

RAYMOND JAMES®

September 11, 2023

Vanessa Countryman
Secretary
Securities and Exchange Commission
100 F Street NE
Washington, DC 20549-1090

Re: *Release No. 34-97877; File No. S7-11-23*
Daily Computation of Customer and Broker-Dealer Reserve Requirements
Under the Broker-Dealer Customer Protection Rule

Dear Ms. Countryman:

On behalf of Raymond James & Associates, Inc. (“Raymond James” or “the firm”), a broker-dealer registered with the Securities and Exchange Commission (“Commission”) and member of the Financial Industry Regulatory Authority, Inc. (“FINRA”), I appreciate this opportunity to provide comments on the Commission’s proposal to revise Rule 15c3-3 under the Securities Exchange Act of 1934 (the “Customer Protection Rule”).¹

Raymond James clears trades and carries accounts for customers and other broker-dealers. Accordingly, as required by Rule 15c3-3(e), on a weekly basis, and using data as of the close of business of the last business day of the week and at the end of each month, Raymond James calculates the amounts that must be held on deposit in special reserve bank accounts for customers (“customer reserve accounts”), and for the proprietary accounts of other broker-dealers (“PAB reserve account”). The firm ensures that the customer reserve bank accounts and the PAB reserve bank account are each adequately funded with cash and/or qualified securities no later than one hour after the opening of banking business on the second day after the calculation.

The Commission now proposes to amend the Customer Protection Rule so that certain carrying firms would be required to perform their reserve computations and make any required deposits into reserve bank accounts on a daily basis, rather than on a weekly basis.² This proposal is intended to address potential risks that may arise if a broker-dealer receives a large inflow of cash from customers and/or other broker-dealers that is not invested or swept out to bank deposits or money market funds before the next deposit deadline.

¹ 17 C.F.R. § 240.15c3-3; 88 Fed. Reg. 45836 (July 18, 2023).

² The proposal would apply to carrying broker-dealers whose average total credits under the Customer Protection Rule’s reserve formula exceed \$250 million. 88 Fed. Reg. at 45863.

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In proposing these changes, however, we believe that the Commission has overlooked or underestimated some of the implications of shifting to a daily cycle. Accordingly, we believe the following matters should be addressed before effecting the proposed rule change in order to avoid unintended consequences or undue burdens.

A. *Conforming Changes to Debit Balance Deductions.*

At present, the standard formula for determining customer reserve minimums includes a one percent (1%) deduction from the amount of debit balances in the cash and margin accounts of customers. This creates a margin of safety by increasing the amounts of cash and qualified securities that a broker-dealer must deposit into the reserve accounts.³ However, broker-dealers who elect the alternative method for computing their net capital requirements, like Raymond James, must reduce the very same debit items by three percent (3%) when calculating minimum reserves. As a result, these firms are required to deposit even larger amounts of their funds and qualified securities into reserve accounts. For Raymond James, on average, this extra deposit amounts to approximately \$50 million in liquid assets each week.

When the Commission adopted the 3% deduction in 1975, it explained that its 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 broker or dealer effects transactions.”⁴ However, a shift to daily calculations and deposits as proposed here – and as enabled by technological advancements since 1975 – will result in more precise and up-to-date minimum reserve deposits, thereby mitigating risks that were addressed by the 3% “additional cushion.” In this light, a 1% deduction in line with that applied to other broker-dealers seems appropriate for firms that calculate net capital under the alternative method. We understand that this position is shared by other securities firms and the Securities Industry and Financial Markets Association (“SIFMA”), and we urge the Commission to make this conforming change.

B. *Calculation Frequency for Smaller Reserve Credit Balances.*

At present, Rule 15c3-3 requires carrying firms to perform separate reserve computations for PAB accounts and for customer accounts. However, the proposal would aggregate the credits of PAB and customer accounts together for purposes of determining whether the carrying firm crosses the \$250 million threshold and should be subject to a daily computation and deposit cycle. But 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 calculation for the smaller category of account.

For example, Raymond James, on a limited basis, offers correspondent clearing services to other broker-dealers. While the firm meets the draft rule requirement to perform daily calculations as its customer credit balances exceed \$250 million, the firm’s PAB credit balances

³ 17 C.F.R. 240.15c3-3, Appendix A

⁴ SEC Rel. No 34-11497, *Adoption of Uniform Net Capital Rule and an Alternative Net Capital Requirement for Certain Brokers and Dealers*, 40 Fed Reg. 29795, at 29798 (July 16, 1975).

are significantly below that threshold. In practice, Raymond James does not see large inflows or outflows of broker credit items in PAB accounts, and so the firm does not experience a mismatch in timing of these items. Many carrying broker-dealers are in a similar situation. According to the proposing release, “[a]pproximately fourteen carrying broker-dealers that exceeded the \$250 Million Threshold reported *no credits in their PAB reserve computations* during the 2022 calendar year.”⁵ Table 2 of the proposing release also demonstrates that there were sixteen carrying broker-dealers that had \$1-5 billion in average monthly total customer and PAB credits, but with an average of only \$127.5 million in PAB credits.⁶

Therefore, we respectfully request that the calculations be bifurcated, such that the \$250 million threshold would apply separately with respect to customer credits and PAB credits, and not in total. The six-month deadline to implement daily computations of the required reserve deposits would then apply when the particular type of average credit (customer or PAB) crosses the \$250 million threshold. This would permit firms to focus efforts and resources on whichever reserve account merits the most attention, rather than on a reserve account that presents minimal risk to the carrying broker-dealer or the financial system as a whole.⁷

C. *Costs, Burdens, and Timing of Implementation Date.*

Raymond James further notes that practical aspects of the proposal will require significant time, expense, and expertise. In this regard, we submit that the Commission has gravely underestimated the staffing and time that will be needed in order to transition to daily calculations and deposits.

