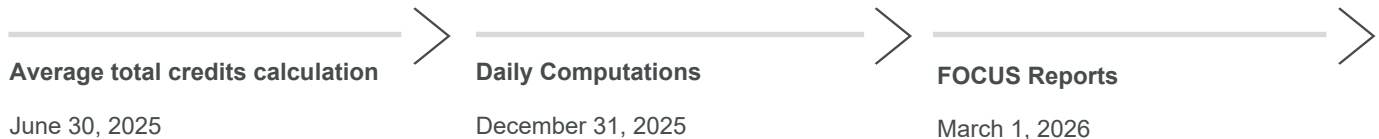


## FORsights™

### SEC Requires Daily 15c3-3 Calculations

On December 20, 2024, the SEC approved a [final rule](#) that requires daily 15c3-3 calculations and lockup for carrying broker-dealers with customer and proprietary accounts of broker-dealers (PAB) credits of more than \$500 million. Broker-dealers that perform a daily reserve computation would be permitted to reduce customer-related receivables by 2% rather than 3%. Compliance dates:



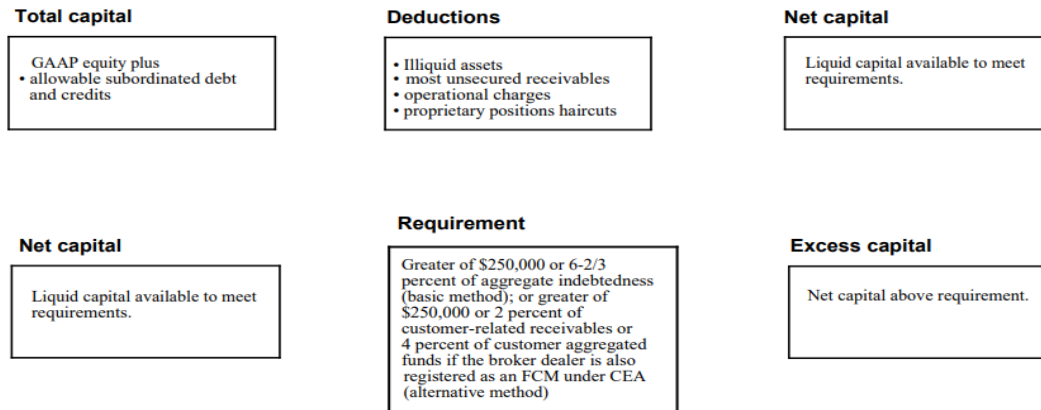
## Background

Broker-dealers have two primary regulations designed to protect customers, counterparties, and creditors:

- Amended in 1975, the net capital rule, 15c3-1, requires broker-dealers to have sufficient liquid resources to promptly satisfy claims. 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:
  - Basic method: 15-to-1 (6 2/3%) aggregate indebtedness to net capital ratio
  - Alternative method: 2% of aggregate debit items
- Adopted in 1972, the customer protection rule, 15c3-3, protects customer funds and securities by forbidding broker-dealers from using customer assets to buy securities for their own account and also requires a broker-dealer that maintains custody of customer securities and cash (carrying broker-dealers) to take two primary steps to safeguard customer assets:
  - Maintain physical possession or control over customers' fully paid securities.
  - Maintain a reserve of fund or qualified securities at least equal in value to the net cash owed to customers. The reserve is calculated by a prescribed formula in Rule 15c3-3a. This calculation and required deposits are currently generally required on a weekly basis.

FORsights

Net Capital Overview



Source: SEC.gov

Carrying broker-dealers also perform a similar weekly computation and deposit for the net cash a carrying broker-dealer owes to other broker-dealers whose accounts the broker-dealer carries, known as the proprietary securities account of a broker-dealer (PAB).

The steps ensure that if the broker-dealer fails, the securities and cash should be readily available to be returned to the customers or PAB account holders.

