

Enhancements to the Broker-Dealer Customer Protection Rule



On December 20, 2024, the Securities and Exchange Commission adopted amendments to:

- Enhance Rule 15c3-3—the rule that protects a customer’s cash and securities held at a broker-dealer—to require certain broker-dealers to increase the frequency of the computations of the net cash they owe to customers and other broker-dealers from weekly to daily.
- Modify Rules 15c3-3 and 15c3-1—the broker-dealer net capital rule—to permit certain broker-dealers that perform a daily customer reserve computation to decrease the required 3 percent “buffer” in the customer reserve bank account by reducing the customer-related receivables charge (*i.e.*, aggregate debit items charge) from 3 percent to 2 percent in the computation.

The Commission [proposed the amendments](#) on July 12, 2023. The public comment file is [available online](#).

Why This Matters

Rule 15c3-3, known as the Customer Protection Rule, requires broker-dealers that maintain custody of customer securities and cash (“carrying broker-dealers”) to have a special reserve account at a bank that must hold cash and/or qualified securities in an amount determined by a computation of the net cash owed to the carrying broker-dealer’s customers. Generally, carrying broker-dealers must perform the customer reserve computation and make any required deposits into the customer reserve bank account weekly. Similar requirements apply to accounts of other broker-dealers that the carrying broker-dealer carries, known as PAB accounts (*i.e.*, proprietary securities account of a broker-dealer).

Carrying broker-dealers may receive large cash inflows that are not deployed for or on behalf of their customers or PAB account holders prior to the next required customer and PAB reserve computations and the associated deposits into the customer and PAB reserve bank accounts. When this occurs, the amount on deposit in the customer and PAB reserve bank accounts may not equal the net cash owed to customers and PAB account holders for a period of time. This mismatch poses a risk to the carrying broker-dealer’s customers and PAB account holders that a carrying broker-dealer that fails financially may not be able to promptly return all cash and securities owed to customers and PAB account holders in an orderly self-liquidation. The amendments to Rule 15c3-3 are intended to address this potential mismatch risk by shortening the time between required computations and deposits.

How The Rules Apply

The updated rules will require carrying broker-dealers with average total credits equal to or greater than \$500 million to make the relevant computations daily. The amendments define average total credits 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 reports (known as FOCUS Reports). This means the average total credits are a 12-month rolling average, as the carrying broker-dealer adds up the sum of the total credits reported in the customer and PAB reserve computations in each of the 12 most recently filed month-end FOCUS Reports and divides that amount by 12 to calculate the average total credits.

Carrying broker-dealers will be required to comply with the daily computation requirement for the customer and PAB reserve bank accounts no later than six months after exceeding the \$500 million threshold. In the event that a carrying broker-dealer's average total credits subsequently falls below the \$500 million threshold, the amendments require it to continue performing daily computations and provide written notification to its designated examining authority of its election to perform weekly computations. The carrying broker-dealer must provide this notification 60 days prior to reverting to weekly computations.

The amendments also permit carrying broker-dealers to reduce their aggregate debit items by 2 percent rather than 3 percent as part of the customer reserve computation if they: (1) calculate their net capital using the alternative method (a net capital requirement of 2 percent of customer-related receivables or "aggregate debit items"); and (2) perform a daily customer reserve computation because they exceed the \$500 million threshold. Other carrying broker-dealers that use the alternative method for net capital may voluntarily perform a daily customer reserve computation and, in so doing, apply the 2 percent debit reduction rather than the 3 percent debit reduction if they notify their designated examining authority at least 30 days prior to beginning the daily computation.

Carrying broker-dealers voluntarily performing a daily reserve computation and applying the 2 percent debit reduction must receive prior approval from their designated examining authority to revert to a weekly customer reserve computation. If they revert to performing a weekly customer reserve computation, they also must revert to applying a 3 percent debit reduction. Finally, the Commission adopted technical amendments to the FOCUS Report to conform it to the amendments with respect to lowering the debit reduction from 3 percent to 2 percent.

What's Next

The amendments will become effective 60 days after the date of publication of the adopting release in the Federal Register. Carrying broker-dealers that exceed the \$500 million threshold using each of the 12 filed month-end FOCUS Reports from July 31, 2024, through June 30, 2025, must perform customer and PAB reserve computations daily beginning no later than December 31, 2025 (i.e., six months after June 30, 2025). On or after the effective date, a carrying broker-dealer may voluntarily perform a daily customer reserve computation and apply the 2 percent debit reduction, provided it notifies its designated examining authority in writing at least 30 calendar days prior to beginning the daily customer reserve computation that applies the 2 percent debit reduction.