The Commission estimates that “it takes a carrying broker-dealer between one to five hours per computation to prepare the records of the computations, or an average of 2.5 hours.”⁸ However, from our experience of working with the Customer Protection Rule for many years, we know that performing and documenting each weekly calculation actually takes the reporting team approximately 10 working hours (as opposed to man-hours). During these ten hours, no fewer than 55 employees at Raymond James are involved in some aspect of collecting data, making calculations, verifying figures, and transferring funds or qualified securities to banks. We understand the experience of peer firms is similar.⁹

⁵ 88 Fed. Reg. at 45854 n. 76 (emph. added).

⁶ 88 Fed. Reg. at 45850.

⁷ Alternatively, a firm with average total credits that exceed \$250 million could be subject to daily computation requirements, but could choose to continue with weekly computations related to a reserve calculation where credits fall below a certain level (e.g. \$50 million). For example, if Hypothetical Securities, Inc. has \$2 billion in customer credits, but only \$45 million in PAB credits, then it would perform daily calculations for the customer reserve account, and have the option of weekly calculations for the PAB reserve account.

⁸ 88 Fed. Reg. at 45854.

⁹ The proposing release does not state the basis for this average 2.5 hour estimate. We believe the estimate is so wide of the mark that it cannot support the Commission’s analysis of the costs, benefits, paperwork burdens, and effects on competition of the proposal. See 15 U.S.C. §§ 78c(f), 78w(a)(2); 44 U.S.C. §3501 *et seq.*

Compressing a ten-hour process into one that fits into a single day (so that it can be done *every day*) is a significant operational challenge. For instance, under the current system, it is possible for the firm to assign employees who fulfill other functions to also perform the weekly calculations. But under the revised Rule, this will no longer be the case. Rather, implementing this proposal will require the firm to devote the full-time efforts of multiple new personnel in the Finance Department and Operations Department in order to perform daily calculations and deposits. Those engaged in supervision will have to be licensed, or licensed personnel may have to be re-assigned. There are a limited number of individuals who have the qualifications necessary for these tasks, especially in today's unusual labor markets, and especially outside of certain major metropolitan areas. Locating, on-boarding and training qualified candidates will require substantial effort, time, and expense that the Commission has not considered.

On a related point, 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. Many of the Operations and IT professionals who will be needed are now occupied with large-scale, complex initiatives mandated by other new regulations – most notably, the adoption of a one-day settlement cycle by May 28, 2024 (“T+1 settlement”). The Commission itself has estimated that for a broker-dealer with retail and institutional business (such as Raymond James), the change to T+1 will require *five to six quarters* for eleven professionals (operations specialists, programmers, senior operations managers), working 40-hour weeks to re-configure trading systems, update reference data, reprogram trade confirmation/affirmation systems, amend documentation, and revise cashiering and asset servicing functions.¹⁰ In addition, Raymond James and other broker-dealers are implementing systems to comply with the standards of the national Consolidated Audit Trail (“CAT”). Finally, changes to FINRA Rule 4210 (Margin Requirements), applicable to Covered Agency Transactions, will become effective in May 2024. Implementing the necessary changes to comply with all of these regulatory initiatives will require extensive attention from Finance, IT and Operations professionals.

With these practical implications in mind, we respectfully ask the SEC to set an implementation date for these changes to the Customer Protection Rule no sooner than January 1, 2025. This would allow the firm to hire qualified personnel. It would also allow the firm to stagger work assignments so that it can manage implementation of new rules in a sequential manner, work out any “bugs” in new systems, and then move on to the next project, avoiding confusion and exhaustion.

D. *Half Days and Holidays.*

Finally, we note that the proposed daily calculation and deposit requirements would apply on “business days,” thus excluding certain holidays. However, there are other days on the calendar that should be treated as non-business days. For example, Columbus Day and Veterans Day are both bank and bond market holidays, while the NYSE and Nasdaq remain open. On other occasions throughout the year, banks, exchanges, financial market utilities, and other

¹⁰ SEC Rel. No. 34–96930, 88 Fed. Reg. 13872, 13937-13938, n. 673 (March 6, 2023).

financial institutions have early closures (*see* Appendix). Indeed, we have found that clients enjoy the same holidays and half-days, reducing the relative volume of customer transactions. Thus, any fluctuations in required minimum reserve account balances are likely to be well within acceptable ranges. Therefore, consistent with the views of other commenters, Raymond James believes that a revised Rule 15c3-3 should permit (but not require) broker-dealers to treat such days as non-business days.

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We appreciate this opportunity to provide our comments on the proposal. We hope that they prove useful. If the Commission, or any of the Staff have any questions, please do not hesitate to contact me.

Sincerely,

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Marshall Ollia
Chief Financial Officer
Raymond James & Associates, Inc.

Appendix

U.S. Bond Market or Bank Holidays / Early Closures	2024
Day Before Good Friday	March 28th
Friday Before Memorial Day	May 24th
Day before Independence Day	July 3rd
Columbus Day	October 14th
Veterans Day	November 11th
Day before Thanksgiving	November 28th
Day following Thanksgiving	November 29th
Christmas Eve	December 24th
New Year's Eve	December 31st
Any Other Day When Banks or Exchanges Are Closed or Close Early	