**AICPA Stockbrokerage and Investment Banking Expert Panel**

**March 3, 2022, meeting highlights**

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During the March 2022 EP meeting, the Expert Panel members discussed certain considerations related to fractional share transactions with customers. Some broker-dealers offer their customers the ability to invest in fractions of shares. In these cases, the customer has the option to invest a specific dollar amount in a particular investment, as opposed to acquiring a specified number of shares.

There have been ongoing discussions among industry participants, SIFMA sub-committees, and accounting firms as well as staff of the SEC’s Division of Trading and Markets and leadership from FINRA regarding potential accounting and regulatory implications related to these fractional share programs.

Accounting implications include whether the broker-dealer is acting as a principal rather than an agent in the transaction and, if deemed to be acting as principal, the corresponding potential impact of Accounting Standards Codification (ASC) Topic 860, *Transfers and Servicing*, as a result of offering fractional share transactions to customers. If acting as principal, the accounting analysis may cause the broker-dealer to record financial assets for the fractional shares held by its customers (the “financial assets”) and corresponding financial liabilities which represent secured borrowings (the “financial liabilities”) where the criteria for derecognition is not met under ASC 860. The broker-dealer may also need to consider whether or not income statement accounts are impacted based on the accounting conclusions reached.

As most recently discussed at the AICPA & SIFMA National Conference on the Securities Industry in November 2021, staff from the SEC’s Division of Trading and Markets and leadership from FINRA both continue to indicate that they do not expect the accounting treatment discussed above to have an impact on the net capital computation or the reserve formula, as long as the broker-dealer carries the long position and maintains possession or control of the shares purchased for its customers.

Broker-dealers offering fractional share transactions to their customers should discuss their program with their independent auditors.