



Date: February 16, 2023

Subject: Clearing Member Financial Reporting and Notification Requirements

OCC rules require Clearing Members to provide certain financial reports and early warning notifications regarding their financial condition and business operations. These requirements are designed to allow OCC to assess on an ongoing basis its Clearing Members' compliance with applicable financial requirements. Pursuant to Article V, Section 3 of OCC's By-Laws and the Clearing Member Agreement, each Clearing Member is obligated to permit inspection of its books and records by OCC at all times. OCC Rule 306 provides, in part, that OCC may require any Clearing Member at any time to make more frequent net capital computations or to file the required financial reports on a more frequent basis or such other reports or financial statements in such form or detail as may be prescribed by OCC, including for purposes of assessing whether the Clearing Member is meeting the financial requirements for clearing membership on an ongoing basis. OCC Rule 303 sets forth certain notification obligations in connection with the financial responsibility and capital requirements that apply to Clearing Members.

Pursuant to Article V, Section 3 of OCC's By-Laws, the Clearing Member Agreement, and OCC Rule 306, OCC is requiring all broker-dealer registered Clearing Members to submit the following information to OCC to enhance OCC's financial surveillance efforts, effective 4/1/23:

- ☐ Securities Exchange Act (SEA) Rule 17a-5 - Schedule I (S)
- ☐ FINRA Rule 4524 - Supplemental Statement of Income Schedule (SSOI)
- ☐ FINRA Rule 4524 – Derivatives and Off-Balance Sheet Schedule (OBS)
- ☐ FINRA Rule 4524 - Supplemental Liquidity Schedule (SLS)
- ☐ SEA Rule 17a-5 - Form Custody (CSTDY)

To facilitate the foregoing financial reporting and avoid duplication of filings to multiple SROs by Clearing Members, OCC has entered into an agreement with FINRA by which FINRA will provide a data feed of the above reports to OCC. Because OCC will collect these reports directly from FINRA, no additional action is required from Clearing Members at this time.

In addition, FINRA will also provide to OCC the following notifications that Clearing Members file in connection with the financial responsibility and capital requirements:

- ☐ SEA Rule 15c3-1(e)(1): Withdrawals of Equity Capital
- ☐ SEA Rule 15c3-3(i): Failure to make a deposit in the special reserve bank account or special account
- ☐ SEA Rule 17a-11(b): Net Capital below minimum amount required
- ☐ SEA Rule 17a-11(c)(1): Aggregate indebtedness greater than 1,200% of net capital

- ❑ SEA Rule 17a-11(c)(2): Net Capital less than 5% of Aggregate Debit items (Alternative Computing Firms)
- ❑ SEA Rule 17a-11(c)(3): Net Capital less than 120% of required minimum net capital (early warning)
- ❑ SEA Rule 17a-11(d): Failure to make and keep Current Books and/or Records – initial notification
- ❑ SEA Rule 17a-11(c)(1): Failure to make and keep Current Books and/or Records – Follow Up Report
- ❑ SEA Rule 17a-11(e)(1) and SEA Rule 17a-5(h): Notice of Material Inadequacy or Material Weakness – Initial Notification
- ❑ SEA Rule 17a-11(e)(2): Material Inadequacy or Material Weakness – Follow Up Report

In a related effort, to facilitate Clearing Members' submission of audited annual financial statements, OCC will now also receive submissions of Clearing Members' annual reports pursuant to SEA Rule 17a-5(d) from FINRA. To ensure complete and timely submissions, until further notice, please continue to submit the next audited annual financial statements via e-mail to creditriskanalysts@theocc.com.

If you have any questions regarding this memo, please contact your Credit Risk Management representative.