

Stockbrokerage and Investment Banking Expert Panel

Public Comment Request – Enhance Update



The AICPA Stockbrokerage and Investment Banking Expert Panel is seeking public comments on the following proposed enhance update to the AICPA Accounting Guide *Brokers and Dealers in Securities*. This proposed update:

- highlights some of the factors to be considered when analyzing the balance sheet presentation for initial margin collected from clients in the form of cash by broker-dealer clearing members, and
- applies to the clearing of both exchange traded derivatives and ‘Over the Counter’ (OTC) derivatives.

Proposed update to the Guide

X.XXA broker-dealer that provides derivatives clearing services to its customers collects *initial margin* (IM), typically in cash or security form, from its customers and remits such IM to the clearing house (CCP) or segregates it at a custodian bank. IM generally serves as collateral posted by the customer, to the broker-dealer clearing member, to establish a trading relationship with the CCP. The CCP sets a minimum IM requirement for each listed derivative position based upon the market risk of the derivative. The broker-dealer clearing member may be further required (for example, under CFTC rule 39.13) to collect IM from customers in an amount that is in excess of the CCP minimum requirements. The broker-dealer clearing member also may, in its discretion, impose additional IM requirements on a customer based on such customer’s specific credit risk profile and current trading positions. This additional amount may be adjusted periodically to reflect changes in those risk attributes. IM is returned to the customer when trade positions are liquidated with the CCP or when the customer terminates its trading the relationship and closes its account.

X.XXThe broker-dealer would assess various factors surrounding control and risk and rewards over the assets and liabilities to determine whether the broker-dealer clearing member may have to record on its balance sheet, the cash IM amount received from the customer as a *due to customer (payable)* and the cash IM amount remitted to the CCP or custodian bank as a *due from CCP/bank (receivable)*. These factors¹ may include, but are not limited to, whether (and to what degree) the broker-dealer clearing member:

- retains control over the cash IM (for example, retaining transformation rights and making permitted investments with the cash under CFTC rule 1.25) or

¹ This list of factors and related examples is not all-inclusive.

- has a right to potential economic benefits earned from the customer's cash IM in excess of a market-based fee that is commensurate with the clearing services it provides, (for example, earns yield on permitted investments of the cash or does not pass through to customers the interest received from (or fees assessed by) the CCPs or custodian bank) or
- has an obligation for potential economic costs (for example, foreign exchange risk or payment of negative interest), or guarantees the CCP's or custodian bank's performance to the customer and whether the cash IM would be subject to customer protection and preference as customer property in the event of the broker-dealer clearing member's bankruptcy

Each broker-dealer clearing member will need to consider their individual facts and circumstances and the factors considered to be relevant when evaluating whether cash IM should be recorded on its balance sheet.

Comments should be received by August 1, 2017, and sent by electronic mail to Irina Portnoy at Irina.Portnoy@aicpa-cima.com, or by mail to Irina Portnoy, Accounting Standards, AICPA, 1211 Avenue of the Americas, NY 10036.

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