Regulatory Notice 21-12

Customer Order Handling, Margin and Liquidity

FINRA Reminds Member Firms of Their Obligations Regarding Customer Order Handling, Margin Requirements and Effective Liquidity Management Practices During Extreme Market Conditions

Summary

FINRA is issuing this *Notice* to remind member firms of their obligations during extreme market conditions with respect to handling customer orders, maintaining appropriate margin requirements and effectively managing their liquidity.

Questions concerning the best execution guidance discussed in this *Notice* should be directed to:

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Notice Type

- Guidance

Suggested Routing

- Compliance
- Legal
- Margin Department
- Operations
- Regulatory Reporting
- Risk
- Senior Management
- Systems
- Technology
- Trading and Market Making
- Training

Key Topics

- Best Execution
- Customer Protection
- Equity Securities
- Extraordinary Market Volatility
- Extreme Market Conditions
- Funding and Liquidity Risk Management
- Margin Requirements
- Net Capital
- NMS Stocks
- Order Handling
- Order Types

Referenced Rules & Notices

- FINRA Rules 2264, 4210, 4370, 5310, 5320 and 5350
- Notices to Members 99-11 and 99-12
- Regulatory Notices 10-57, 11-15, 15-33, 15-46, 16-19, 18-02 and 20-08
- SEA Rule 15c3-1 and 15c3-3

Background and Discussion

Member firms should maintain strong procedures, thoughtfully crafted in advance, to reasonably ensure they can continue to provide investors access to the securities markets during times of extreme market volatility, as in the past several months. These procedures include order handling procedures designed to maintain best execution for customers; margin procedures to prevent a firm from becoming overextended from lending in support of customer trades; and liquidity management practices to ensure the firm is able to continue to provide customers with access to the markets despite abnormal liquidity demands.

The foundation of the securities industry is fair dealing with customers. Fair dealing is a core principle that underlies many FINRA rules, and FINRA guidance repeatedly has emphasized the importance of preserving fair customer treatment, even during times of market stress. In light of recent market events, including the extreme volatility of certain stocks' trading prices, FINRA is reminding member firms that the duty of best execution requires the fair, consistent and reasonable treatment of customer orders at all times. Further, it is important that customers are informed about member firms' order handling procedures, particularly during volatile market periods, and FINRA is reminding firms of prior guidance that addresses the kinds of disclosures firms should consider making in connection with their fair dealing obligations.

In addition, FINRA is reminding member firms that the recent extreme price volatility and trading volume of certain stocks has the potential to expose firms and investors to rapid and severe losses, particularly when such securities may have been purchased using margin or sold short. Member firms are reminded to consider the need for additional margin consistent with Rule 4210. Relatedly, FINRA also is providing guidance on sound liquidity practices that firms can use to meet their obligations to maintain reasonable funding and liquidity risk management.

FINRA's ongoing surveillance and examination programs will continue to review member firms' compliance with these obligations.

Customer Order Handling and Best Execution

Obligation to Maintain Fair, Consistent and Reasonable Treatment of Customer Orders

Best execution is a critical investor protection requirement embodied in long-standing SEC policy and interpretations under the antifraud provisions of the federal securities laws and in FINRA's order handling rules.[1] Under Rule 5310 (Best Execution and Interpositioning), member firms must exercise "reasonable diligence" to ascertain the best market for a security and buy or sell in that market so that the resultant price to the customer is as

favorable as possible under prevailing market conditions. Among other things, Rule 5310 requires member firms to make every effort to execute marketable customer orders that they receive fully and promptly.[2]

Rule 5310 applies whether member firms act as agent or execute transactions on a principal basis,[3] and it covers transactions for or with a customer or a customer of another broker-dealer.[4] As FINRA has explained, this means that best execution obligations apply to member firms that receive customer orders from another member firm for purposes of order handling and execution, which includes wholesale market makers in addition to member firms that receive orders directly from customers.[5]

