

the various documents and information which must be submitted as part of the application from the broker-dealer and from the holding company of the broker-dealer that will allow the Commission to determine whether an exemption from the net capital rule is necessary or appropriate in the public interest and consistent with the protection of investors.

The documents and information that must be submitted as part of the application are similar to those we presently obtain under the OTC derivatives dealer rules, under the risk assessment rules, and voluntarily from the DPG firms and other broker-dealers. We have found that they are useful in gaining insight into the financial condition, internal risk management control system, and activities of the broker-dealer and its holding company and affiliates and to understand and evaluate group-wide risk exposures. Adverse financial or operational conditions at the holding company or an affiliate of the broker-dealer may expose the broker-dealer to additional risk. For example, the failure of an affiliate may adversely affect the ability of the broker-dealer to obtain short-term funding. Therefore, we would require receipt of these documents and information relating to the operational and financial condition of the broker-dealer, and its holding company and other affiliates, as a condition for the broker-dealer's use of proposed Appendix E to calculate certain of its capital charges. We request comment on all aspects of the application requirements.

a. Documents and Information To Be Submitted by the Broker-Dealer

Paragraph (a)(1) of proposed Appendix E lists the documents and information to be submitted by the broker-dealer as part of its application to use the alternative capital computation. The documents and information would include:

- An executive summary of the documents and information submitted to the Commission by the broker-dealer and a description of the holding company of the broker-dealer (which may not be a natural person);
- A list of types of positions the broker-dealer holds in its proprietary account and a description of the method the broker-dealer would use to compute its capital charges on those positions;
- A description of mathematical models used to price positions and to compute capital charges and how those models meet the quantitative and

qualitative requirements of proposed Appendix E;

- If the broker-dealer is applying to the Commission to use scenario analysis to calculate capital charges for certain positions, a list of the positions and a description of how the capital charges will be calculated; and

- A description of the broker-dealer's internal risk management control system and how that system satisfies the requirements set forth in Rule 15c3-4.

b. Holding Company Undertaking

As part of the application, and as a condition of the broker-dealer's use of proposed Appendix E to calculate certain of its capital charges, the broker-dealer would also be required, by paragraph (a)(1)(viii) of proposed Appendix E, to file a written undertaking by the broker-dealer's holding company, signed by a duly authorized person at the holding company, in which the holding company would agree, among other things, to:

- Comply with proposed Appendix G to Rule 15c3-1, discussed in further detail below, which generally would require that the holding company make certain capital calculations, make certain reports to the Commission, maintain and keep certain records, and notify the Commission upon the occurrence of certain events;

- Comply with all applicable provisions of proposed Appendix E;
- Comply with the provisions of Rule 15c3-4 with respect to a group-wide internal risk management control system for the CSE as if it were a broker-dealer that computes its capital charges in accordance with proposed Appendix E;

- As part of the group-wide internal risk management control system, establish, document, and maintain procedures for the detection and prevention of money laundering and terrorist financing;

- Permit the Commission to examine the books and records of any affiliate, including the holding company, if the affiliate is not an entity that has a principal regulator (as defined in proposed paragraph (c)(13) of Rule 15c3-1) for the purposes of these rules;
- For certain entities that have principal regulators (those entities listed in proposed paragraph (c)(13)(ii) of Rule 15c3-1) for the purposes of these rules, make available to the Commission such information concerning the operations of the entity that the Commission determines is necessary to evaluate risks that may affect the financial or operational condition of the holding company;

- If the disclosure to the Commission of any information required as a condition for the broker-dealer to use proposed Appendix E would be prohibited by law or otherwise, cooperate with the Commission as needed, including by describing any secrecy laws or other impediments that could restrict the ability of the broker-dealer or its affiliates from providing information to the Commission and by discussing the manner in which the broker-dealer and the holding company propose to provide the Commission with adequate assurances of access to information;

- For any non-U.S. holding company, consent to the jurisdiction of the Commission and agree to maintain a U.S. registered agent;

- Submit to the Commission all material changes to mathematical models used to calculate allowances for market and credit risk for Commission approval;

- Submit to the Commission all material changes to the group-wide internal risk management system; and
- Acknowledge that the Commission may implement additional supervisory conditions, described in detail below, if the holding company fails to comply with any provision of its undertaking.

The proposed terms of the undertaking are those that we have determined are necessary for us to understand the risks to the broker-dealer that may result from activities of its affiliates and for us to have access to information concerning the CSE. For example, permitting the Commission to examine the books and records of non-functionally regulated affiliates of the broker-dealer will provide the Commission with an understanding of the group-wide risk exposures that may have a material effect on the financial or operational condition of the broker-dealer. The requirement to establish a group-wide internal risk management control system in accordance with the standards of Rule 15c3-4 will help provide assurance that the control system that is implemented will adequately address the risks posed by the firm's business and the environment in which it is being conducted. We request comment on the documents that the broker-dealer must submit as part of its application to use proposed Appendix E to compute certain of its capital charges.

As noted above, use of the alternative net capital treatment by a broker-dealer is conditioned on the broker-dealer's holding company undertaking to comply with the above requirements. We request comment on all aspects of the holding company undertaking.