

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-101729]

Notice pursuant to Rule 15c3-3a, Note H(b)(3) Regarding Application of the Customer Protection Rule Reserve Computations with Respect to U.S. Treasury Securities

AGENCY: Securities and Exchange Commission.

ACTION: Notice.

SUMMARY: The Securities and Exchange Commission (“Commission”) is publishing notice that broker-dealers may include a debit in the customer protection rule reserve computations when depositing cash, U.S. Treasury securities, and/or qualified customer securities to meet a margin requirement of the Fixed Income Clearing Corporation (“FICC”) resulting from positions in U.S. Treasury securities of the customers of the broker-dealer.

FOR FURTHER INFORMATION CONTACT: Randall W. Roy, Deputy Associate Director; Raymond Lombardo, Assistant Director; or Sheila Dombal Swartz, Senior Special Counsel, at (202) 551-5500, Office of Broker-Dealer Finances, Division of Trading and Markets; Securities and Exchange Commission, 100 F Street NE, Washington, DC 20549-7010.

SUPPLEMENTARY INFORMATION:

I. Background

On December 13, 2023, the Commission adopted rules under the Securities Exchange Act of 1934 (“Exchange Act”) to amend the standards applicable to covered clearing agencies for U.S. Treasury securities (“U.S. Treasury securities CCAs”) to enhance risk management practices for central counterparties in the U.S. Treasury market and facilitate additional clearing of U.S. Treasury securities transactions.¹ The Commission also amended the formula for

¹ See *Standards for Covered Clearing Agencies for U.S. Treasury Securities and Application of the Broker-Dealer Customer Protection Rule With Respect to U.S. Treasury Securities*, Exchange Act Release No. 99149 (Dec. 13, 2023), 89 FR 2714 (Jan. 16, 2024) (“Treasury Clearing Release”).

computing reserve account requirements under the broker-dealer customer protection rule.² The amendments to the formula—which are set forth in Rule 15c3-3a—permit margin required and on deposit with a U.S. Treasury securities CCA to be included as a debit when computing reserve requirements with respect to customers and proprietary accounts of broker-dealers (“PAB”), subject to certain conditions.³ In particular, the amendments added Item 15 to the customer and PAB reserve computations on which to record the value of the debit and prescribed conditions—set forth in Note H to Item 15—for including the debit in the formulas.⁴ Each of the conditions in Note H needs to be met for a broker-dealer to include a debit equal to the amount of customer or PAB account holder margin required and on deposit at the U.S. Treasury securities CCA.⁵

Certain of the conditions in Note H require the broker-dealer to take a number of steps with respect to the customer and PAB account holder margin in its custody.⁶ Other conditions provide that the U.S. Treasury securities CCA that will receive the customer or PAB account holder margin from the broker-dealer must have adopted rules—approved by the Commission—that require it to take certain steps with respect to calculating margin requirements and handling customer and PAB account holder margin received from the broker-dealer.⁷ The requirements of Note H are designed to permit the inclusion of the debit in the customer and PAB reserve computations under conditions that “provide maximum protection” to the broker-dealer’s

² See Treasury Clearing Release, 89 FR at 2760-68. See also 17 CFR 240.15c3-3a (the formula for computing reserve requirements under the customer protection rule) (“Rule 15c3-3a”); 17 CFR 240.15c3-3 (the customer protection rule) (“Rule 15c3-3”). Rule 15c3-3 requires a broker-dealer to compute the net amount of cash owed to customers and PAB account holders under a formula in Rule 15c3-3a (“customer and PAB reserve computations”). Generally, broker-dealers must perform their customer and PAB reserve computations and make any required deposits in a special reserve account at a bank weekly. See paragraph (e)(3) to Rule 15c3-3.

³ See Treasury Clearing Release, 89 FR at 2760-68.

⁴ See *id.* The amendments also modified Note B to Item 2 of the customer and PAB reserve computations to provide that this item in the reserve computations must include as a credit the market value of customers’ and PAB account holders’ securities on deposit at a U.S. Treasury CCA. See *id.* at 2761.

⁵ See Treasury Clearing Release, 89 FR at 2760-68.

⁶ See Rule 15c3-3a, Note H(a) and (b)(1).

⁷ See Rule 15c3-3a, Note H(b)(2).

customers and PAB account holders and that do not diminish the customer protection objectives of Rules 15c3-3 and 15c3-3a.⁸

Paragraph (b)(3) to Note H sets forth the final condition: that the Commission has approved rules of the U.S. Treasury securities CCA that meet the conditions of Note H and has published (and not subsequently withdrawn) a notice that broker-dealers may include a debit in the customer and/or PAB reserve computations when depositing cash, U.S. Treasury securities, and/or qualified customer securities to meet a margin requirement of the U.S. Treasury securities CCA resulting from positions in U.S. Treasury securities of the customers or PAB account holders of the broker-dealer.⁹ The Commission stated that its staff would analyze the U.S. Treasury securities CCA's approved rules and practices regarding the treatment of customer position margin and make a recommendation as to whether they adequately implement the customer protection objectives of the conditions set forth in Note H.¹⁰ If satisfied with the staff's recommendation, the Commission stated it will publish a positive notice.

II. Notice

On November 21, 2024, the Division of Trading and Markets, pursuant to delegated authority, approved proposed rule change SR-FICC-2024-007 ("FICC rule change").¹¹ The FICC rule change, among other things, modifies FICC's Government Securities Division Rulebook to address the conditions of Note H of the customer and PAB reserve computations set forth in Rule 15c3-3a. FICC expects to implement the FICC rule change by no later than March 31, 2025, and will announce the effective date of the FICC rule change by an Important Notice

⁸ See Treasury Clearing Release, 89 FR at 2760.

⁹ See Rule 15c3-3a, Note H(b)(3).

¹⁰ See Treasury Clearing Release, 89 FR at 2768.

¹¹ See Exchange Act Release No. 101695 (Nov. 21, 2024). FICC also filed this proposed rule change as an Advance Notice (File No. SR-FICC-2024-802) with the Commission pursuant to Section 806(e)(1) of Title VIII of the Dodd-Frank Wall Street Reform and Consumer Protection Act entitled the Payment, Clearing, and Settlement Supervision Act of 2010, 12 U.S.C. 5465(e)(1), and Rule 19b-4(n)(1)(i) under the Exchange Act, 17 CFR 240.19b-4(n)(1)(i). On Nov. 21, 2024, the Commission issued a Notice of No Objection to Advance Notice SR-FICC-2024-802.

posted to FICC's website.¹² The staff has analyzed the FICC rule change and made a recommendation to the Commission that it adequately implements the customer protection objectives of the conditions set forth in Note H.

Accordingly, the Commission is publishing this notice to advise broker-dealers that they may include a debit in their customer and/or PAB reserve computations when depositing cash, U.S. Treasury securities, and/or qualified customer securities to meet a margin requirement of FICC resulting from positions in U.S. Treasury securities of the customers of the broker-dealer.¹³ Any changes to the relevant FICC rules and practices that would undermine these customer protection objectives could result in the Commission withdrawing this notice, at which point a broker-dealer could no longer include the debit in the customer and/or PAB reserve computations.

By the Commission.

Dated: November 25, 2024.

Sherry R. Haywood,

Assistant Secretary.

¹² See File No. SR-FICC-2024-007.

¹³ See *supra* note 5 and accompanying text (discussing Note H conditions).