FINRA recognizes that evaluating a member firm's satisfaction of its duty of best execution necessarily requires a "facts and circumstances" analysis and that market conditions are an important factor in best execution determinations.[6] However, as FINRA reiterated recently, member firms are not relieved of their best execution obligations in volatile market conditions.[7]

Accordingly, FINRA has consistently stated that any order handling procedures—or changes to order handling procedures—that a member firm implements during volatile or extreme market conditions must remain consistent with the duty of best execution by providing for the fair, consistent and reasonable treatment of customer orders.[8] Member firms are not obligated to receive or accept orders from customers where the firms believe that the associated compliance or legal risks are unacceptable,[9] and there may be situations where firms determine they must change their order handling procedures to restrict the entry or acceptance of customer orders to limit the firm's exposure to extraordinary market risk. However, firms must implement any such changes on fair, consistent and reasonable terms.[10] In addition, in situations where member firms receive marketable customer orders, the firms are obligated to handle such orders promptly in accordance with Rule 5310.01.[11] In furtherance of these obligations, FINRA has stated that firms should consider establishing and implementing procedures that are designed to preserve the continued execution of customers' orders in a manner that is consistent with the firm's best execution obligations while also recognizing and limiting the exposure of the firm to extraordinary market risk.[12]

Furthermore, FINRA has stated that modifications to order handling procedures, or the activation of procedures designed to respond to extreme market conditions, may be implemented only when warranted by market conditions and that member firms should document the basis for activating any modified procedures.[13] Frequent activation of modified order handling procedures because a firm has failed to maintain adequate system capacity to handle exceptional loads may raise best execution concerns.[14] FINRA has noted the importance of operational readiness in relation to best execution and believes that appropriate planning and testing should help firms avoid or mitigate the need to implement procedure changes in the first instance. Accordingly, to avoid excessive or

unwarranted activation of modified order handling procedures, FINRA has reminded firms that they need to take steps to prevent their operational systems from being overwhelmed by periodic spikes in systems message traffic due to high volume.[15]

Meaningful Customer Disclosures About Order Handling and Execution During Extreme Market Events

Prior FINRA guidance also has addressed member firms informing customers through meaningful disclosures about their order handling procedures during extreme market conditions. To the extent that a member firm implements different order handling procedures during extreme market conditions, FINRA has stated that the firm should disclose to its customers in advance the differences in the procedures from normal market conditions and the circumstances in which the firm may generally activate the procedures.[16]

Appropriate meaningful disclosures may help inform whether a firm acted fairly, consistently and reasonably. Importantly, however, FINRA has emphasized that a firm cannot rely on disclosures alone to justify deficient order handling procedures. Specifically, FINRA has stated that the disclosure of alternative order handling procedures that are unfair or otherwise inconsistent with a member firm's best execution obligations would neither correct the deficiencies with such procedures nor absolve the firm of potential best execution violations.[17] For example, contractual terms, such as a disclosure in a customer account agreement that states a firm may, in its sole discretion, prohibit or restrict trading without notice, do not relieve a firm of its obligation to handle orders in a manner that is fair, consistent and reasonable.

In addition, FINRA has stated that firms should consider particular disclosures to enhance customers' knowledge and understanding of how member firms' order handling procedures operate, especially during volatile market conditions. For example, in *Regulatory Notice 99-11*, FINRA discussed several issues that member firms should consider disclosing to customers,[18] along with any additional disclosures that may be appropriate, including about:

- **Delays.** Member firms should consider disclosing that high volumes of trading at the market opening or intra-day may cause delays in execution and executions at prices significantly away from the market price quoted or displayed at the time the order was entered. Firms should consider explaining to customers how orders are handled if routed to other broker-dealers for execution and that the executing broker-dealers may adjust their order handling procedures in ways that impact order execution. These disclosures are particularly important for investors who are accustomed to rapid executions.

