TABLE OF CONTENTS

| Chapter | | Paragrap |
|---------|---|----------|
| 1 | The Securities Industry | .01144 |
| | Broker-Dealers | .0425 |
| | Discount Brokers | .08 |
| | Investment Bankers | .0914 |
| | Government Securities Dealers | .15 |
| | Designated Market Maker | .16 |
| | Clearing Brokers | .17 |
| | Carrying Brokers | .18 |
| | Prime Brokers | .19 |
| | Swap Dealers | .2021 |
| | Introducing Brokers | .22 |
| | Brokers' Brokers | .23 |
| | Bank-Owned Brokers (Section 4k4(e) and Section 20 | |
| | Brokers) | .24 |
| | Independent Broker-Dealers | .25 |
| | The Financial Markets | .2648 |
| | Exchange Market | .2934 |
| | OTC Market | .3539 |
| | Third Market | .40 |
| | Alternative Irading Venues | .4148 |
| | Clearing Organizations and Depositories | .4955 |
| | Transfer Agents | .5659 |
| | Regulatory Overview | .6063 |
| | Business Activities | .64144 |
| | Brokerage | .6472 |
| | Firm Trading | .73109 |
| | Investment Banking | .110117 |
| | rinancing | .118130 |
| | Other Activities | .131144 |
| 2 | Broker-Dealer Functions, Books, and Records | .01176 |
| _ | Introduction | .0118 |
| | Overview | .0103 |
| | Original Entry Journals | .0406 |
| | General Ledger | .0400 |
| | Stock Record | .0812 |
| | Regulatory Recordkeeping Requirements | .1315 |
| | Trade Date and Settlement Date | .1618 |
| | Trade Execution | .1960 |
| | Customer Trades | .1948 |
| | Proprietary Trades | .4960 |
| | riopriolary frados | / .00 |

| Chapter | | Paragraph |
|---------|---|--------------------|
| 2 | Broker-Dealer Functions, Books, and Records—continued | |
| | Clearance and Settlement | .6190 |
| | Overview | .6165 |
| | Comparison | .6670 |
| | Settlement | .7187 |
| | Bookkeeping | .8890 |
| | Specialized Clearance Activities | .91118 |
| | Mortgage-Backed Securities | .9195 |
| | Government Securities | .9698 |
| | Repos and Reverse Repos | .99100 |
| | Derivative Securities | .101103 |
| | Commodity Futures and Options on Futures | .104108 |
| | Forward Transactions | .109 |
| | Municipal Securities | .110111 |
| | International Securities | .112 |
| | Options on Securities | .113118 |
| | Reconciliation and Balancing | .119122 |
| | Custody | .123134 |
| | Possession or Control | .124128 |
| | Securities Transfer | .129134 |
| | Dividends, Interest, and Reorganization | .135148 |
| | Dividends and Interest | .135143 |
| | | .144148 .149163 |
| | | .149153 |
| | Stock Loan and Stock Porrow | .149153 |
| | Reverse Repos and Repos | |
| | Regulatory Considerations | |
| | Tax Information Reporting for Certain Customer | .104171 |
| | Transactions | .172175 |
| | Illustrative Stock Record Entries | .176 |
| 0 | | 01 100 |
| 3 | Regulatory Considerations | .01188 |
| | Applicable Rules | .0510 |
| | Interpretations of Rules | .0910 |
| | Explanation of Significant SEC Financial Responsibility Rules | .11125 |
| | SEC Rule 15c3-3, "Customer Protection—Reserves and | .11.120 |
| | Custody of Securities" | .1140 |
| | SEC Rule 15c3-1, "Net Capital Requirements for Brokers | |
| | or Dealers" | .4160 |
| | SEC Rule 15c3-1(e), "Notice Provisions Relating to the | /1 /5 |
| | Limitations on the Withdrawal of Equity Capital" | .6165 |

