

accordance with § 240.15c3-4. This review shall be conducted in accordance with procedures agreed to by the broker or dealer and the registered public accounting firm conducting the review. The purpose of the review is to confirm that the broker or dealer has established, documented, and is in compliance with the internal risk management controls established in accordance with § 240.15c3-4;

(2) *Accountant's report on inventory pricing and modeling.* The broker or dealer shall file a supplemental report indicating the results of the accountant's review of the procedures for pricing financial instrument inventory (including modeling procedures) established by the broker or dealer and approved for use by the Commission. This review shall be conducted in accordance with procedures agreed to by the broker or dealer and the registered public accounting firm conducting the review. The purpose of the review is to confirm that the financial instrument pricing procedures relied upon by the broker or dealer conform to the procedures established by the broker or dealer pursuant to § 240.15c3-4 and comply with the qualitative and quantitative standards set forth in § 240.15c3-1e(e); and

(3) The broker or dealer shall file, prior to the commencement of the review and no later than December 10 of each year, a statement with the Commission's principal office in Washington, DC that includes:

(i) A description of the agreed-upon procedures agreed to by the broker or dealer and the registered public accounting firm (pursuant to paragraphs (l)(1) and (l)(2) of this section); and

(ii) A notice describing changes in those agreed-upon procedures, if any. If

there are no changes, the broker or dealer should so indicate.

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8. Section § 240.17a-11 is amended by:

a. 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" in paragraphs (b)(2) and (c)(3); and

b. Adding paragraph (j);

The addition reads as follows:

§ 240.17a-11 Notification procedures for brokers and dealers.

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(j) A broker or dealer that computes certain of its capital charges in accordance with § 240.15c3-1e shall also give notice that same day in accordance with paragraph (g) of this section whenever:

(1) The broker or dealer is notified by an NRSRO or otherwise becomes aware that an NRSRO has determined to reduce its assessment of the creditworthiness of the broker or dealer or of an affiliate of the holding company of the broker or dealer, or has determined to reduce the credit rating(s) assigned to one or more outstanding short or long-term obligations of the broker or dealer or an affiliate of the holding company of the broker or dealer;

(2) The broker or dealer becomes subject to any supervisory agreement, order, resolution, or other notice of non-compliance from, or report of an instance of non-compliance, issued by an appropriate regulatory agency or self-regulatory organization;

(3) The broker or dealer becomes aware of a situation that may have a material adverse effect on the financial or operational condition of the holding

company of the broker or dealer or an affiliate of the holding company of the broker or dealer; or

(4) The occurrence of any backtesting exception under § 240.15c3-1e(e)(1)(iii) or (iv) that would require that the broker or dealer use a higher multiplication factor in the calculation of its market or credit risk capital charges.

9. Section 240.17h-1T is amended by:

a. Redesignating paragraph (d)(4) as paragraph (d)(5); and

b. Adding new paragraph (d)(4).

The addition reads as follows:

§ 240.17h-1T Risk assessment recordkeeping requirements for associated persons of brokers and dealers.

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(d) *Exemptions.* * * *

(4) The provisions of this section shall not apply to a broker or dealer that computes certain of its capital charges in accordance with § 240.15c3-1e.

10. Section 240.17h-2T is amended by:

a. Redesignating paragraph (b)(4) as paragraph (b)(5); and

b. Adding new paragraph (b)(4).

The addition reads as follows:

§ 240.17h-2T Risk assessment reporting requirements for brokers and dealers.

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(b) *Exemptions.* * * *

(4) The provisions of this section shall not apply to a broker or dealer that computes certain of its capital charges in accordance with § 240.15c3-1e.

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Dated: October 24, 2003.

By the Commission.

Margaret H. McFarland,

Deputy Secretary.

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