

alternative capital assessments made in accordance with proposed Rule 17i-7;

- A list of the positions held by the affiliate group in its proprietary accounts and the methods the IBHC intends to use for computing allowances for market risk and credit risk on those positions;

- A detailed description of the mathematical models the IBHC intends to use to calculate market and credit risk;

- A description of how the IBHC proposes to calculate current exposure;

- A description of how the IBHC proposes to determine credit risk weights;

- A description of the method the IBHC proposes to use to calculate its allowance for operational risk;

- A description of the internal risk management control system established by the IBHC to manage the risks of the affiliate group and how that system satisfies the requirements of proposed Rule 17i-4;

- Sample risk reports that the holding company provides to the persons responsible for managing the risks of the affiliate group; and

- An undertaking providing that the SIBHC will cooperate with the Commission as necessary if the disclosure of any information with regard to Rules 17i-1 through 17i-8 would be prohibited by law or otherwise and that the SIBHC will obtain, for any non-U.S. affiliate, consent to the jurisdiction of the Commission and an agreement to maintain a U.S. registered agent.

Because each firm manages its internal risks differently, the Commission, in its review of the Notice of Intention, would use the information and documents provided with the Notice of Intention to assess each firm's business, financial condition, and internal risk management control systems. We have successfully used similar information in the past to evaluate and monitor risks to broker-dealers. In addition to the information and documentation described in the proposed rules, the IBHC would be required to furnish such other information and documents, including documents relating to its financial position, internal controls, and mathematical models, as the Commission may request to complete its review of the Notice of Intention. A Notice of Intention would not be complete until the IBHC has provided to the Commission all the information and documentation specified in the Rule and requested by the Commission.

Further, depending on the relationship or the geographic location

of the SIBHC and its affiliates, the Commission could require that an SIBHC obtain additional agreements that may be necessary for the Commission to adequately assess any risks that affiliate may pose to the SIBHC and its subsidiary broker-dealers. For example, the Commission may have a greater concern regarding access to information if a broker-dealer's affiliate operates in a jurisdiction that limits the exchange of information through bank secrecy laws or other impediments. Paragraph (b)(xiv) of proposed Rule 17i-2 would address this issue by requiring that an SIBHC provide the Commission with an undertaking indicating that it agrees to cooperate with the Commission as needed, including by describing any secrecy laws or other impediments that could restrict the ability of the SIBHC to provide information on the operations or activities of the SIBHC. If any material impediments exist, we would require the SIBHC to describe the manner in which it proposes to provide the Commission with adequate assurances of access to information.

Pursuant to paragraph (c) of proposed Rule 17i-2, IBHCs and SIBHCs would have a continuing requirement to amend their Notices of Intention. If any of the information or documentation filed with the Commission as part of the Notice of Intention is found to be or becomes inaccurate prior to a Commission determination, the IBHC would be required to notify the Commission and provide the Commission with a description of the circumstances in which the information or documentation was found to be or became inaccurate along with updated, accurate information and documents. Whereas after a Commission determination, if an SIBHC materially changes a mathematical model or other method used to compute allowable capital or allowance for market, credit, or operational risk, or its internal risk management control systems as described in its Notice of Intention, prior to making the changes the SIBHC would be required to file an amended Notice of Intention describing the changes.

We request comment as to whether the information and documents required to be included in the Notice of Intention pursuant to paragraph (b) of proposed Rule 17i-2 are appropriate, or whether the Commission should receive other financial, operational, or other types of information. If so, please indicate what additional information or documentation the Commission should require, and how the additional information and documents may assist

the Commission in evaluating the financial and operational position of an IBHC.

3. Process for Review of Notice of Intention

Pursuant to paragraph (d)(2) of proposed Rule 17i-2, an IBHC would become an SIBHC subject to Commission supervision pursuant to Section 17(i) of the Exchange Act 45 calendar days after the Commission receives a completed Notice of Intention,³⁹ unless the Commission issues an order determining either that (i) the Commission will begin to supervise the IBHC as an SIBHC prior to 45 calendar days after the Commission received the completed Notice of Intention to become supervised; or (ii) the Commission will not supervise the IBHC because supervision of the entity as an SIBHC is not necessary or appropriate in furtherance of the purposes of Section 17 of the Exchange Act.⁴⁰

The Commission may begin supervising the IBHC as an SIBHC "[u]nless the Commission finds that such supervision is not necessary or appropriate in furtherance of the purposes" of Section 17.⁴¹ The purposes of Section 17 are quite broad. Section 17 generally permits the Commission to carry out its regulatory oversight responsibilities regarding broker-dealers by establishing rules related to recordkeeping, reporting, and examination. In addition, Section 17(h) provides the Commission authority to require that a broker-dealer obtain information and make and keep such records and reports regarding the broker-dealer's affiliates and the financial and securities activities, capital and funding of certain of those affiliates⁴² as the Commission prescribes to assess the financial and operational risks to a broker-dealer from those affiliates.

We believe that, consistent with the purposes of Section 17, the Commission's supervision of an IBHC as an SIBHC may be necessary and appropriate only when the IBHC is affiliated with a broker-dealer that has a

³⁹ Pursuant to paragraph (d)(1) of proposed Rule 17i-2, a Notice of Intention to be supervised by the Commission as an SIBHC would not be complete until the IBHC had filed all the documentation and information required pursuant to paragraphs (a) through (c) of that proposed Rule with the Commission.

⁴⁰ Exchange Act § 17(i)(1)(B) [15 U.S.C. 78q(i)(1)(B)].

⁴¹ 15 U.S.C. 17(i)(1)(B).

⁴² Those affiliates would include affiliates whose business activities are reasonably likely to have a "material impact" on the financial or operational condition of the broker-dealer.