

staff estimates that the hourly salary of an attorney is \$63.75 per hour,⁷⁶ for a total cost of approximately \$80,000 ($\$63.75 * 100 * 12 = \$76,500$). The staff estimates that the hourly salary of a senior compliance staff person is \$56.60 per hour,⁷⁷ for a total cost of approximately \$610,000 ($\$56.60 * 900 * 12 = \$611,280$).

These estimates are based on estimates the Commission made for the OTC derivatives dealer rules, which include a similar application requirement.⁷⁸ We estimated that an OTC derivatives dealer would spend approximately 1,000 hours developing and submitting its VaR model and description of its risk management control system to the Commission.⁷⁹ No comments were received in response to the estimates in the proposing release, and those estimates were not changed in the final rule release. For purposes of this proposal, we note that firms applying to use Appendix E will have already developed the VaR models that they will use to calculate market and credit risk under the proposal and will have already developed internal risk management control systems. This conclusion is 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. On the other hand, we note that the proposal contains additional requirements. For example, the firm must establish and document procedures to detect and prevent money laundering and terrorist financing. We also note that the application under this rule may be more complicated than the OTC derivatives dealer application and may take more time to complete.

We estimate that a broker-dealer using Appendix E would spend approximately 5,600 hours per year to review the models it uses to compute market and credit risk and approximately 160 hours each quarter, or approximately 640 hours per year, to backtest the models. Consequently, we estimate that it will take approximately 74,880 hours ($(5,600 + 640) * 12$) per year to review and backtest mathematical models for the 12 broker-

dealers we expect to apply under the proposal, and that a financial reporting specialist would do the work. The staff estimates that the hourly salary of a financial reporting manager is \$50.63 per hour,⁸⁰ for a total cost of approximately \$3.8 million per year ($\$50.63 * 74,880 = \$3,791,174$).

Based on Commission experience and discussions with industry participants, we estimate that the holding company's calculation of allowable capital and allowances for market, credit, and operational risk would require approximately 90 hours per month, or approximately 1,080 hours per year, for a total of approximately 12,960 hours per year for the 12 broker-dealers, and that a senior accountant would do the work. The staff estimates that the hourly salary of a senior accountant is \$49.87 per hour,⁸¹ The total annual cost would be approximately \$650,000 ($\$49.87 * 12,960 = \$646,315$). In addition, we estimate that it would require approximately 5,600 hours per year to review and update the mathematical models used to make these calculations, or approximately 67,200 hours per year for the 12 broker-dealers, and we expect that a financial reporting manager would do the work. The staff estimates that the hourly salary of a financial reporting manager is \$50.63 per hour.⁸² The total annual cost would be approximately \$3.4 million ($\$50.63 * 67,200 = \$3,402,336$). Finally, we estimate that it would require approximately 160 hours each quarter, or approximately 640 hours each year, to backtest the models. Thus, the aggregate annual burden to backtest the models for the 12 broker-dealers we expect to apply under the proposal would be approximately 7,680 hours, and we expect that a junior research analyst would do the work. The staff estimates that the hourly salary of a junior research analyst is \$38.92 per hour,⁸³ for a total cost of approximately \$300,000 ($\$38.92 * 7,680 = \$298,906$).

We estimate that the average amount of time necessary to prepare and file the monthly reports required by Appendix

G would be approximately 8 hours per month, or approximately 96 hours per year, that the average amount of time necessary to prepare and file the quarterly reports would be about 16 hours per quarter, or approximately 64 hours per year, and that the average amount of time necessary to prepare and file the annual audit reports would be approximately 200 hours per year. Consequently, we estimate that the total for the 12 broker-dealers we expect to apply under the proposal would be approximately 4,320 hours ($(96 + 64 + 200) * 12$) per year, and we expect that a senior accountant would do the work. The staff estimates that the hourly salary of a senior accountant is \$49.87 per hour,⁸⁴ for a total of approximately \$215,000 ($\$49.87 * 4,320 = \$215,438$).

We based these estimates on the PRA burden estimates for Exchange Act Rule 17a-12, Reports to be made by certain OTC derivatives dealers. The PRA burden estimate for Rule 17a-12 is 180 hours per year to prepare and file the information required by the rule (based on an average of four responses per year and an average of 20 hours preparing each response with an additional 100 hours spent on preparing the annual audit). However, we believe that the cost under this proposal would be lower than the Rule 17a-12 estimates because CSEs already generate many of the required reports for internal management purposes.

We expect that any additional costs associated with the requirements of proposed Appendix G relating to making, keeping, and preserving records would be minimal because a prudent firm that manages risk on a group-wide basis would make and preserve these records in the ordinary course of its business. We estimate it would take approximately 40 one-time hours and that the average annual time spent would be approximately 290 hours. Consequently, we estimate that the 12 broker-dealers we expect will apply under this proposal would spend approximately 480 hours on a one-time basis and approximately 3,480 hours per year, and we expect that a senior accountant would do the work. The staff estimates that the hourly salary of a senior accountant is \$49.87 per hour,⁸⁵ for a total one-time cost of approximately \$24,000 ($\$49.87 * 480 = \$23,938$) and a total annual cost of

⁷⁶ SIA Report, (Attorney) + 35% overhead (based on end-of-year 2002 figures) (\$85.00 per year/1800 hours/year * 1.35 = \$63.75 per hour).

⁷⁷ SIA Report, (Senior Compliance Staff) + 35% overhead (based on end-of-year 2002 figures) (\$75.464 per year/1800 hours/year * 1.35 = \$56.60 per hour).

⁷⁸ See 17 CFR 240.15c3-1(f).

⁷⁹ Exchange Act Release No. 39454 (Dec. 17, 1997), 62 FR 67940 (December 30, 1997).

⁸⁰ SIA Report, (Financial Reporting Manager) + 35% overhead (based on end-of-year 2002 figures) (\$67,500 per year/1800 hours/year * 1.35 = \$50.63 per hour).

⁸¹ SIA Report, (Senior Accountant) + 35% overhead (based on end-of-year 2002 figures) (\$66,500 per year/1800 hours/year * 1.35 = \$49.87 per hour).

⁸² SIA Report, (Financial Reporting Manager) + 35% overhead (based on end-of-year 2002 figures) (\$67,500 per year/1800 hours/year * 1.35 = \$50.63 per hour).

⁸³ SIA Report, (Junior Research Analyst) + 35% overhead (based on end-of-year 2002 figures) (\$51,900 per year/1800 hours/year * 1.35 = \$38.92 per hour).

⁸⁴ SIA Report, (Senior Accountant) + 35% overhead (based on end-of-year 2002 figures) (\$66,500 per year/1800 hours/year * 1.35 = \$49.87 per hour).

⁸⁵ SIA Report, (Senior Accountant) + 35% overhead (based on end-of-year 2002 figures) (\$66,500 per year/1800 hours/year * 1.35 = \$49.87 per hour).