

If additional, specific disclosure is warranted, commenters are asked to address where that disclosure should be made as well as whether disclosures should be made on a quarterly, annual, or other periodic basis. In addition, we request comment on whether additional required disclosures should depend on whether a firm is privately held or is a public reporting company.

We also request comment on whether the regulatory regime outlined in this proposal together with existing Commission regulation of broker-dealers would meet the requirements of the first and second pillars of the proposed *New Basel Capital Accord* or whether changes or enhancements should be made.

We request comment on whether, if the proposed *New Basel Capital Accord* is adopted, there should be a transition period before the Commission requires its use by SIBHCs.

#### *I. Proposed Rule 17i-8: Notification Requirements for SIBHCs*

A broker-dealer that is part of a large holding company structure may be vulnerable to increased risks from the activities of its affiliates and may face difficulty in continuing its operations if a major affiliate ceased operations or encountered financial difficulties. Proposed Rule 17i-8 would require the SIBHC to notify the Commission upon the occurrence of certain events. The proposed early warning system is designed to provide the Commission with information so that it can identify these potential risks to the broker-dealer and its customers.

Paragraph (a) of proposed Rule 17i-8 would require the SIBHC to immediately notify the Commission upon the occurrence of certain events. These events include (i) the occurrence of certain backtesting exceptions; (ii) the SIBHC's computation reflects that consolidated allowable capital is less than 110% of the sum of consolidated allowances for market, credit and operational risk; (iii) an affiliate declares bankruptcy or otherwise becomes insolvent; (iv) the SIBHC becomes aware that a credit rating agency intends to decrease its evaluation of the creditworthiness of an affiliate or the credit rating assigned to one or more outstanding short or long-term obligations of an affiliate; (v) the SIBHC becomes aware that a financial regulatory agency or self-regulatory organization has taken certain regulatory actions against an affiliate; or (vi) the SIBHC becomes ineligible to be supervised by the Commission as a SIBHC (e.g., the SIBHC purchases an insured bank, or the SIBHC's affiliated

broker-dealer's tentative net capital falls below \$100 million).<sup>93</sup> We believe that these events would indicate a decline in the financial and operational well-being of the firm. Were an SIBHC to file a notification as required by proposed Rule 17i-8, the Commission may be prompted to request additional reports, as contemplated by proposed Rule 17i-6(b), and otherwise begin to monitor the firm's condition more closely.

In addition, proposed Rule 17i-8 would require that an SIBHC notify the Commission if there were a material change (along with a description of that change) in the ownership or organization of the affiliate group, the status of any affiliate that is material, or the major business functions of any material affiliate.<sup>94</sup>

Paragraph (c) of proposed Rule 17i-8 would specify the manner in which these notices and reports should be provided to the Commission. In addition, paragraph (c) of proposed Rule 17i-8 would specify that the notices and reports filed with the Commission pursuant to Rule 17i-8 would be accorded confidential treatment. We believe it is important to accord confidential treatment to the notices and reports an SIBHC would be required provide pursuant to proposed Rule 17i-8 because the information contained in those notices and reports would generally be highly sensitive, non-public business information.

We believe the requirements set forth in proposed Rule 17i-8 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.

We request comment on all aspects of these notification requirements. In addition, we request comment as to whether the events that would trigger the notification requirement are appropriate, and whether other triggering events should be included.

#### **III. General Request for Comment Regarding Proposed Rules**

The Commission solicits comment on its proposal to supervise IBHCs as SIBHCs. The Commission solicits comments on whether this proposal would provide adequate Commission oversight on a group-wide basis of

IBHCs that file a Notice of Intent to become supervised by the Commission as an SIBHCs.

We note that on September 12, 2003, the Federal Reserve Board, the Office of the Comptroller of the Currency, the Office of Thrift Supervision, and the Federal Deposit Insurance Commission requested public comment on an interim final rule and a notice of proposed rulemaking to amend their risk-based capital standards for the treatment of assets in asset-backed commercial paper programs consolidated under the recently issued Financial Accounting Standards Board Interpretation No. 46, Consolidation of Variable Interest Entities.<sup>95</sup> The rule would also modify the risk-based capital treatment of certain securitizations with early amortization provisions. In addition, the treatment of securitization exposures is discussed in the banking agencies Advanced Notice of Proposed Rulemaking on the proposed *New Basel Capital Accord*.<sup>96</sup>

Should the Commission consider any modifications to the calculations of allowances for market and credit risk for asset-backed securitization programs as contemplated by proposed Rule 17i-7? If so, how and why should the Commission modify these calculations for asset-backed securitization programs? Should the Commission consider any other issues related to the capital treatment of securitization exposures?

Commenters may also wish to discuss whether the Commission should consider a different approach, and if so, what that approach should be.

Commenters should provide empirical data to support their views. Comments should be submitted by February 4, 2004.

#### **IV. Paperwork Reduction Act**

Certain provisions of proposed new Rules 17i-1 through 17i-8 and the amendments to Rules 17h1-T and 17h-2T contain "collection of information" requirements within the meaning of the Paperwork Reduction Act of 1995.<sup>97</sup> The Commission has submitted them to the Office of Management and Budget ("OMB") for review in accordance with 44 U.S.C. 3507(d) and 5 C.F.R. 1320.11. The titles for the collections of information are (i) Rules 17h-1T and

<sup>95</sup> See *Risk-Based Capital Guidelines; Capital Adequacy Guidelines; Capital Maintenance: Asset-Backed Commercial Paper Programs and Early Amortization Provisions*, 68 FR 56568 (Oct. 1, 2003).

<sup>96</sup> See *Risk-Based Capital Guidelines; Implementation of New Basel Capital Accord*, 68 FR 45900 (August 4, 2003), beginning at 45932.

<sup>97</sup> 44 U.S.C. 3501, *et seq.*

<sup>93</sup> See paragraph (a) of proposed Rule 17i-8.

<sup>94</sup> See paragraph (b) of proposed Rule 17i-8.