AXIOMSL™

Customer Protection Rule

The United States Securities and Exchange Commission Rule 15c3-3, known as the customer protection rule, is a regulatory cornerstone requirement that is aimed at broker dealer compliance. Few other regulatory frameworks have such a well-defined and detailed scheme for completing a lockup calculation.

Major financial institutions are increasingly discovering the importance of the customer reserve requirement, as they aim to improve their liquidity and collateral optimization processes. But many firms are currently ill-equipped to do so, either because of the technicality of the rule, or the inefficiency of the legacy (usually largely manual) data collection they need to complete internally to meet this requirement — or both. For these reasons, AxiomSL has recently created a 15c3-3 solution that contains two modules: the core calculation for customers, and module to calculate lockups for introducing brokers. Both modules are aligned directly with the SEC's rule methodology.

CHALLENGES—In an era when waves of massive new requirements require technology transformation, 15c3-3 stands out as a smaller, well-established pain point that brokers would like to improve for their compliance and for their own operational management of the lockup requirement.

Rules designed to protect customer money will continue to receive outsized attention. The spirit of 15c3-3 is consistent with the numerous post-crisis points of emphasis that the SEC and its counterpart, the CFTC, have laid out in recent years. To that extent, any broker that isn't capable of demonstrating an effective calculation process for 15c3-3 opens itself up to reputational risk, closer scrutiny and possible enforcement action.

More practically speaking, a well-tuned 15c3-3 process can also free up additional capital to be more effectively used within the firm's treasury. With increased margin requirements and capital charges raising the cost of trading (and the sell side broadly expected to soak up these costs), this would spell a significant difference in available leverage that could be very usefully deployed elsewhere. Just as above, a better 15c3-3 approach overlaps with a secular trend: optimized use of collateral, asset re-hypothecation and improved balance sheet management.

Such priorities suggest the need for automation, but several challenges generally remain for firms to get there on their own:

- Technicality of the 15c3-3 methodology, intricate details of which must be incorporated back into the calculation engine as they continue to change and expand
- Data Integration: Successfully pulling in and mapping data from the stock record , general ledger and other sources
- Institutional support may remain with the legacy approach, in part out of caution or because 15c3-3 can (if, with some difficulty) be addressed without delegating externally
- Creating report outputs in the proper format to be submitted to and analyzed by self-regulatory organizations (in this case, Finra)

KEY BENEFITS

Efficient capital usage enforced through direct use of the SEC's allocation methodology

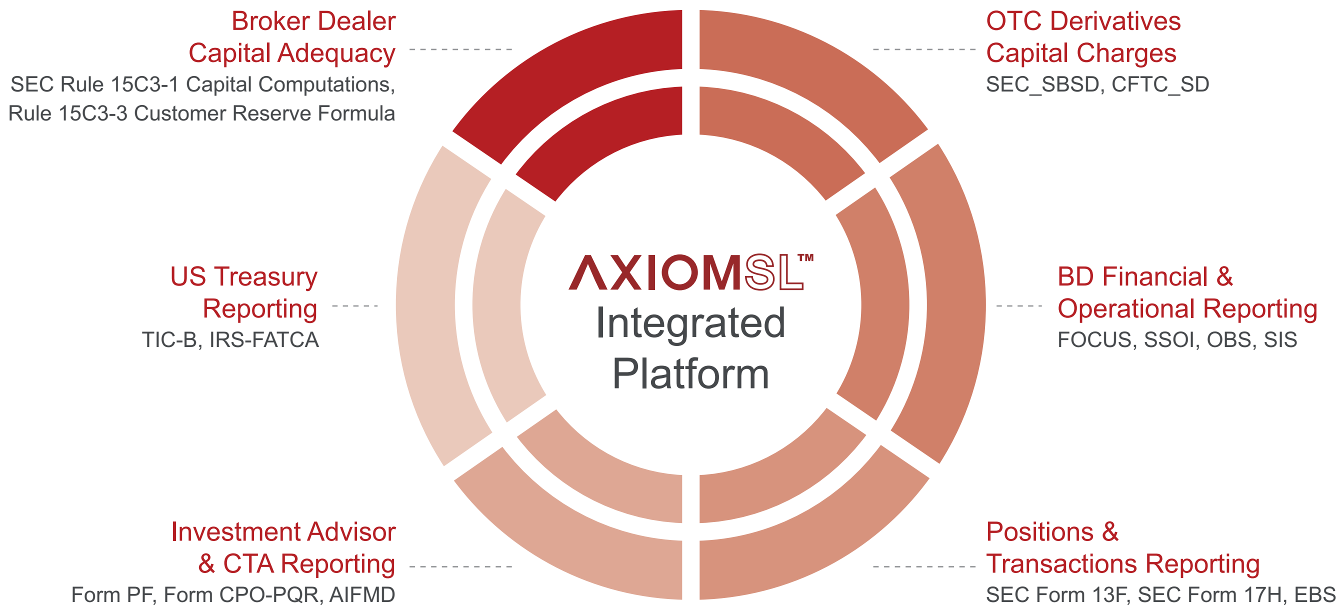
Flexibility for clients to override the solution's standard allocation with proprietary allocation, by specifying preferred sequence using an alternate data table

The AxiomSL solution sits on top of existing data sources as an additional layer, and is agnostic to security master/general ledger type, thus lowering the time to implement the solution

Production of the FINRA specified AEP files comprising stock record, chart of accounts, allocation categories, allocation hierarchy, allocation category summary, allocation pair-off summary, and security allocation details

Workflow Integration: The ability to run calculations with one click or using client's proprietary scheduler

ΛXIOMSL™ Broker Dealer Solutions



AxiomSL's Solution

The AxiomSL 15c3-3 solution is designed with these challenges in mind and leverages AxiomSL's historical expertise in building solutions for similar SEC Rules.

The solution provides calculation for two areas. The Module Customer Reserve calculates traditional customer account lockup, while the Module PAIB (Proprietary Account of Introducing Broker) provides a similar but separate engine for introducing brokers.

Using standardized allocation logic, the calculation engine uses integrated data from client stock record and general ledger data to maximize location and allocation of client debits, mapping these against identified credits in the 15c3-3 methodology and creating a capital- efficient and regulatory-compliant customer reserve.

Summary

In a margin-compressed environment for the sell side, partnering with AxiomSL on customer protection can render significant operational and, indeed, very real financial improvements for broker dealers of all sizes. While this is a new area for technology externalization and a relatively small one, it provides benefits of efficiency and availability of capital through AxiomSL's data management and reporting precision, and expertise in interpreting and mapping SEC rules.