**Daily Computations**

Under the final rule, carrying broker-dealers with average total credits equal to or greater than \$500 million would be required to make daily computations, as of the close of the previous business day. Required deposits must be made no later than one hour after the opening of banking business on the following business day.

“Average total credits” is defined as the arithmetic mean of the sum of total credits reported in a carrying broker-dealer’s customer and PAB reserve computations in its 12 most recently filed month-end financial and operational (FOCUS) reports. “Average total credits” is a 12-month rolling average—the sum of the total credits reported in the customer and PAB reserve computations for each of the 12 most recently filed month-end FOCUS reports divided by 12.

A ramp-up compliance period is provided for a carrying broker-dealer to make the systems and staffing changes necessary to perform a daily computation after it exceeds the \$500 million threshold. A carrying broker-dealer must comply with the daily computation requirement no later than six months after exceeding the \$500 million threshold.

If the average total credits subsequently fall below the \$500 million threshold, the carrying broker-dealer would continue to perform daily calculations for at least 60 days and must provide notification to its designated examining authority prior to reverting to weekly computations.

## FORsights

## Aggregate Debit Reduction

Under existing rules, carrying broker-dealers must reduce the value of debit items (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) depending on how it calculates its minimum net capital requirement under Rule 15c3-1.

Under the final rule, Rule 15c3-1 is modified 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 2% rather than 3%.

Carrying broker-dealers that use the alternative method and are below the \$500 million threshold may voluntarily perform a daily customer reserve computation and apply the 2% debit reduction only if they notify their designated examining authority (DEA) at least 30 days prior to beginning the daily customer reserve computation. Prior approval from their DEA would be required to revert back to a weekly customer reserve computation with the associated 3% debit reduction.

Carrying broker-dealers that elect the alternative method for calculating minimum net capital and perform customer reserve calculation weekly must continue to apply the 3% aggregate debit reduction.

**FOCUS report data as of December 31, 2023 indicates that 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 capital requirements that are less than the \$250,000 required to use the alternative method.**

## Impacts

The SEC estimates that 49 carrying broker-dealers would now be subject to 15c3-3 daily calculation. Nine of those broker-dealers already voluntarily perform daily customer and PAB reserve computations. Comment letter feedback to the proposal indicated that the shift from weekly to daily calculations took more than 25,000 man-hours and cost between \$2 million to \$3 million dollars.

### 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

Source: SEC

### No Changes to Reserve Requirements for Security-Based Swaps (SBSs)

In 2019, the SEC adopted customer segregation requirements for broker-dealers and security-based swap dealers (SBSDs) for customer money, securities, and property related to SBSs based on the Rule 15c3-3. Broker-dealers—including broker-dealers registered as SBSDs—are required to perform a separate weekly SBS customer reserve computation and have a separate SBS customer reserve account that must hold the net amount of cash owed to SBS customers. The SEC asked for feedback if the SBS customer reserve computation and deposit requirements also should be daily rather than weekly. Based on comment letter feedback, there are no changes to the reserve account requirements for security-based swaps.

### Conclusion

For impacted broker-dealers, daily 15c3-3 computation will likely require considerable time, additional staff, and expense to implement. Other considerations will include updates to existing systems, internal controls, and coordinating with third-party data providers to supply information on a timelier basis.

The broker-dealer industry faces unprecedented challenges due to evolving regulations and heightened investor scrutiny. To meet these challenges, industry participants need timely guidance on controls and best practices and reliable regulatory compliance assistance. Forvis Mazars can help. As a top 10 U.S. public accounting firm, we have an experienced team of broker-dealer professionals with strong technical and client service capabilities. We serve several large and midsize clearing broker-dealers, introducing broker-dealers, investment advisers, swap dealers, and trading firms.

### Contributors

#### Lance Deal

Managing Director

[lance.deal@us.forvismazars.com](mailto:lance.deal@us.forvismazars.com)

## FORsights

**Anne Coughlan**

Director

[anne.coughlan@us.forvismazars.com](mailto:anne.coughlan@us.forvismazars.com)