

We request comment as to whether this time period is appropriate for SIBHCs.

We request comment as to whether any additional information should be included in the quarterly reports to be filed with the Commission. We also request comment on whether the quarterly reporting requirement should be modified for an SIBHC (or member of the affiliate group) required to file information, documents, and reports pursuant to §§ 13(a) or 15(d) of the Exchange Act and, if so, how they should be modified.

3. Additional Reports

Paragraph (b) of proposed Rule 17i-6 would provide that, in addition to the monthly and quarterly reports specified in the proposed Rule, an SIBHC may be required, upon receiving written notice from the Commission, to provide the Commission with additional financial or operational information. As specified in the proposed Rule, the Commission may request additional reports in order to monitor the SIBHC's financial or operational condition, risk management system, any transactions and relationships among members of the affiliate group, and the extent to which the SIBHC has complied with the provisions of the Exchange Act and regulations and orders issued under the Exchange Act. This will allow the Commission the flexibility to obtain information, for instance, to more closely monitor the financial and operational condition of an SIBHC during periods of market stress.

In addition, if a broker-dealer affiliated with the SIBHC or the SIBHC were to file notice (pursuant to Rule 17a-11 or proposed Rule 17i-8, respectively), the Commission would be able to request additional reports from the SIBHC to fully assess the situation giving rise to the filing of the notice.

We request comment on our proposal to require that an SIBHC file such additional reports as the Commission may request.

4. Annual Audit Report

Pursuant to paragraph (c)(1) of proposed paragraph 17i-6, the SIBHC would be required to file an annual audit report containing consolidated financial statements. Paragraphs (c)(2) and (c)(3) of proposed Rule 17i-6 would require that the annual audit report be "as of" the same date as, and filed with the Commission concurrently with, the annual audit report of the SIBHC's subsidiary broker-dealers.

Paragraphs (d), (e), (f), (g), (h), (i), (j), (k), (l), and (m) of proposed Rule 17i-6 are based on existing Rules 17a-5 and 17a-12 regarding (i) the nature and form

or reports, (ii) accountants, (iii) audit objectives, (iv) the extent and timing of audit procedures, (v) the accountant's report, (vi) supplemental reports, (vii) notification of a change in fiscal year, (viii) extensions and exemptions, (ix) how the reports should be filed, and (x) confidentiality.

Paragraph (e) would require that the audit and supplemental reports be prepared by an accountant that is a "registered public accounting firm" as that term is defined in the Sarbanes-Oxley Act of 2002.⁶² We are proposing that the review be conducted by a registered public accounting firm because such firms would be subject to PCAOB rules, examination, and discipline.

We believe the requirements set forth in proposed Rule 17i-6 are necessary to keep the Commission informed as to the SIBHC's activities, financial condition, policies, systems for monitoring and controlling financial and operational risks, and transactions and relationships between any broker or dealer affiliate of the SIBHC and the extent to which the SIBHC has complied with the provisions of the Act and the regulations prescribed and orders issued under the Act. In addition, paragraph (k) of proposed Rule 17i-6 regarding extensions and exemptions would provide the Commission with flexibility to address firm-specific issues as they arise. Finally, we believe it is important to accord confidential treatment to the reports and statements filed pursuant to proposed Rule 17i-6, as specified in paragraph (m), because these reports would include information that generally would be non-public and highly sensitive.

We request comment on the proposed timing of the annual audit reports and whether any additional information should be included in that report. We also request comment on whether the annual audit requirements should be modified for an SIBHC (or member of the affiliate group) required to file information, documents, and reports pursuant to sections 13(a) or 15(d) of the Exchange Act and, if so, how they should be modified. In addition, we request comment as to whether the Commission should accord confidential treatment to the reports filed with the Commission by the SIBHC pursuant to proposed Rule 17i-6.

We also request comment on our proposal to require that an SIBHC use a

registered public accounting firm to perform its annual audit.

5. Accountant's Report on Management Controls—Paragraph (i)(2) of Proposed Rule 17i-6 and Amendment to Paragraph (l) of Existing Rule 17a-12

Paragraph (i)(2) of proposed Rule 17i-6 would require that the SIBHC submit a supplemental report, prepared by the accountant, regarding the accountant's review of the internal risk management control system established and documented in accordance with proposed Rule 17i-4. This review would have to be accomplished using procedures agreed-upon by the accountant and the SIBHC. The Rule also specifies that the agreed-upon procedures would be required to be performed and the report to be prepared in accordance with the rules promulgated by the PCAOB. Pursuant to paragraph (i)(4) of proposed Rule 17i-6, the SIBHC would be required to submit the agreed-upon procedures to the Commission prior to the review.

Paragraph (i)(4) of proposed Rule 17i-6 differs from present Rule 17a-12(l), which requires that an accountant provide an opinion regarding an OTC derivatives dealer's compliance with its internal risk management control system. Auditors of OTC derivatives dealers have stated that the lack of standards for evaluating compliance with internal risk management control systems prevents them from issuing an opinion. For this reason, the Commission is proposing to amend present Rule 17a-12(l) so that, similar to the requirements of paragraph (i)(2) of proposed Rule 17i-6, an OTC derivatives dealer would be required to submit a supplemental report, prepared by the accountant using agreed-upon procedures, regarding the accountant's review of the internal risk management control system established and documented in accordance with Rule 15c3-4.

Paragraph (i)(2) of proposed Rule 17i-6 and this proposed amendment to Rule 17a-12(l) would allow an accountant to review an SIBHC's or OTC derivatives dealer's internal risk management control systems and provide a report regarding whether the risk management control systems comply with the requirements of proposed Rule 17i-4 or Rule 15c3-4, respectively, and that the SIBHC or OTC derivatives dealer is, in fact, following its risk management system.

We request comment as to whether the proposed amendment to Rule 17a-12(l) would adequately resolve the lack of standards for conducting an audit of a firm's internal risk management

⁶² 15 U.S.C. 7201(a)(12). The term "registered public accounting firm" means a public accounting firm registered with the Public Company Accounting Oversight Board ("PCAOB") in accordance with the Sarbanes-Oxley Act of 2002.