

appropriate in the public interest and consistent with the protection of investors after determining, among other things, whether: The broker or dealer has met the requirements of this Appendix E; the broker or dealer is in compliance with other applicable rules promulgated under the Act and self-regulatory organization rules; and the holding company of the broker or dealer is in compliance with the terms of its undertaking, provided to the Commission pursuant to paragraph (a)(1)(viii) of this Appendix E;

(7) The broker or dealer shall amend and resubmit to the Commission its application to calculate certain market and credit risk capital charges in accordance with this Appendix E if the broker or dealer or its holding company desires to make any material change to a mathematical model used to calculate market or credit risk or its internal risk management control system as described in the application;

(8) The broker or dealer shall notify the Commission of any material change to the corporate structure of the broker or dealer or the holding company as described in the application;

(9) As a condition for the broker or dealer to compute its capital charges under this Appendix E, the broker or dealer agrees that:

(i) The broker or dealer will provide 45 days written notice to the Commission if it intends to cease to use the market risk standards of this Appendix E to calculate its market risk capital charge instead of the provisions of § 240.15c3-1(c)(2)(vi) and the credit risk standards of this Appendix E to calculate its credit risk capital charge on certain credit exposures arising from transactions in derivatives instruments instead of the provisions of § 240.15c3-1(c)(2)(iv); and

(ii) The Commission may determine by order that such notice will become effective after a shorter or longer period of time if the broker or dealer consents or if the Commission determines that the shorter or longer period of time is necessary or appropriate in the public interest and consistent with the protection of investors; and

(10) Notwithstanding paragraph (a)(9) of this section, the Commission, by order, may revoke a broker's or dealer's exemption that allows it to use the market risk standards of this Appendix E to calculate the market risk capital charge instead of the provisions of § 240.15c3-1(c)(2)(vi), and the exemption to use the credit risk standards of this Appendix E to calculate the credit risk capital charge on certain credit exposures arising from transactions in derivatives instruments

instead of the provisions of § 240.15c3-1(c)(2)(iv), if the Commission finds that such exemption is no longer necessary or appropriate in the public interest, or is no longer consistent with the protection of investors.

Compliance With § 240.15c3-4

(b) A broker or dealer that computes its market and credit risk capital charges under this Appendix E must comply in all material respects with § 240.15c3-4 regarding its internal risk management control system in order to be in compliance with § 240.15c3-1.

Market Risk

(c) A broker or dealer whose application has been approved under paragraph (a) of this Appendix E shall compute a market risk capital charge daily in accordance with the following:

(1) The broker or dealer shall compute a market risk capital charge on eligible positions, in accordance with the phase-in schedule of paragraph (c)(3) of this Appendix E, equal to the VaR of those positions multiplied by the appropriate multiplication factor. The VaR of the positions must be obtained using approved VaR models meeting the applicable qualitative and quantitative requirements of paragraph (e) of this Appendix E. The broker or dealer must use the multiplication factor determined according to paragraph (e)(1)(iii) of this Appendix E, except that the initial multiplication factor shall be three, unless the Commission determines, based on a review of the broker's or dealer's internal risk management control system and practices, including a review of the VaR models, that another multiplication factor is appropriate;

(2) The broker or dealer may not use a VaR model to determine a capital charge for positions having no ready market or for debt securities which are below investment grade or for any derivative instrument based on the value of these positions, unless the Commission has granted, pursuant to § 240.15c3-1(a)(7), its application to use its VaR model for any such positions. The broker or dealer may apply pursuant to paragraph (c)(5) of this Appendix E to calculate its market risk capital charge for any such positions using scenario analysis. If that application is denied, the broker or dealer must calculate the market risk capital charge for such positions under § 240.15c3-1(c)(2)(vi);

(3) The broker or dealer shall use approved VaR models to compute its market risk capital charge in accordance with the following phase-in schedule:

(i) Upon Commission approval of its application under paragraph (a) of this

Appendix E, the broker or dealer may use approved VaR models to calculate its market risk capital charge for the following positions:

(A) U.S. government securities and derivatives on those securities;

(B) Corporate debt securities rated in one of the four highest rating categories by two nationally recognized statistical rating organizations ("NRSROs") and derivatives on those securities;

(C) Foreign government securities rated in one of the four highest rating categories by two NRSROs and derivatives on those securities;

(D) Derivatives on major market foreign currencies as defined in § 240.15c3-1a(b)(1)(i)(C);

(E) Asset-backed securities with less than 5 years to maturity that are rated in one of the four highest rating categories by two NRSROs and derivatives on those securities; and

(F) Municipal securities rated in one of the four highest rating categories by two NRSROs and derivatives on those securities;

(ii) Nine months after Commission approval of its application under paragraph (a) of this Appendix E, the broker or dealer may amend its application to request approval to use one or more approved VaR models to calculate its market risk capital charge for equities and derivatives on equities; and

(iii) Nine months after the amendment filed pursuant to paragraph (c)(3)(ii) of this Appendix E has been approved, a broker or dealer may amend its application to request approval to use one or more approved VaR models to calculate its market risk capital charge for other eligible positions;

(4) Notwithstanding any other provision in this Appendix E, a broker or dealer that computes its capital charges under this Appendix E may use a VaR model to determine market risk capital charges only for positions for which there is adequate historical data to support a VaR model;

(5) The broker or dealer must request, either in its initial application or an amendment, to use scenario analysis to compute its market risk capital charge for a category of positions. For positions for which the Commission has approved the broker's or dealer's application to use scenario analysis, the market risk capital charge shall be three times the greatest adverse movement resulting from the scenario analysis over any ten-day period on a daily basis, except that the resulting market risk capital charge must be at least \$25 per 100 share equivalent contract for equity positions, or one-half of one percent of the face value of the contract for all other types