xiii

| Chapter | | Paragraph |
|---------|---|-----------|
| 3 | Regulatory Considerations—continued | |
| | SEC Rule 17a-13, "Quarterly Security Counts to Be Made by Certain Exchange Members, Brokers, | |
| | and Dealers" | .6670 |
| | SEC Rule 17a-3, "Records to Be Made by Certain Exchange Members, Brokers, and Dealers" | .71 |
| | SEC Rule 17a-4, "Records to Be Preserved by Certain | |
| | Exchange Members, Brokers, and Dealers" | .72 |
| | Regulation T and Maintenance Margin | .7379 |
| | Account Statement Rule(s) | .8081 |
| | SEC Rules and CFTC Regulations Governing Customer | 0.0 |
| | Margin for Transactions in Security Futures SEC Rules 17h-1T and 17h-2T | .82 |
| | | .8386 |
| | SEC Rule 17Ad-17, "Lost Securityholders and Unresponsive Payees" | .8792 |
| | SEC Rule 17Ad-22, "Clearing Agency Standards" | .9394 |
| | SEC Rule 17-248 — Subpart C, "Regulation S-ID: Identity | .95 |
| | Theft Red Flags" | |
| | SEC Rule 506 of Regulation D and SEC Rule 144A | .9697 |
| | SEC Rule 15c3-5, "Risk Management Controls for Brokers or Dealers with Marke, Access" | .98101 |
| | SEC Rule 17a-5, "Reports to Be Made by Certain Brokers and Dealers" | .102122 |
| | Anti-money Laundering Regulations | .102122 |
| | Reporting Requirements | .126151 |
| | Consolidation of Subsidiaries | .132134 |
| | | |
| | Form Custody | .135 |
| | Other Periodic Reporting | .136 |
| | The Annual Audited Financial Report | .13/131 |
| | Filings Concurrent With the Annual Audited Financial Roport | .152161 |
| | Compliance or Exemption Report Required by SEC | 150 154 |
| | Rule 17a-5 | |
| | Report to State Regulatory Agencies | .155 |
| | Financial Statements to Be Furnished to Customers of | 15/ 1/1 |
| | Securities Broker-Dealers | |
| | Other Reports | .162171 |
| | Reports on Securities Investor Protection Corporation Assessment | .162164 |
| | Reports on Agreed-Upon Procedures for Distributions | .165 |
| | PCAOB Accounting Support Fee | .166171 |
| | Additional Requirements for Registered Investment | |
| | Advisers | .172180 |
| | Rules Applicable to Broker-Dealers in Commodities | |
| | and U.S. Government Securities | .181183 |
| | Commodities Brokers | .182 |
| | Government Securities Broker-Dealers | .183 |

| Chapter | | Paragraph |
|---------|--|-----------|
| 3 | Regulatory Considerations—continued | |
| | OTC Derivatives Dealers | .184185 |
| | Swap Dealers and Swaps Marketplace Participants | .186 |
| | Annual Compliance Certification | .187188 |
| 4 | Internal Control | .0169 |
| | Introduction | .0106 |
| | The Control Environment | .0709 |
| | Risk Assessment | .1018 |
| | Control Activities | .1922 |
| | Information and Communication | .2329 |
| | Information and Communication Control Activities | .2629 |
| | Monitoring Activities | .3035 |
| | Broker-Dealer Control and Monitoring Activities | .3661 |
| | Sales and Compliance | .4043 |
| | Clearance | .4445 |
| | Securities Settlement | .4647 |
| | Custody | .4849 |
| | Dividends, Interest, and Reorganization | .5051 |
| | To-Be-Announced SecuritiesPrincipal Transactions | .52 |
| | Principal Transactions | .5355 |
| | OTC Derivative Transaction: | .56 |
| | Commissions | .57 |
| | Collateralized Financings | .5860 |
| | Period End Financial Reporting | .61 |
| | SEC Requirements for Management's Report on Internal Control Over Financial Reporting for Issuers | .6269 |
| | Annual Reporting Requirements for Issuers | .66 |
| | Quarterly Reporting Requirements for Issuers | .6769 |
| 5 | Accounting Standards | .01127 |
| | Accounting Model | .0240 |
| | Definition of Fair Value | .0608 |
| | Application of Fair Value Measurement to Liabilities | .0000 |
| | and Instruments Classified in a Reporting Entity's | |
| | Shareholders' Equity | .0911 |
| | Valuation Techniques | .1214 |
| | Inputs to Valuation Techniques | .1516 |
| | Application to Financial Assets and Financial Liabilities With Offsetting Positions in Market Risks or | |
| | Counterparty Credit Risk | .1719 |
| | Inputs Based on Bid and Ask Prices | .20 |
| | Present Value Techniques | .2124 |
| | The Fair Value Hierarchy | .2528 |

| Chapter | | Paragraph |
|---------|---|-----------|
| 5 | Accounting Standards—continued | |
| | Fair Value Measurements of Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent) | .2932 |
| | Fair Value Determination When the Volume or Level of | |
| | Activity Has Significantly Decreased | .3337 |
| | Fair Value Option | .3840 |
| | Additional Fair Value Considerations | .4154 |
| | Financial Instruments Listed on a Recognized Exchange | .4145 |
| | Financial Instruments Not Listed on a Recognized Exchange but Having a Readily Available Market Price | .4648 |
| | Financial Instruments Not Having a Readily Available Market Price | .4954 |
| | Trade-Date Versus Settlement-Date Accounting | .5568 |
| | Proprietary and Principal Transactions | .5865 |
| | Agency Transactions | .6668 |
| | Statement of Financial Condition Considerations | .69112 |
| | Due From, and Due to, Other Broker-Dealers and | |
| | Clearing Entities | .6970 |
| | Transfers of Financial Assets | .7185 |
| | Exchange Memberships Owned or Contributed | .86 |
| | Suspense Accounts | .87 |
| | Derivatives | .8897 |
| | Conditional Transactions | .98 |
| | Leveraged Buyouis and Bridge Loans | .99 |
| | Asset Securitizations | .100103 |
| | Variable Interest Entities | .104 |
| | Soft-Dollar Arrangements | .105109 |
| | | |
| | Statement of Income or Loss Considerations | .113124 |
| | Underwriting Revenues and Expenses | .113117 |
| | Distribution Costs | .118119 |
| | Interest, Dividends, and Rebates | .120123 |
| | Costs Associated With Exit or Disposal Activities | .124 |
| | Revenue Recognition: Application of FASB ASC 606 | .12512/ |
| | Brokers, Dealers, and Futures Commission Merchants and the Definition of a Public Business Entity | .125127 |
| 6 | Financial Statement Presentation and Classification | .01169 |
| | Introduction | .0112 |
| | Financial Statements | .1331 |
| | Statement of Financial Condition | .1315 |
| | Statements of Income, Comprehensive Income or Operations | .1620 |