- **Types of Orders.** Member firms should consider explaining in detail the difference between market and limit orders and the benefits and risks of each. In particular, firms should consider disclosing that they are required to execute market orders fully and promptly without regard to price and that, while a customer may receive a prompt execution of a market order, the execution may be at a price significantly different from the current quoted price for that security. Firms should tell customers that limit orders will be executed only at the specified limit price or better and that, while the customer receives price protection, there is the possibility that the order will not be executed.
- **Access.** Member firms should consider alerting customers that they may suffer market losses during periods of volatility in the price and volume of a particular security when systems problems result in the inability to place buy or sell orders. Member firms should explain their procedures for responding to these access problems.

Separately, in *Regulatory Notice 16-19*,[19] FINRA discussed the risks of stop orders[20] in volatile markets and that member firms and registered representatives should inform customers that:

- **Stop prices are not guaranteed execution prices.** A "stop order" becomes a "market order" when the "stop price" is reached and firms are required to execute a market order fully and promptly at the current market price. Therefore, the price at which a stop order ultimately is executed may be very different from the investor's "stop price." Accordingly, while a customer may receive a prompt execution of a stop order that becomes a market order, during volatile market conditions, the execution may be at a significantly different price from the stop price if the market is moving rapidly.
- **Stop orders may be triggered by a short-lived, dramatic price change.** During periods of volatile market conditions, the price of a stock can move significantly in a short period of time and trigger an execution of a stop order (and the stock may later resume trading at its prior price level). Investors should understand that if their stop order is triggered under these circumstances, they may sell at an undesirable price even though the price of the stock may stabilize during the same trading day.
- **Sell stop orders may exacerbate price declines during times of extreme volatility.** The activation of sell stop orders may add downward price pressure on a security. If triggered during a precipitous price decline, a sell stop order also is more likely to result in an execution well below the stop price.
- **Placing a "limit price" on a stop order may help manage some of these risks.** A stop order with a "limit price" (a "stop limit" order) becomes a "limit order" when the stock reaches the "stop price." A "limit order" is an order to buy or sell a security for an amount no worse than a specific price (*i.e.,* the "limit price"). By using a stop limit order instead of a regular stop order, a customer will receive additional certainty with respect to the price the customer receives for the stock. However, investors also should be aware that, because brokers cannot sell for a price that is lower (or buy for a price

that is higher) than the limit price selected, there is the possibility that the order will not be executed at all. Customers should be encouraged to use limit orders in cases where they prioritize achieving a desired target price more than getting an immediate execution irrespective of price.

- **Improving communication with customers regarding market conditions.** Customers may not regularly monitor overall market conditions. Registered representatives should include information regarding volatile market conditions when advising customers in selecting a stop order type and the stop price (or the stop and limit prices for a stop limit order). In addition, firms that allow customers to enter stop orders directly online should include information regarding volatile market conditions at the time of order entry if markets are abnormal.

Similarly, SEC staff guidance has stated that broker-dealers should use every reasonable effort to notify customers about operational difficulties, communicate promptly with customers about volatile market conditions and put mechanisms in place to explain to customers how their orders will be handled.[21] As the SEC staff discussed in this guidance, broker-dealers at a minimum should make web page postings promptly to inform customers of trading halts and to explain how pending or new orders will be handled, and broker-dealers that handle orders online should have mechanisms in place to provide this information directly in response to customers that try to enter orders while trading is halted.[22]

Margin and Liquidity

Margin Requirements

FINRA Rule 4210(c) sets forth maintenance margin requirements for accounts other than portfolio margin accounts. For any long equity security in a Regulation T margin account, the maintenance margin requirement is generally 25 percent of the current market value,[23] and for any short equity security, the maintenance margin requirement is generally 30 percent of the current market value.[24] In a portfolio margin account as detailed in Rule 4210(g), the current maintenance margin requirement for both long and short eligible equity securities is generally based on a minimum stress range of plus and minus 15 percent.[25]

