

understands that failure to comply may result in revocation of the exemption.

6. Section 240.15c3-4 is amended by:

a. Revising the section heading;

b. In paragraph (a) and the introductory text of paragraph (b), revising the phrase "An OTC derivatives dealer" to read "A broker or dealer that computes certain of its capital charges in accordance with § 240.15c3-1e or § 240.15c3-1f";

c. Revising the introductory text of paragraphs (c) and (d) and paragraphs (b)(5), (c)(5)(xiii) and (xiv), (d)(1), (d)(8), and (d)(9);

d. Adding paragraph (c)(5)(xv);

e. Revising the phrase "OTC derivatives dealer" to read "broker or dealer" in paragraphs (b)(1), (b)(2), (b)(3), (c)(2), (c)(5)(xii), and (d)(7);

f. Revising the phrase "OTC derivatives dealer's" to read "broker's or dealer's" in paragraph (c)(3), the introductory text of paragraph (c)(5), paragraphs (c)(5)(i), (c)(5)(iii), and the introductory text of paragraph (d)(3);

g. Revising the phrase "an OTC derivatives transaction" to read "a securities transaction" in paragraph (d)(5); and

h. Revising the phrase "OTC derivatives" to read "securities" in paragraphs (c)(5)(x), (c)(5)(xi), and (d)(10).

The revisions and additions read as follows:

**§ 240.15c3-4 Internal risk management control systems for certain brokers or dealers.**

\* \* \* \* \*

(b) \* \* \*

(5) For a broker or dealer that computes certain of its capital charges in accordance with § 240.15c3-1e, the scope and nature of the permissible OTC derivatives activities.

\* \* \* \* \*

(c) The internal risk management control system of the broker or dealer that computes certain of its capital charges in accordance with § 240.15c3-1e or § 240.15c3-1f shall include the following elements:

\* \* \* \* \*

(5) \* \* \*

(xiii) For a broker or dealer that computes certain of its capital charges in accordance with § 240.15c3-1e, the procedures to prevent the broker or dealer from engaging in any securities transaction that is not permitted under § 240.15a-1;

(xiv) For a broker or dealer that computes certain of its capital charges in accordance with § 240.15c3-1e, the procedures to prevent the broker or dealer from improperly relying on the exceptions to § 240.15a-1(c) and

§ 240.15a-1(d), including the procedures to determine whether a counterparty is acting in the capacity of principal or agent; and

(xv) The procedures for reviewing the pricing of positions independent of the business unit.

\* \* \* \* \*

(d) Management must periodically review, in accordance with written procedures, the business activities of the broker or dealer that computes certain of its capital charges in accordance with § 240.15c3-1e or 240.15c3-1f:

(1) Risks arising from the broker's or dealer's trading activities are consistent with prescribed guidelines;

\* \* \* \* \*

(8) For a broker or dealer that computes certain of its capital charges in accordance with § 240.15c3-1e, procedures are in place to prevent the broker or dealer from engaging in any securities transaction that is not permitted under § 240.15a-1;

(9) For a broker or dealer that computes certain of its capital charges in accordance with § 240.15c3-1e, procedures are in place to prevent the broker or dealer from improperly relying on the exceptions to § 240.15a-1(c) and § 240.15a-1(d), including the procedures to determine whether a counterparty is acting in the capacity of principal or agent;

\* \* \* \* \*

7. Section 240.17a-5 is amended by:

a. Redesignating paragraph (a)(5) as paragraph (a)(6), and adding new paragraph (a)(5); and

b. Redesignating paragraphs (k), (l), (m), (n), and (o) as paragraphs (l), (m), (n), (o), and (p) and adding new paragraph (k).

The additions read as follows:

**§ 240.17a-5 Reports to be made by certain brokers and dealers.**

(a) *Filing of monthly and quarterly reports.* \* \* \*

(5) Each broker or dealer that computes certain of its capital charges in accordance with § 240.15c3-1e must file the following additional reports:

(i) Within 17 business days after the end of each month that is not a quarter, as of month-end:

(A) For each product for which the broker or dealer calculates a market risk capital charge other than in accordance with § 240.15c3-1e(c)(1) or (c)(5), the product category and the amount of the market risk capital charge;

(B) A graph reflecting, for each business line, the daily intramonth VaR;

(C) The aggregate value at risk for the broker or dealer;

(D) For each product for which the broker or dealer uses scenario analysis,

the product category and the market risk capital charge;

(E) Credit risk information on derivatives exposures, including:

(1) Overall current exposure;

(2) Current exposure (including commitments) listed by counterparty for:

(i) The 15 largest exposures; and

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

(3) The 10 largest commitments listed by counterparty;

(4) The broker or dealer's maximum potential exposure listed by counterparty for:

(i) The 15 largest exposures; and

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

(5) The broker or dealer's aggregate maximum potential exposure;

(6) A summary report reflecting the broker or dealer's current and maximum potential exposures by credit rating category; and

(7) A summary report reflecting the broker or dealer's current exposure for each of the top ten countries to which the broker or dealer is exposed (by residence of the main operating group of the counterparty); and

(F) Regular risk reports supplied to the broker's or dealer's senior management in the format described in the application;

(ii) Within 17 business days after the end of each quarter:

(A) Each of the reports required to be filed in paragraph (a)(5)(i) of this section;

(B) A report identifying the number of business days for which the actual daily net trading loss exceeded the corresponding daily VaR; and

(C) The results of backtesting of all internal models used to compute allowable capital, including VaR and credit risk models, indicating the number of backtesting exceptions.

\* \* \* \* \*

(k) *Supplemental reports.* Each broker or dealer that computes certain of its capital charges in accordance with § 240.15c3-1e shall file concurrently with the annual audit report supplemental reports, which shall be prepared by a registered public accounting firm (as that term is defined in section 2(a)(12) of the Sarbanes-Oxley Act of 2002 (Public Law 107-204)), in accordance with the following:

(1) *Accountant's report on management controls.* The broker or dealer shall file a supplemental report indicating the results of the accountant's review of the internal risk management control system established and documented by the broker or dealer in