

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-84855; File No. SR-FINRA-2018-041)

December 19, 2018

Self-Regulatory Organizations; Financial Industry Regulatory Authority, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Make Technical Revisions and One Minor Correction to the Supplemental Statement of Income Required to be Filed Pursuant to FINRA Rule 4524 (Supplemental FOCUS Information)

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² notice is hereby given that on December 12, 2018, Financial Industry Regulatory Authority, Inc. (“FINRA”) filed with the Securities and Exchange Commission (“SEC” or “Commission”) the proposed rule change as described in Items I and II below, which Items have been prepared by FINRA. FINRA has designated the proposed rule change as constituting a “non-controversial” rule change under paragraph (f)(6) of Rule 19b-4 under the Act,³ which renders the proposal effective upon receipt of this filing by the Commission. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

FINRA is proposing a rule change to make technical revisions and one minor correction to the Supplemental Statement of Income (“SSOI”) required to be filed pursuant to FINRA Rule 4524 (Supplemental FOCUS Information). The technical revisions would conform the SSOI with amendments to SEC Form X-17A-5 (the “FOCUS Report”) that the SEC has adopted.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 17 CFR 240.19b-4(f)(6).

The text of the proposed rule change is available on FINRA's website at <http://www.finra.org>, at the principal office of FINRA and at the Commission's Public Reference Room.

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, FINRA included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. FINRA has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

FINRA Rule 4524 (Supplemental FOCUS Information) requires each member, as FINRA shall designate, to file such additional financial or operational schedules or reports as FINRA may deem necessary or appropriate for the protection of investors or in the public interest as a supplement to filing FOCUS reports. FINRA implemented the SSOI pursuant to Rule 4524 in 2012.⁴

⁴ See Regulatory Notice 12-11 (Supplemental FOCUS Information) (February 2012) (announcing the SEC's approval of Rule 4524 and the SSOI). See also Securities Exchange Act Release No. 66364 (February 9, 2012), 77 FR 8938 (February 15, 2012) (Notice of Filing of Amendment No. 2 and Order Granting Accelerated Approval of a Proposed Rule Change, as Modified by Amendment No. 2, Adopting FINRA Rule 4524 (Supplemental FOCUS Information) and Proposed Supplementary Schedule to the Statement of Income (Loss) Page of FOCUS Reports; File No. SR-FINRA-2011-064) and Securities Exchange Act Release No. 67257 (June 26, 2012), 77 FR 39313 (July 2, 2012) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Make Non-Substantive Technical Changes to the Supplemental Statement of Income Required

On August 17, 2018, the SEC adopted amendments that simplify and update, among other rules and forms, certain of the FOCUS reporting requirements for brokers and dealers and make changes to the annual audit requirements.⁵ The SEC’s amendments update Parts II, IIA, and IIB of the FOCUS Report to reflect updated U.S. Generally Accepted Accounting Principles (“U.S. GAAP”) requirements.⁶ More specifically, the amendments revise the Statement of Financial Condition and the Statement of Income in the FOCUS Reports to include new line items added for the reporting of comprehensive income or loss, including other comprehensive income and accumulated other comprehensive income or loss. The amendments update line items to eliminate references to extraordinary gains or losses and the cumulative effect of changes in accounting principles.

FINRA is proposing technical revisions that would conform the SSOI with the SEC’s amendments to the FOCUS Report. FINRA believes that conforming the SSOI with the FOCUS Report is consistent with the Commission’s goal of eliminating redundant, duplicative, overlapping, outdated, or superseded requirements,⁷ without significantly altering the

To Be Filed Pursuant to FINRA Rule 4524 (Supplemental FOCUS Information); File No. SR-FINRA-2012-033).

⁵ See Securities Exchange Act Release No. 83875 (August 17, 2018), 83 FR 50148 (October 4, 2018) (Final Rule: Disclosure Update and Simplification) (the SEC’s Adopting Release). To facilitate members in their financial reporting obligations, FINRA issued Regulatory Notice 18-38 to announce updates to the FINRA eFOCUS System designed to correspond with the new FOCUS requirements and to inform members of the effective date of the new requirements pursuant to specified relief granted by the staff of the SEC Division of Trading and Markets. See Regulatory Notice 18-38 (Financial Reporting Requirements) (November 2018); see also letter from Michael A. Macchiaroli, Associate Director, Division of Trading and Markets, SEC, to Ann Duguid, Senior Director, FINRA, dated (October 29, 2018).

⁶ See, for example, the SEC’s Adopting Release at 83 FR 50179, 50182 and 50183.