Member firms should monitor the need for additional margin consistent with Rule 4210(d) in conditions of extreme price volatility. Member firms must have procedures to formulate their own "house" margin requirements and where appropriate institute higher margin requirements than are required by Rule 4210 for individual securities or customer accounts.[26] Further, Rule 4210(f)(1) requires substantial additional margin in all cases where the securities carried in long or short positions are subject to unusually rapid or violent changes in value.[27]

In determining appropriate "house" maintenance margin requirements, member firms should take into account volatility as well as concentrated positions in a single customer account and across all customer accounts as well as the daily volume and market capitalization of each security. Member firms should also consider the total dollar amount of credit to be extended to any one customer or on any one security.[28] Increased maintenance margin requirements on specific securities or customers can help to ensure that the equity in each customer account is sufficient to cover any large swings in the price of a security, which protects both the member firm and customers by reducing the likelihood that the member firm will have to liquidate assets in the customer's account to cover a margin deficiency.[29] In a portfolio margin account, volatile and concentrated positions should be subjected to heightened review and daily monitoring, subjected to higher margin requirements where appropriate and included in exception reporting to senior management.[30]

Liquidity Management

In view of the recent volatility in the markets, FINRA reminds firms about their need to have effective liquidity management practices.[31] Failure to adequately manage liquidity has in the past limited firms' ability to conduct normal business operations, and contributed to both individual firm failures and, when widespread, systemic crises. Controlling liquidity risk is critical to investor protection by ensuring investors' access to their assets and ability to trade, even in times of stress.

Liquidity practices have been an ongoing focus of FINRA's financial supervision programs. FINRA has issued several *Notices* addressing this area. *Regulatory Notice 10-57* outlined several steps that firms should consider in managing liquidity and funding risks.[32] *Regulatory Notice 15-33* provided guidance based upon a review of policies and practices at several firms related to managing liquidity needs in a stressed environment. Additionally, it detailed specific stress criteria that FINRA used to examine firms during the reviews of liquidity risk.[33]

Many firms have found the guidance helpful when implementing their own liquidity risk management frameworks and related stress tests. In addition, many firms have used or adapted FINRA's published observations on stressed assumptions and considerations when modeling liquidity stress.

Additionally, strict compliance with the SEC's Net Capital Rule[34] and Customer Protection Rule[35] is an additional safeguard for firms, especially during challenging market conditions. The SEC's Net Capital Rule is designed to ensure that a broker-dealer always has sufficient liquid assets to promptly satisfy the claims of customers and creditors if the broker-dealer goes out of business. Moreover, the SEC's Customer Protection Rule protects customer funds and securities held by a broker-dealer by generally prohibiting the broker-dealer from using those funds and securities to support its proprietary trading activities. Compliance with these SEC financial responsibility rules together with strong funding and liquidity risk management practices help to ensure that member firms can continue to meet all their obligations.

Given market volatility and events over the past year, member firms should take a proactive approach to meeting their obligations for strong funding and liquidity risk management practices. Such practices enable firms to meet their obligations to counterparties, central counterparties (CCPs) and customers, including by providing reasonable customer access to the markets even during times of stress. While the specific policies and procedures will vary depending upon the business profile of the firm, firms should take account of the following areas given recent market events:

1. **Central Counter Party Margin**

   Clearing broker-dealers are members of one or more CCPs, such as the National Securities Clearing Corporation, the Fixed Income Clearing Corporation or the Options Clearing Corporation, with clearing fund and margin requirements that are calculated on a periodic basis. During times of market volatility, these requirements can spike suddenly and significantly, requiring a clearing broker-dealer to deposit significantly more margin with the CCP.

   Member firms facing the potential for rapid changes and concentration in order volume should expect commensurate changes in CCP requirements. It is important for a member firm to model potential CCP requirement spikes, and to assess whether it has adequate funding available to meet those spikes. Member firms should consider the following in making such assessments:

   - the CCP's framework for setting margin requirements, as made available to member firms in the CCP's rulebook and related communications;
   - historical CCP margin requirements for the firm combined with a multiplier or add-on to help model for unprecedented events;
   - the potential for concentrations of customer activity and trading in specific highly volatile, low-priced or illiquid securities, which may increase CCP margin requirements; and
   - adequacy of capital and availability of contingent funding sources to provide customers ongoing access to the markets.

