

proprietary or other trading accounts of the firm, including interest rate risk, equity price risk, foreign exchange risk, and commodity price risk;

(C) Spread risk, where applicable, and segments of the yield curve sufficient to capture differences in volatility and imperfect correlation of rates along the yield curve for securities and derivatives that are sensitive to different interest rates; and

(D) Specific risk for individual securities and derivatives.

#### *Additional Regulatory Conditions*

(f) As a condition for the broker or dealer to use this Appendix E to calculate certain of its capital charges, the Commission may impose additional regulatory conditions on the broker or dealer, which may include: Restricting its business (on a product-specific, category-specific, or general basis); submitting to the Commission a plan to increase its net capital or tentative net capital; filing more frequent reports with the Commission; Modifying its internal risk management control procedures; or computing its market and credit risk capital charges in accordance with § 240.15c3-1(c)(2)(vi) and (c)(2)(iv), as appropriate. The Commission may also require, as a condition of continuation of the exemption, the holding company of the broker or dealer to file more frequent reports or to modify its group-wide internal risk management control procedures. The Commission may impose such additional regulatory conditions if:

(1) The broker or dealer or the holding company of the broker or dealer fails to meet the reporting requirements set forth in § 240.17a-5 or 240.15c3-1g(b), as applicable;

(2) Any event specified in § 240.17a-11 or 240.15c3-1g(e) occurs;

(3) There is a material deficiency in the internal risk management control system or in the mathematical models used to price securities or to calculate market and credit risk capital charges or allowances for market and credit risk, as applicable, of the broker or dealer or the holding company of the broker or dealer;

(4) The holding company of the broker or dealer fails to comply with its undertakings that the broker or dealer has filed with its application pursuant to paragraph (a)(1)(viii) of this Appendix E;

(5) The broker or dealer or the holding company of the broker or dealer materially amends a mathematical model or its internal risk management control system or its corporate structure as described in the application the

broker or dealer has submitted to the Commission under this Appendix E; or

(6) The Commission finds that imposing other regulatory conditions are necessary or appropriate in the public interest, and for the protection of investors.

5. Section 240.15c3-1g is added to read as follows:

#### **§ 240.15c3-1g Conditions for holding companies of certain brokers or dealers (Appendix G to 17 CFR 240.15c3-1).**

As a condition for a broker or dealer to compute certain of its capital charges in accordance with § 240.15c3-1e, the holding company of the broker or dealer shall comply with the conditions set forth below:

#### *Conditions Regarding Computation of Allowable Capital and Risk Allowances*

(a) As a condition of the exemption, the holding company of a broker or dealer that computes certain of its capital charges in accordance with § 240.15c3-1e must calculate allowable capital and allowances for market, credit, and operational risk on a consolidated basis as follows:

(1) *Allowable capital.* The holding company must compute allowable capital monthly as the sum of:

(i) Common shareholders' equity on the consolidated balance sheet of the holding company less:

(A) Goodwill;

(B) Deferred tax assets;

(C) Other intangible assets; and

(D) Other deductions from common stockholders' equity as required by the Federal Reserve Board in calculating Tier 1 capital (as defined in 12 CFR 225, Appendix A);

(ii) Cumulative and non-cumulative preferred stock, provided that:

(A) The stock does not have a maturity date;

(B) The stock cannot be redeemed at the option of the holder of the instrument;

(C) The stock has no other provisions that will require future redemption of the issue; and

(D) The issuer of the stock can defer or eliminate dividends, except that the amount of such cumulative preferred stock may not exceed 33% of the items included in allowable capital pursuant to paragraph (a)(1)(i) of this Appendix G; and

(iii) The sum of the following items on the consolidated balance sheet, to the extent that the sum does not exceed the sum of the items included in allowable capital pursuant to paragraphs (a)(1)(i) and (ii) of this Appendix G:

(A) Cumulative preferred stock in excess of the 33% limit specified in

paragraph (a)(1)(ii) of this Appendix G; and

(B) Subordinated debt if the original weighted average maturity of the subordinated debt is at least five years; each subordinated debt instrument states clearly on its face that repayment of the debt is not protected by any Federal agency or the Securities Investor Protection Corporation; the subordinated debt is unsecured and subordinated in right of payment to all senior indebtedness of the holding company; and the subordinated debt instrument permits acceleration only in the event of bankruptcy or reorganization of the holding company under Chapters 7 (liquidation) and 11 (reorganization) of the U.S. Bankruptcy Code;

(2) *Allowance for market risk.* The holding company shall compute an allowance for market risk daily for all proprietary positions, including debt instruments, equity instruments, commodity instruments, foreign exchange contracts, and derivative contracts, as the aggregate of the following:

(i) *Value at risk.* The VaR of its 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 § 240.15c3-1e(e). The holding company must use the multiplication factor determined according to § 240.15c3-1e(e)(1)(iii), except that the initial multiplication factor shall be three, unless the Commission determines, based on a review of the group-wide internal risk management control system and practices, including a review of the VaR models, that another multiplication factor is appropriate. The VaR model must be one that can be disaggregated by each line of business exposed to market risk and by each legal entity exposed to market risk. The holding company may use a VaR model to determine an allowance for market risk only for positions for which there is adequate historical data to support a VaR model; and

(ii) *Alternative method.* For positions for which there does not exist adequate historical data to support a VaR model, an allowance for market risk using a method described in the broker's or dealer's application to use § 240.15c3-1e to calculate certain of its capital charges that produces a suitable allowance for market risk for those positions;

(3) *Allowance for credit risk.* The holding company shall compute an allowance for credit risk daily for