

certain assets on the consolidated balance sheet and certain off-balance sheet items, including loans and loan commitments, exposures due to derivatives contracts, structured financial products, and other extensions of credit, and credit substitutes as follows:

(i) The credit equivalent amount of the asset or off-balance sheet item multiplied by the appropriate credit risk weight of the asset or off-balance sheet item or counterparty, determined according to paragraph (a)(3)(i)(F) of this Appendix G, multiplied by 8%, in accordance with the following:

(A) For certain loans and loan commitments made by members of the affiliate group of the broker-dealer, the credit equivalent amount is determined by multiplying the nominal amount of the contract by the following credit conversion factors:

(1) 0% credit conversion factor for loan commitments that:

(i) May be unconditionally cancelled by the lender; or

(ii) May be cancelled by the lender due to credit deterioration of the borrower;

(2) 5% credit conversion factor for margin loans extended by members of the affiliate group of the broker or dealer in compliance with applicable self-regulatory organization regulations;

(3) 20% credit conversion factor for:

(i) Loan commitments of less than one year; or

(ii) Short term self-liquidating trade related contingencies, including letters of credit;

(4) 50% credit conversion factor for loan commitments with an original maturity of greater than one year that contain transaction contingencies, including performance bonds, revolving underwriting facilities, note issuance facilities and bid bonds; and

(5) 100% credit conversion factor for bankers' acceptances, stand-by letters of credit, and forward purchases of assets, and similar direct credit substitutes;

(B) For derivatives contracts and for repurchase agreements, reverse repurchase agreements, stock lending and borrowing, and similar collateralized transactions, the credit equivalent amount of the holding company's exposure to a counterparty is the sum of the holding company's maximum potential exposure to the counterparty, as defined in paragraph (a)(3)(i)(D) of this Appendix G, multiplied by the appropriate multiplication factor, and the holding company's current exposure to the counterparty, as defined in paragraph (a)(3)(i)(C) of this Appendix G. The holding company must use the

multiplication factor determined according to § 240.15c3-1e(e)(1)(iv), except that the initial multiplication factor shall be one, 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;

(C) The *current exposure* of a member of the affiliate group to a counterparty is the current replacement value of the counterparty's positions with the member of the affiliate group, after applying netting agreements with that counterparty meeting the requirements of § 240.15c3-1e(d)(5), taking into account the value of collateral from the counterparty pledged to and held by any member of the affiliate group in accordance with § 240.15c3-1e(d)(6), and subtracting the fair market value of any credit derivatives that specifically change the exposure to the counterparty (as long as the credit derivatives are not used to change the credit risk weight of the counterparty as provided in paragraph (a)(3)(i)(I) of this Appendix G);

(D) The *maximum potential exposure* of a member of the affiliate group to a counterparty is the increase in the net replacement value of the counterparty's positions with the member of the affiliate group, after applying netting agreements with that counterparty meeting the requirements of § 240.15c3-1e(d)(5), taking into account the value of collateral from the counterparty held by any member of the affiliate group in accordance with § 240.15c3-1e(d)(6), and subtracting the fair market value of any credit derivatives that specifically change the exposure to the counterparty (as long as the credit derivatives are not used to change the credit risk weight of the counterparty as provided in paragraph (a)(3)(i)(I) of this Appendix G), that is obtained daily using an approved VaR model meeting the applicable qualitative and quantitative requirements of § 240.15c3-1e(e), except that for repurchase agreements, reverse repurchase agreements, stock lending and borrowing, and similar collateralized transactions, maximum potential exposure must be calculated using a time horizon of five days;

(E) The credit equivalent amount for other assets shall be the asset's book value on the holding company's consolidated balance sheet;

(F) The credit risk weights that shall be applied to certain assets and counterparties shall be determined according to standards published by the Basel Committee on Banking

Supervision, as modified from time to time;

(G) The holding company or other member of the affiliate group may, upon approval by the Commission of a request by the broker or dealer in its initial application or in an amendment, determine credit ratings using internal calculations for counterparties that are not rated by an NRSRO, and the holding company may use these internal credit ratings in lieu of ratings issued by an NRSRO for purposes of determining credit risk weights;

(H) The holding company or other member of the affiliate group may, upon approval by the Commission of a request by the broker or dealer in its initial application or in an amendment, determine credit risk weights of counterparties using internal calculations;

(I) The holding company or member of the affiliate group may reduce the credit risk weight of a counterparty by using credit derivatives such as credit default swaps, total return swaps, and similar instruments used to manage credit risk that provide credit protection equivalent to guarantees, that are used for bona fide hedging purposes to reduce the credit risk weight of a counterparty, that are not incorporated into the VaR model used for deriving potential exposures, and that are not held for market making purposes. The credit risk weight for the covered portion of the exposure shall be the credit risk weight of the writer of the derivative. The uncovered portion of the exposure shall be assigned the credit risk weight of the counterparty;

(J) For the portion of a current exposure covered by a guarantee, where that guarantee is an unconditional and irrevocable guarantee of the due and punctual payment and performance of the obligation and the holding company or member of the affiliate group can demand payment after any payment is missed without having to make collection efforts, the holding company or member of the affiliate group may substitute the credit risk weight of the guarantor for the credit risk weight of the counterparty if the guarantee is evidenced by a written obligation of the guarantor that allows the holding company or member of the affiliate group to substitute the guarantor for the counterparty upon default or nonpayment by the counterparty;

(K) The holding company may recognize a cross-product netting agreement that meets the requirements set forth in § 240.15c3-1e(j); and

(L) The fair market value of collateral may be used to offset the net replacement value of receivables from a