Member firms should include these points and any other relevant considerations in planning for the impact that their clearing and customer activities have on their liquidity position.

2. **Mismatch in margining during market volatility**

   Temporary CCP, counterparty and customer margin mismatches can occur in periods of extreme market volatility, causing stress to a firm's liquidity position. Member firms should plan to have sufficient liquidity to withstand this mismatch. For example:

- Economic hedges may be margined with different margin calculations or different closing prices for each leg of the hedge, especially if different CCPs are involved on each side. This can create a margin requirement when the losses on one leg of the hedge generate a larger margin call than the gains on the other leg of the hedge. If firms have not anticipated this possible outcome and have employed a large amount of leverage while financing their customers' activity or in their proprietary trading, the result can be a large drain in liquidity.
- Requirements to post margin without a right to collect offsetting margin may also cause firms to experience drains during volatile markets. From late March through early April 2020, events in the mortgage TBA markets demonstrated that bilateral transactions that did not allow for the collection of margin could lead to liquidity drains when large price moves occurred.

Conclusion

While FINRA recognizes the challenges that member firms may face during extreme market volatility, particularly when conditions change quickly, firms nevertheless should be prepared to provide customers ongoing access to the securities markets. To this end, firms must be prepared to handle customer orders fairly, consistently, and reasonably at all times. Member firms should have effective procedures in place to ensure they are fulfilling their best execution obligations during extreme market conditions, and disclosures to customers explaining how their orders will be handled in both normal and volatile market conditions. Finally, member firms should be prepared to adjust margin requirements during periods of extreme price volatility and take a proactive approach to meeting their obligations for strong funding and liquidity management practices during adverse periods.

Endnotes

1. *See, e.g.,* Securities Exchange Act Release No. 37619A (September 6, 1996) (61 FR 48290, 48322 (September 12, 1996) (Order Execution Obligations Adopting Release) ("A broker-dealer's duty of best execution derives from common law agency principles and fiduciary obligations, and is incorporated both in SRO rules and, through judicial and Commission decisions, in the antifraud provisions of the federal securities laws. This duty of best execution requires a broker-dealer to seek the most favorable terms reasonably available under the circumstances for a customer's transaction. The scope of this duty of best execution must evolve as changes occur in the market that give rise to improved executions for customer orders, including opportunities to trade at more advantageous prices. As these changes occur, broker-dealers' procedures for seeking to obtain best execution for customer orders also must be modified to consider price opportunities that become 'reasonably available.'").
2. *See* Rule 5310.01.
3. *See* Rule 5310(e).
4. *See* Rule 5310(a)(1).
5. *See, e.g., Regulatory Notice 15-46* (November 2015) (discussing the best execution obligations of both routing and executing firms); *see also* Securities Exchange Act Release No. 54339 (August 21, 2006), 71 FR 50959 (August 28, 2006) (Order Approving SR-NASD-2004-026) (clarifying the application of the best execution rule to firms that receive customer orders from other broker-dealers).
6. *See Regulatory Notice 15-46*.
7. *See* Frequently Asked Questions Related to the Regulatory Relief Due to the Coronavirus Pandemic, Best Execution.
8. *See Notice to Members 99-11* (February 1999) (providing guidance to retail brokers in light of volatile market conditions and reminding firms "that their procedures for handling customer orders must be fair, consistent, and reasonable during volatile market conditions and otherwise"); *Notice to Members 99-12* (February 1999) (providing companion guidance to executing broker-dealers); *Regulatory Notice 15-46* (reminding firms that the same guidance on order handling procedures during extreme market conditions applies to fixed income securities).
9. *See* SEC Staff Bulletin: Risks Associated with Omnibus Accounts Transacting in Low-Priced Securities (November 12, 2020).
10. A member firm's order handling procedures, and any changes to those order handling procedures that a member firm implements during volatile or extreme market conditions, should also remain consistent with governing account documents, although as discussed in this *Notice*, disclosures in customer account agreements do not relieve a firm of its best execution obligations.
11. For example, member firms should consider their "full and prompt" obligations in situations where they change their order handling procedures to limit or restrict order acceptance, but they nevertheless allow their systems to receive marketable customer orders because order entry was not systematically blocked or prevented. As FINRA has explained with respect to the "full and prompt" obligation for marketable orders, "[b]est execution requires firms to minimize the time between order receipt, order acceptance, and order entry." *See* Securities Exchange Act Release No. 65579 (October 17, 2011), 76 FR 65549, 65552 (October 21, 2011) (Notice of Filing of File No. SR-FINRA-2011-052). FINRA notes

