

counterparty provided the requirements set forth in § 240.15c3–1e(k) are met; or

(ii) If the Commission approves the request of the broker or dealer, in its initial application or in an amendment, the holding company may use a calculation consistent with standards published by the Basel Committee on Banking Supervision, as modified from time to time;

(4) *Allowance for operational risk.* The holding company shall compute an allowance for operational risk determined consistent with appropriate standards published by the Basel Committee on Banking Supervision, as modified from time to time; and

(5) If the Commission approves the request of the broker or dealer, in its initial application or in an amendment, after reviewing the methodology of the computation, the holding company may compute a capital assessment consistent with standards promulgated by the Basel Committee on Banking Supervision (as modified from time to time) that it is required to submit to a financial regulator or supervisor in lieu of the computations described in paragraphs (a)(1) through (a)(4) of this Appendix G.

#### *Conditions Regarding Reporting Requirements*

(b) 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 file the following reports with the Commission:

(1) A monthly report as of the end of the month, filed not later than 17 business days after the end of each month that does not end a quarter, which shall include:

(i) A consolidated balance sheet and income statement (including notes to the financial statements) for the holding company and computations of allowable capital and allowances for market, credit, and operational risk computed pursuant to paragraph (a) of this Appendix G;

(ii) A graph reflecting, for each business line, the daily intra-month VaR;

(iii) Consolidated credit risk information, including aggregate current exposure and current exposures (including commitments) listed by counterparty for:

(A) The 15 largest exposures; and

(B) The 5 largest exposures to regulated financial institutions;

(iv) The 10 largest commitments listed by counterparty;

(v) Maximum potential exposure listed by counterparty for:

(A) The 15 largest exposures; and

(B) The 5 largest exposures to regulated financial institutions;

(vi) The aggregate maximum potential exposure;

(vii) A summary report reflecting the geographic distribution of the holding company's exposures on a consolidated basis for each of the top ten countries to which it is exposed (by residence of the main operating group of the counterparty); and

(viii) Certain regular risk reports provided to the persons responsible for managing group-wide risk as the Commission may request from time to time;

(2) A quarterly report as of the end of the quarter, which may be unaudited, not later than 35 calendar days after the end of each calendar quarter, which shall include:

(i) The information that the holding company files monthly pursuant to paragraph (b)(1) of this Appendix G;

(ii) A consolidating balance sheet and income statement (including notes to the financial statements). The consolidating balance sheet must provide information regarding each material affiliate of the holding company in a separate column, but may aggregate information regarding members of the affiliate group that are not material affiliates into one column;

(iii) The results of backtesting of all internal models used to compute allowable capital and allowances for market and credit risk indicating, for each model, the number of backtesting exceptions;

(iv) A description of all material pending legal or arbitration proceedings, involving either the holding company or any of its affiliates, that are required to be disclosed by the holding company under generally accepted accounting principles;

(v) The aggregate amount of commercial paper, secured and other unsecured borrowing, bank loans, lines of credit, or any other borrowings, and the principal installments of long-term or medium-term debt, scheduled to mature within twelve months from the most recent fiscal quarter by each subsidiary broker or dealer and each material affiliate; and

(vi) A capital assessment computed pursuant to paragraph (a) of this Appendix G;

(3) Upon receiving written notice from the Commission, such other financial or operational information as the Commission may request in order to monitor the holding company's financial condition or risk exposures;

(4) Annually, on a calendar or fiscal year basis, financial statements which must be audited by a registered public

accounting firm, as that term is defined in Section 2(a)(12) of the Sarbanes-Oxley Act of 2002 (Pub. L. 107–204), in accordance with the following:

(i) The audited financial statements must include a consolidated balance sheet, income statement, and computations of allowable capital and allowances for market, credit, and operational risk computed pursuant to paragraph (a) of this Appendix G; and

(ii) The audited financial statements must meet the substantive and administrative requirements of § 240.17a–12(b)(5), (b)(6), (c)(1), (c)(3), (d), (e)(1), (e)(2), (e)(3), (f), (g), (h), (i), (j), (n), and (o), as to the holding company and the audited financial statements it must file in accordance with this paragraph;

(5) Concurrently with the audited financial statements, supplemental reports prepared by a registered public accounting firm, as that term is defined in Section 2(a)(12) of the Sarbanes-Oxley Act of 2002 (Pub. L. 107–204), in accordance with the following:

(i) The supplemental reports must include:

(A) *Accountant's report on management controls.* A supplemental report by the registered public accounting firm indicating the results of the registered public accounting firm's review of holding company's compliance with § 240.15c3–4. The procedures are to be performed and the report is to be prepared in accordance with procedures agreed to by the holding company and the registered public accounting firm conducting the review; and

(B) *Accountant's report on inventory pricing and modeling.* A supplemental report by the registered public accounting firm indicating the results of the registered public accounting firm's review of the inventory pricing and modeling procedures. This review must be conducted in accordance with procedures agreed to by the holding company and the registered public accounting firm conducting the review. The purpose of the review is to confirm that the pricing and modeling procedures relied upon by the holding company conform to the procedures submitted to the Commission as part of the application of the broker or dealer, comply with written guidelines pursuant to § 240.15c3–4, and comply with the qualitative and quantitative standards of § 240.15c3e(e);

(ii) The agreed upon procedures are to be performed and the report is to be prepared in accordance with rules promulgated by the Public Company Accounting Oversight Board; and