

proposed Appendix E would have to give notice to the Commission of certain events beyond those the broker-dealer is currently required to give notice of. These events include, for example, that an NRSRO has determined to downgrade the credit rating of the obligations of the broker-dealer or one of its affiliates, the broker-dealer receives notice from a regulator that one of its affiliates is not in compliance with rules or agreements with the regulator, the broker-dealer becomes aware of a situation that may have a material adverse effect on a material affiliate, or the occurrence of certain backtesting exceptions of the broker-dealer's mathematical models.

These events are expected to be rare. However, they are of supervisory concern. The Commission received approximately 1,067 Rule 17a-11 notices from 731 broker-dealers during calendar year 2002. At that time, there were approximately 6,800 active broker-dealers registered with the Commission. Thus we estimate that approximately 11% of active broker-dealers filed a Rule 17a-11 notice during calendar year 2002 ($731/6,800 = .1075$) and that it would take approximately one hour to file such a notice. Therefore, we estimate that of the 12 broker-dealers we expect to apply under this proposal, approximately one may be required to file notice pursuant to the proposed amendments to Rule 17a-11 each year. Thus, we estimate that the total annual burden of the proposed amendments to Rule 17a-11 for the 12 broker-dealers we expect to apply under the proposal would be about one hour.

F. Proposed Amendments to Rules 17h-1T and 17h-2T, Risk Assessment Recordkeeping Requirements for Associated Persons of Brokers and Dealers and Risk Assessment Reporting Requirements for Brokers and Dealers

Rules 17h-1T and 17h-2T require that certain broker-dealers make records of and file quarterly reports with the Commission regarding the financial condition, organization, and risk management practices of their affiliated group. The amendments to Rules 17h-1T and 17h-2T would exempt a broker-dealer that uses Appendix E from the rules to the extent that the holding company of the broker or dealer maintains the information pursuant to proposed Appendix G.

These amendments would reduce the PRA burden for broker-dealers that use Appendix E. The current PRA burden estimate for Rules 17h-1T and 17h-2T is approximately 10 hours per year for each respondent. We estimate that the aggregate savings under the proposed

amendments for the 12 firms we expect to apply under the proposal would be approximately 120 hours per year.

G. Request for Comment

Under 44 U.S.C. 3506(c)(2)(B), the Commission seeks comment to evaluate:

- Whether the proposed collection of information is necessary for the proper performance of the functions of the Commission, including whether the information has practical utility;
- The accuracy of our estimates of the burden of the proposed collection of information;
- Ways in which we might enhance the quality, utility, and clarity of the information to be collected; and
- Ways in which we might minimize the burden of the collection of information on those who respond, including through the use of automated collection techniques or other forms of information technology.

Persons wishing to submit comments on the collection of information requirements should address them to The Office of Management and Budget, Room 3208, Attention: Desk Officer for the Securities and Exchange Commission, Office of Information and Regulatory Affairs, New Executive Office Building, Washington, DC 20503; and should also send a copy of their comments to Jonathan G. Katz, Secretary, Securities and Exchange Commission, 450 Fifth Street, NW., Washington, DC 20549-0609. The submission should reference File No. S7-21-03. OMB is required to make a decision concerning the collection of information between 30 and 60 days after publication of this document in the **Federal Register**; therefore, comments to OMB are best assured of having full effect if OMB receives them within 30 days of this publication.

The Commission has submitted the proposed collections of information to OMB for approval. Requests for the materials submitted to OMB by the Commission with regard to these collections of information should be in writing, refer to File No. S7-21-03, and be submitted to the Securities and Exchange Commission, Records Management, Office of Filings and Information Services, 450 Fifth Street, NW., Washington, DC 20549-0609.

V. Costs and Benefits of the Proposed Rule Amendments

To assist the Commission in its evaluation of the costs and benefits that may result from the proposed amendments, which establish a voluntary alternative method for computing net capital charges for certain broker-dealers, commenters are

requested to provide analysis and data relating to the costs and benefits associated with the proposed amendments. In particular, the Commission requests comments on the potential costs for any necessary modifications to internal risk management control, accounting, information management, and recordkeeping systems required to comply with the proposed amendments and the potential benefits arising from participation in the regulatory scheme.

The proposed amendments would establish a voluntary alternative method for computing net capital charges for certain broker-dealers that are part of a holding company that has a group-wide internal risk management control system and that consents to group-wide Commission supervision. We have identified certain costs and benefits that would be associated with the proposal.

A broker-dealer that maintains tentative net capital of at least \$1 billion and net capital of at least \$500 million could apply to the Commission for a conditional exemption from the application of the standard net capital rule calculation and, upon Commission approval, calculate certain of its market and credit risk capital charges using the firm's own internal mathematical models for risk measurement, including internally developed VaR models and scenario analysis. According to March 31, 2003 FOCUS filings, 28 registered broker-dealers reported tentative net capital and net capital that equaled or exceeded those amounts. Based on discussions with industry representatives, we believe, however, that only broker-dealers with at least \$1 billion in deductions pursuant to paragraph (c)(2)(vi) of Rule 15c3-1 (also known as "haircuts") will find it cost effective to use the alternative capital computation. As of March 2003, based on FOCUS filings, there were 12 such broker-dealers. Therefore, our cost-benefit estimates are based on the assumption that 12 broker-dealers will apply under the proposal.

Many of the estimates are also based on information Commission staff receives through the risk assessment rules and meetings with and reports from the DPG and other broker-dealers and the Commission's experience in implementing the OTC derivatives dealer rules.

A broker-dealer that applies to use proposed Appendix E and its affiliates have discretion in allocating the costs associated with the proposal among the entities in the CSE ("consolidated supervised entity"), including the broker-dealer. In estimating the total costs associated with the proposal on