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that a "full and prompt" requirement also exists in Rule 5320 (Prohibition on Trading Ahead of Customer Orders). *See* 5320.07. In addition, Rule 5320(b) provides that member firms "must have a written methodology in place governing the execution and priority of all pending orders that is consistent with the requirements of [Rule 5320] and Rule 5310." Rule 5320(b) requires further that each member firm "also must ensure that this methodology is consistently applied."

12. *See Regulatory Notice 15-46*. Importantly, both FINRA and the SEC have discussed how the scope of the duty of best execution must evolve as changes to the market occur. *See Regulatory Notice 15-46* (citing Order Execution Obligations Adopting Release, *supra* note 1). In light of this, FINRA has reminded firms to routinely review and assess their systems and procedures relating to obtaining best execution for their customers' orders, particularly in light of advances in trading technology and communications. *See id.* FINRA believes this guidance applies equally to evolving market events, which firms similarly should review and assess as they consider how their order handling procedures will operate during extreme market conditions.

13. *See Regulatory Notice 15-46; Notice to Members 99-12*.

14. *See Notice to Members 99-12*.

15. *See id*. FINRA notes that SEC staff guidance has similarly urged broker-dealers to develop operational preparedness for volatility, surges in trading volume, and market disruptions. For example, following two particularly volatile trading days in 1997, SEC staff published a report which found, among other things, that "[b]roker-dealers should recognize the importance of having adequate capacity to handle high volume or high volatility trading days." *See* Trading Analysis of October 27 and 28, 1997, A Report by the Division of Market Regulation (September 1998). As a companion to the report, the SEC staff published a legal bulletin which emphasized the need for broker-dealers to plan for handling high volume or high volatility trading days. *See* Staff Legal Bulletin No. 8, Division of Market Regulation (September 1998).

    In addition, FINRA recently reminded member firms to review their business continuity plan (BCP) obligations to consider the potential effects of events or conditions that could give rise to an emergency or significant business disruption in light of a member firm's overall business. *See Regulatory Notice 20-08* (March 2020) (discussing BCP requirements under Rule 4370 (Business Continuity Plans and Emergency Contact Information)). As FINRA noted, "BCPs should be reasonably designed to enable a member firm to meet its existing obligations to customers and address existing relationships with other broker-dealers and counterparties," and "[e]ach member firm needs to conduct its own risk analysis to determine where critical impact points and exposures exist within the firm and with its counterparties and suppliers." *See id; see also* 2021 Report on FINRA's Examination and Risk Monitoring Program (noting that Rule 4370 applies to denials of service and other interruptions to members' operations).

16. *See Regulatory Notice 15-46; Notice to Members 99-12;* and *Notice to Members 99-11*.

17. *See Regulatory Notice 15-46; Notice to Members 99-11*.

18. *Regulatory Notice 99-11* made clear, as emphasized again in this *Notice* above, that disclosures do not relieve a member firm of its obligation to treat customer orders fairly, consistently, and reasonably.

19. *See* Regulatory Notice 16-19 (May 2016). FINRA notes that it has also issued investor alerts to help educate customers directly about the characteristics and risks of different order types, including stop orders. *See, e.g.,* FINRA Investor Alert: Understanding Order Types Can Save Time and Money (August 2016).

