

AN ALERT FROM THE BDO FINANCIAL SERVICES PRACTICE

BROKERAGE INSIGHTS

SEC ISSUES NO-ACTION LETTER FOR BROKER-DEALERS UNDER NEW LEASE ACCOUNTING STANDARDS

On November 8, 2016, the U.S. Securities and Exchange Commission's (SEC) Division of Trading and Markets issued a no-action letter providing relief to broker-dealers from the effects of the Financial Accounting Standards Board's (FASB) recently issued new accounting standard for operating lease assets and liabilities, known as ASU 2016-02, Leases, or "Lease Accounting Update" (Topic 842).

WHAT IS TOPIC 842?

Issued in February, 2016, [Topic 842](#) was developed to provide improved transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The new standard was viewed as problematic for broker-dealers, despite there being a similar accounting requirement for capital leases.

WHAT WAS THE CONCERN FOR BROKER-DEALERS?

Topic 842 would have had a significant impact on broker-dealers' calculation of net capital requirements under Exchange Act Rule 15c3-1, which requires broker-dealers to

deduct from net worth any asset that is not readily convertible into cash (a non-allowable asset). Capitalized leased assets would have been a non-allowable asset while increasing aggregate indebtedness. That could have required an immediate capital injection to remain in compliance with regulatory net capital requirements.

WHAT DOES THE NO-ACTION LETTER PROVIDE?

The SEC's no-action letter will allow broker-dealers to treat capitalized operating lease assets as allowable to the extent of the related operating lease liability. This must be done on an individual basis and cannot be done in the aggregate. The no-action letter will also allow lease liability to be excluded in the determination of the aggregate indebtedness (AI) to net capital ratio. This ultimately eases concerns that the new standard will increase broker-dealer net capital requirement obligations.

You can find a complete version of the SEC's no-action letter by clicking on the below link.

<https://www.sec.gov/divisions/marketreg/mr-noaction/2016/sifma-111016-15c3.pdf>



For more information, please contact:

JOHN IACOBELLIS
AICPA Expert Panel Member
Assurance Partner, New York
212-885-4029 / jiacobellis@bdo.com

NATHAN DICK
Assurance Partner, Los Angeles
310-557-8275 / ndick@bdo.com

BHARATH RAMACHANDRAN
Assurance Partner, Boston
617-239-4161 / bramachandran@bdo.com

MARK ELLENBOGEN
Atlantic Assurance Regional Managing
Partner, Greater Washington, D.C.
703-336-1402 / mellenbogen@bdo.com

JAMES KOCHANSKI
Assurance Partner, Philadelphia
215-940-7818 / jkochanski@bdo.com

JIM DANNEMILLER
Assurance Office Managing Partner, Akron
234-466-4030 / jdannemiller@bdo.com

GARY MCCORMICK
Assurance Partner, San Diego
858-431-3463 / gmccormick@bdo.com

BDO'S FINANCIAL SERVICES PRACTICE

BDO's Financial Services Practice provides assurance, tax and advisory services to asset management entities, primarily Hedge Funds, Private Equity Funds, Broker Dealers and Mutual Funds. The practice services over 600 advisors nationwide with funds ranging from start-up funds to those with billions under management.

ABOUT BDO USA

BDO is the brand name for BDO USA, LLP, a U.S. professional services firm providing assurance, tax, advisory and consulting services to a wide range of publicly traded and privately held companies. For more than 100 years, BDO has provided quality service through the active involvement of experienced and committed professionals. The firm serves clients through more than 60 offices and over 500 independent alliance firm locations nationwide. As an independent Member Firm of BDO International Limited, BDO serves multinational clients through a global network of 67,700 people working out of 1,400 offices across 158 countries.

BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. BDO is the brand name for the BDO network and for each of the BDO Member Firms. For more information please visit: www.bdo.com.

Material discussed is meant to provide general information and should not be acted on without professional advice tailored to your firm's individual needs. © 2017 BDO USA, LLP. All rights reserved.