MEMORANDUM

To: File Nos. S7-11-23

From: Richard Gabbert, Counsel to Commissioner Hester M. Peirce

Re: Conference call with American Securities Association

On January 18, 2024, Richard Gabbert participated in a conference call with representatives of the American Securities Association. Representatives of the ASA on the call included the following:

- Anton Berends, Hilltop Securities;
- Laura Leventhal, Hilltop Securities;
- Brett Flansburg, Ameriprise; and
- Jessica Giroux, ASA.

The participants discussed the Commission's proposed amendments to the customer protection rule, including its effect on smaller broker-dealers, as detailed in the attached document.

American Securities Association
Supplemental Information
SEC Proposed Changes to Rule 15c3-3

The below is meant to serve as supplemental information (and not a departure from) to ASA's September 11, 2023 comment letter in response to the SEC's proposed amendments to Rule 15c3-3 (the Customer Protection Rule) to require certain broker-dealers to compute their customer and broker-dealer reserve deposit requirements on a daily basis, rather than weekly.

Concerns with SEC Proposed Changes to Rule 15c3-3: Industry groups raised some concerns with the SEC's proposed approach to move to a daily calculation under Rule 15c3. One of the key concerns raised by ASA members relates to the burden of accounting for customer cash that is placed in an account but then promptly moved to a third-party entity, such as a federally insured bank. Recently, ASA met with SEC staff responsible for working on this proposal to provide further information. It appears that the SEC staff is considering some changes to the initial proposal that may address some of the points raised in the comments.

Cash in Motion: "Cash in motion", is of particular interest to broker-dealers that provide services to millions of individual households. Broker-dealers (BD) may have significant deposits any day of the week. Under the current weekly approach, broker-dealers can use the week to account for the movement of cash and update the needed reserves weekly so cash in motion to third party banks does not present as much of an increased burden. However, if the rule was finalized as proposed, these broker-dealers would be required to conduct significant new calculations and segregate funds for reserve purposes, even though this customer cash has already been directed off of the BD's balance sheet to third-parties (trades settling T+1, money directed to external sweep). ASA recommended that any final rule exclude this cash in motion from the daily calculation as it creates unnecessary liquidity burden for the BD (e.g. borrowing funds) to reserve for balances no longer held by the BD.
Note: A great example of cash in motion is grounded in the existing requirements.

- SEC requires firms to reduce debits for prepayments where funds are coming from a money market fund. Specifically, we can pay clients by sending our funds and debiting their brokerage account but cannot include the value of that debit in the Reserve formula as we have not received the funds from the redemption of money market fund until next day.
- We're suggesting is this should work both ways: we already have to forecast sweeps OUT of a money market and reduce the debit in the formula by that amount; shouldn't we also be able to forecast sweeps INTO a money market and reduce the credit in the formula by that amount?

Compliance Date: In addition, the industry would still need to have time to develop the necessary processes and controls to conduct a modified calculation. Mid to late 2025 is likely the earliest firms could be prepared to comply with the calculation. Our concern is that many of the same resources in the business and technology groups are delivering against other core regulatory obligations including T+1, CAT CAIS and others with 2024 compliance dates causing resource strain to effectively deliver the necessary analysis and technology solutions needed to move to a daily calculation.

Other Suggestions:

- 3% of Debits – The current weekly calculation requires firms to reduce actual debits by 3% with the net effect of the firm depositing excess money in the Reserve account each week to account for volatility. If we move to a daily calculation, we have recommended moving to a 1% threshold as one day volatility in value is far less than weekly.

- Simplifying the Daily Calculation – Clearing BDs have hundreds of clearing, custody and suspense accounts that have to be reconciled to complete the calculation while often only 5-10 values are material to the weekly computation. We have suggested a more simplified mini-calculation may address most of the risk while not imposing significant resource burden through all the operational balancing.