20. Rule 5350 defines a "stop order" as an order to buy (or sell) that becomes a market order to buy (or sell) when a transaction occurs at or above (below) the stop price. A "stop limit order" is an order to buy (or sell) that becomes a limit order to buy (or sell) at the limit price when a transaction occurs at or above (below) the stop price. As discussed in *Regulatory Notice 16-19*, Rule 5350 provides that a stop order must be triggered by a transaction at the stop price, rather than another trigger—*e.g.,* a quotation at the stop price. Supplementary Material .01 to Rule 5350 further provides, among other things, that a firm may offer an order type that activates as a market or limit order using a triggering event other than a transaction at the stop price; however, such an order cannot be labeled a "stop order" or a "stop limit order" and must be clearly distinguishable from a "stop order" or a "stop limit order." In addition, the firm must disclose to the customer, in paper or electronic form, prior to the time the customer places the order, a description of the order type including the triggering event. A firm that permits customers to engage in securities transactions online also must post the required disclosures on the firm's website in a clear and conspicuous manner. *See Regulatory Notice 16-19* at note 4.

21. *See* Trading Analysis of October 27 and 28, 1997, supra note 15; Staff Legal Bulletin No. 8, *supra* note 15.

22. *See* Staff Legal Bulletin No. 8, *supra* note 15. FINRA has similarly discussed pop-up or splash screen mechanisms that provide order handling information promptly to customers during volatile market conditions. *See Notice to Members 99-11*.

23. *See* Rule 4210(c).

24. Rule 4210(c) prescribes a maintenance margin requirement of $2.50 per share or 100 percent of the current market value, whichever is greater, for each short stock priced at less than $5.00 per share, and $5.00 per share or 30 percent of the current market value, whichever is greater, for each short stock priced at $5.00 per share or greater.

25. *See* Rule 4210(g). Member firms are expected to have risk monitoring capabilities that include the imposition of higher "house" requirements as well as various stress testing scenarios. *See* FINRA portfolio margin FAQs available on finra.org.

26. *See* Rule 4210(d). FINRA notes that under Rule 2264 (Margin Disclosure Statement), member firms must provide a margin disclosure statement to non-institutional customers at the time a margin account is opened and annually that explains, among other risks, that "the firm can increase its 'house' maintenance margin requirements at any time and is not required to provide you advance written notice."

27. *See* Regulatory Notice 11-15 (April 2011) regarding guidance for low-priced securities.

28. *See* Rule 4210(d) and its associated Interpretation /01.

29. *See Notice to Members 99-11*. As described in that *Notice*, in 1998-1999, some member firms responded to volatility in many stocks, particularly of internet issuers, by raising the amount of equity that must be maintained in margin accounts (maintenance margin) for long positions in certain volatile stocks, prohibiting the use of margin to purchase certain securities, and designating certain securities as "cash on hand" requiring customers to have 100 percent of the purchase price of the security in the account before the transaction can be executed.

30. *See* Rule 4210(g)(1)(I) and its associated Interpretation /01.

31. The SEC has emphasized the importance of broker-dealers developing and maintaining funding and liquidity risk management practices to prepare for adverse circumstances. *See* Exchange Act Rule 17a-3(a)(23) (requiring larger broker-dealers to "document the credit, market, and liquidity risk management controls established and maintained by the broker or dealer to assist it in analyzing and managing the risks associated with its business activities"). Additionally, the SEC staff identified liquidity risk management as an area of examination focus this year. *See* 2021 Examination Priorities, SEC Division of Examinations, at 31.

32. *See Regulatory Notice 10-57* (November 2010) (expressing FINRA's expectation that firms develop and maintain robust funding and liquidity risk management practices and identifying sound practices observed during examinations of selected firms).

33. *See Regulatory Notice 15-33* (September 2015).

34. *See* SEA Rule 15c3-1.

35. *See* SEA Rule 15c3-3.