Table of Contents

| Chapter | | Paragraph |
|---------|---|-----------|
| 6 | Financial Statement Presentation and Classification—continued | |
| | Statement of Cash Flows | .2122 |
| | Statement of Changes in Ownership Equity | .2324 |
| | Statement of Changes in Subordinated | |
| | Borrowings | .25 |
| | Consolidation of Subsidiaries | .2628 |
| | Going Concern | .2931 |
| | Supplementary Schedules | .3239 |
| | Computation of Net Capital Pursuant to SEC Rule 15c3-1 | .34 |
| | Computations for Determination of Reserve | |
| | Requirements Pursuant to SEC Rule 15c3-3 | .3536 |
| | Information Relating to Possession or Control Requirements Under SEC Rule 15c3-3 | .3738 |
| | Schedules of Segregation Requirements and Funds in Segregation for Customers' Trading Pursuant to | |
| | the Commodity Exchange Act | .39 |
| | Statement of Financial Condition Account Descriptions | .4097 |
| | Cash and Securities Segregated Under Federal and Other Regulations | .41 |
| | Memberships in Exchanges | .4246 |
| | Securities Sold Under Agreements to Repurchase | |
| | and Securities Purchased Under Agreements | 47.50 |
| | to Resell | .4753 |
| | Securities Borrowed and Securities Loaned | .5460 |
| | Securities Received as Collateral and Obligation to Return Securities Received as Collateral | .6163 |
| | Receivables From and Payables to Broker-Dealers, | .0103 |
| | Clearing Organizations, and Others | .6472 |
| | Receivables From and Payables to Customers | .7376 |
| | Deferred Dealer Concessions | .77 |
| | Securities Owned and Securities Sold, Not | |
| | Yer Purchased | .7885 |
| | Other Borrowed Funds | .8688 |
| | Subordinated Borrowings | .8993 |
| | Commitments and Guarantees | .9496 |
| | Equity | .97 |
| | Statement of Income or Operations Account Descriptions | .98126 |
| | Commission Income and Related Expense | .99103 |
| | Interest Income and Interest Expense | .104105 |
| | Dividend Income and Dividend Expense | .106 |
| | Principal Transactions (Trading Gains and Losses) | .107 |
| | Investment Banking Fees and Expenses | .108113 |
| | Asset Management and Investment | 11/11/ |
| | Advisory Income | .114115 |

| | Table of Contents | xvi |
|----------|---|----------|
| Chapter | | Paragrap |
| 6 | Financial Statement Presentation and Classification—continued | |
| | Floor Brokerage, Exchange Fee, and | |
| | Clearance Expenses | .118120 |
| | Occupancy and Equipment Expenses | |
| | Employee Compensation and Benefits Expenses | |
| | Technology and Communications Expense | |
| | Management and Allocated Corporate | |
| | Overhead Expense | .126 |
| | Disclosures | .127165 |
| | Fair Value Disclosures | .127130 |
| | Disclosures Related to Transfers of Financial Assets | |
| | Accounted for as Sales | .131132 |
| | Disclosures Related to Transfers of Financial Assets | |
| | Accounted for as Secured Borrowings | .133 |
| | Disclosures of Certain Significant Risks and | |
| | Uncertainties and Contingencies | .134144 |
| | Derivative Instruments Disclosures | .145148 |
| | Guarantee Disclosures | .149150 |
| | Related Party Disclosures | .151156 |
| | Related Party Disclosures Subsequent Events Disclosures | .157159 |
| | Balance Sheet Offsetting Disclosures | |
| | Financial Statements and Schedules | .166169 |
| Appendix | 1900° | |

| A | Information Sources |
|--------------|--|
| В | Illustrative Example of Compliance Report Required by SEC Rule 17a-5 |
| С | Illustrative Example of Exemption Report Required by SEC Rule 17a-5 |
| D | The New Leases Standard: FASB ASC 842 |
| E | Accounting for Financial Instruments |
| F | Schedule of Changes Made to the Text From the Previous Edition |
| Glossary | , |
| Index of Pro | nouncements and Other Technical Guidance |
| Subject Inde | ex |
| | |

©2019, AICPA **Contents** http://www.phookshop.com