SEA Rules 15c3-1, 15c3-3, 17a-5(a) through (d), Rule 204 under Regulation SHO, FINRA Rules 4210, 4230(b), 4521 and 4524, and Federal Reserve Board Regulation T in the event of such an unexpected close. The *Notice* addresses, among other things, the circumstances under which the day of the unexpected close should be considered a regular business day versus a non-business day for purposes of these rules.

This *Notice* replaces the guidance previously set forth in [Notice 05-47](#).

Questions concerning this *Notice* should be directed to:

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- ▶ Theresa Reynolds, Senior Credit Regulatory Coordinator, Credit Regulation, at (646) 315- 8567 or [Theresa.Reynolds@finra.org](mailto:Theresa.Reynolds@finra.org).

#### Background and Discussion

On occasion, the securities markets may unexpectedly close for business, for example, on the national day of mourning declared in memory of President George H.W. Bush on December 5, 2018. On such days, it is possible that the Federal Reserve regional banks and Depository Trust & Clearing Corporation (DTCC) may elect to remain open for clearance and settlement of securities. In such an event, members have requested that FINRA provide guidance as to the circumstances under which the day of the unexpected close should be considered a regular business day versus a non-business day for purposes

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#### Notice Type

- ▶ Guidance

#### Suggested Routing

- ▶ Compliance
- ▶ Legal
- ▶ Margin Department
- ▶ Operations
- ▶ Regulatory Reporting
- ▶ Senior Management
- ▶ Systems

#### Key Topics

- ▶ Audit Reports
- ▶ Customer Protection
- ▶ Day Trading
- ▶ Extensions of Time
- ▶ FOCUS Report
- ▶ Form Custody
- ▶ Maintenance Margin
- ▶ Margin Requirements
- ▶ Net Capital
- ▶ Regulation SHO
- ▶ Reporting Requirements
- ▶ Supplemental FOCUS Information

#### Referenced Rules & Notices

- ▶ Federal Reserve Board Regulation T
- ▶ FINRA Rule 4210
- ▶ FINRA Rule 4230
- ▶ FINRA Rule 4521
- ▶ FINRA Rule 4524
- ▶ SEA Rule 15c3-1
- ▶ SEA Rule 15c3-3
- ▶ SEA Rule 17a-5
- ▶ Regulation SHO

of key financial, operational and reporting rules. To assist members, this *Notice*, based on discussions with SEC staff and Federal Reserve staff, provides members with guidance regarding SEA Rules 15c3-1, 15c3-3, 17a-5(a) through (d), Rule 204 under Regulation SHO, FINRA Rules 4210, 4230(b), 4521 and 4524, and Federal Reserve Board Regulation T in the event of an unexpected close of the securities markets.

Members should note that FINRA may publish further or additional guidance as appropriate at the time the event occurs. For purposes of this *Notice*, an unexpected close of the securities markets is referred to as “the day of closure.” As noted above, this *Notice* replaces the guidance previously set forth in *Notice 05-47*.

## **1. Net Capital and Customer Protection**

### **A. SEA Rule 15c3-1 (Net Capital)**

For aging purposes, in determining net capital charges (for example, fail to deliver and suspense charges), “the day of closure” should be considered as a regular business day.

### **B. SEA Rule 15c3-3 (Reserve Formula and Possession or Control)**

For purposes of reserve formula computation requirements, “the day of closure” should be considered as a regular business day.

1. If “the day of closure” occurs on a Friday, the weekly reserve formula computation should be prepared, as usual, as of close of business on Friday, with the deposit requirement (if any) to be made by 10 a.m. on the second business day following the computation date.
2. If “the day of closure” occurs on the normal month-end date, the reserve formula computation should be prepared, as usual, as of close of business on the month-end date with the deposit requirement (if any) to be made by 10 a.m. on the second business day following the computation date.
3. For purposes of possession or control requirements, bank loan and stock loan recalls, if required, should be effected on “the day of closure.”

## **2. Financial Reporting**

### **A. FINRA Rules 4230(b), 4521 and 4524**

For purposes of reporting requirements under FINRA Rules 4230(b) (Required Submissions for Requests for Extensions of Time Under Regulation T and SEA Rule 15c3-3), 4521 (Notifications, Questionnaires and Reports) and 4524 (Supplemental FOCUS Information), “the day of closure” may be treated as a non-business day.

### **B. SEA Rules 17a-5(a) through (d)**

For purposes of reporting requirements under paragraphs (a) through (d) of SEA Rule 17a-5 (Reports to be Made by Certain Brokers and Dealers), “the day of closure” may be treated as a non-business day.

### 3. Extension of Time and Close-Out Requirements

#### A. Federal Reserve Board Regulation T (Extensions of Time)

Margin extensions due on “the day of closure” may be filed either on “the day of closure” or on the next business day (as of “the day of closure”). If an extension is filed on the next business day, FINRA staff will work with firms to ensure extensions are appropriately processed. All follow-on extensions required to be filed after “the day of closure” should be filed on the normal due date, counting “the day of closure” as a business day. However, if the extension has expired or is denied, “the day of closure” should be treated as a non-business day, and securities should be liquidated when the market where the securities are traded is reopened.

#### B. FINRA Rule 4210 (Margin Calls)

“The day of closure” should be counted as a regular business day for purposes of aging uncollected margin calls. Extensions of time due on “the day of closure” may be filed either on “the day of closure” or on the next business day (as of “the day of closure”). If an extension is filed on the next business day, FINRA staff will work with firms to ensure extensions are appropriately processed. All follow-on extensions required to be filed after “the day of closure” should be filed on the normal due date, counting “the day of closure” as a business day. However, if the extension has expired or is denied, “the day of closure” should be treated as a non-business day, and securities should be liquidated when the market where the securities are traded is reopened.

#### C. FINRA Rule 4210(f)(8)(B)(iv)(f) (Day Trading Requirements)

Funds deposited into a day trader’s account to meet the minimum equity or maintenance margin requirements of FINRA Rule 4210(f)(8)(B) cannot be withdrawn for a minimum of two business days following the close of business on the day of deposit. In making this determination, “the day of closure” should be counted as a business day.

#### D. SEA Rules 15c3-3(d), (h) and (m) (Extensions of Time)

Extensions on customers’ sell orders under SEA Rules 15c3-3(d), (h) and (m) due on “the day of closure” may be filed either on “the day of closure” or on the next business day (as of “the day of closure”). If an extension is filed on the next business day, FINRA staff will work with firms to ensure extensions are appropriately processed. All follow-on extensions required to be filed after “the day of closure” should be filed on the normal due date, counting “the day of closure” as a business day. However, if the extension has expired or is denied, “the day of closure” should be treated as a non-business day, and securities should be purchased when the market where the securities are traded is reopened.

#### 4. Rule 204 under Regulation SHO (Fail to Deliver Close-Out)

For purposes of Rule 204 under Regulation SHO, “the day of closure” should be treated as a non-business day. Participants of registered clearing agencies or firms that have been allocated a fail to deliver position by a participant of a registered clearing agency pursuant to the rule may delay closing out fail to deliver positions that have become due on “the day of closure” since U.S. equity exchanges would be closed. Close-out would be required no later than the beginning of trading on the day that major U.S. equity exchanges re-open. A participant of a registered clearing agency should not count the days that major U.S. equity exchanges are closed for purposes of determining the relevant time period for its close-out obligations.

Members may contact their Regulatory Coordinator with any questions in connection with an unexpected market close.

### Endnotes

- 1 See [Presidential Proclamation Announcing the Death of George H.W. Bush](#), issued on December 1, 2018.