⁷ See the SEC’s Adopting Release at 83 FR 50150. See also Section 72002 of the Fixing America’s Surface Transportation Act, Pub. L. No. 114-94, 29 Stat. 1312 (2015)

information available to regulators. Because the SSOI is intended to provide more detailed information about a member's revenues and expenses reported on the FOCUS Report, making the two forms consistent would enable members to file the same information on both forms with respect to comprehensive income, extraordinary items, and the effect of changes in accounting principles. As such, the proposed revisions should create clarity and reduce burdens for members, thereby assisting members in their financial reporting obligations and facilitating investor protection. Specifically, FINRA proposes to make the following changes to the SSOI:⁸

- delete SSOI line 14224 (“Extraordinary gains (losses)”) and SSOI line 14225 (“Cumulative effect of changes in accounting principles”) to conform with the elimination of references to extraordinary gains or losses and to the cumulative effect of changes in accounting principles in the FOCUS Report;
- delete the phrase “and extraordinary item” from SSOI line 14230 (“Net income (loss) after Federal income taxes and extraordinary item”), again to conform with the elimination of references to extraordinary gains or losses in the FOCUS Report;
- add new SSOI line 14226 (“Other comprehensive income (loss)”) and new SSOI line 14228 (“Comprehensive income (loss)”) to conform with the addition of correspondingly titled new lines in the FOCUS Report;
- amend the title of Section 19 of the SSOI, and the associated header that precedes Section 19, to read “Net Income/Comprehensive Income” to conform with and correspond to the reporting of comprehensive income in the FOCUS Report; and

(mandating that the SEC revise Regulation S-K to eliminate provisions that are duplicative, overlapping, outdated, or unnecessary).

⁸ The SSOI as amended pursuant to the proposed rule change is included as Exhibit 3 to this filing.

- amend the General Instructions and the Specific Instructions to the SSOI to conform with the above deletions, additions and amendments, as appropriate, with respect to SSOI lines 14224, 14225, 14226, 14228 and 14230, and the header to and title of Section 19.

In addition, FINRA proposes to make a minor correction to Section 3 (Revenue from Sale of Insurance Based Products) under the Specific Instructions to the SSOI.⁹

FINRA has filed the proposed rule change for immediate effectiveness. FINRA is proposing that the implementation date of the proposed rule change will be March 31, 2019, for SSOI filings that report on the period January 1 through March 31, 2019, and are due by April 26, 2019. Thus, all SSOIs filed on or after March 31, 2019 would reflect the proposed rule change.

2. Statutory Basis

FINRA believes that the proposed rule change is consistent with the provisions of Section 15A(b)(6) of the Act,¹⁰ which requires, among other things, that FINRA rules must be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, and, in general, to protect investors and the public interest. FINRA believes that the proposed rule change would further the purposes of the Act because, as discussed in Section II.A.1. of this filing, consistent with the Commission's goal of eliminating redundant, duplicative, overlapping, outdated, or superseded requirements, without significantly altering the information available to regulators, the proposed rule change, by conforming the SSOI with the

⁹ Specifically, FINRA proposes to delete the extra period that appears at the end of the instructions to Line 11022 (Aggregate amount if less than the greater of \$5,000 or 5% of Total Revenue).

¹⁰ 15 U.S.C. 78o-3(b)(6).

FOCUS Report, would create clarity and reduce burdens for members, thereby assisting members in their financial reporting obligations and facilitating investor protection.

B. Self-Regulatory Organization's Statement on Burden on Competition

FINRA does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. FINRA believes that, by conforming the SSOI with the FOCUS Report, the proposed rule change is consistent with the Commission's goal of eliminating redundant, duplicative, overlapping, outdated, or superseded requirements and does not significantly alter the information available to regulators. As such, FINRA believes the proposed rule change will create clarity and reduce burdens for members, thereby reducing burdens on the marketplace and facilitating investor protection.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

Written comments were neither solicited nor received.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Because the foregoing proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A) of the Act¹¹ and Rule 19b-4(f)(6) thereunder.¹²

¹¹ 15 U.S.C. 78s(b)(3)(A).

¹² 17 CFR 240.19b-4(f)(6).

A proposed rule change filed pursuant to Rule 19b-4(f)(6) under the Act¹³ normally does not become operative for 30 days after the date of its filing. However, Rule 19b-4(f)(6)(iii)¹⁴ permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest. FINRA has asked the Commission to waive the 30-day operative delay so that FINRA may implement the proposed rule change to more closely coincide with the effective date of the Commission's amendments to the FOCUS Report. The Commission does not believe that the proposed change presents any new or novel issues, and that making the SSOI consistent with the FOCUS Report will reduce burdens for FINRA members by enabling them to file the same information on both forms with respect to comprehensive income, extraordinary items, and the effect of changes in accounting principles, thereby assisting members in their financial reporting obligations and facilitating investor protection. Accordingly, waiver of the operative delay is consistent with the protection of investors and the public interest. Therefore, the Commission hereby waives the operative delay and designates the proposal operative upon filing.¹⁵

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the

¹³ 17 CFR 240.19b-4(f)(6).

¹⁴ 17 CFR 240.19b-4(f)(6)(iii).

¹⁵ For purposes only of waiving the 30-day operative delay, the Commission has also considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-FINRA-2018-041 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Brent J. Fields, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-FINRA-2018-041. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F

Street, NE, Washington, DC 20549, on official business days between the hours of 10 a.m. and 3 p.m. Copies of such filing also will be available for inspection and copying at the principal office of FINRA. All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-FINRA-2018-041 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹⁶

Brent J. Fields
Secretary

¹⁶ 17 CFR 200.30-3(a)(12).