

17h-2T Risk Assessment Rules; (ii) Rule 17i-2 Notice of Intention to be Supervised by the Commission as a Supervised Investment Bank Holding Company; (iii) Rule 17i-3 Withdrawal from Supervision as an Supervised Investment Bank Holding Company; (iv) Rule 17i-4 Internal Risk Management Control Systems Requirements for Supervised Investment Bank Holding Companies; (v) Rule 17i-5 Record Creation, Maintenance, and Access Requirements for Supervised Investment Bank Holding Companies; (vi) Rule 17i-6 Reporting Requirements for Supervised Investment Bank Holding Companies; and (vii) Rule 17i-8 Notification Requirements for Supervised Investment Bank Holding Companies. An agency may not conduct or sponsor, and a person is not required to comply with, a collection of information unless it displays a currently valid OMB control number.

*A. Collection of Information Under the Amendments to Rules 17h-1T and 17h-2T and New Rules 17i-1 Through 17i-8*

Proposed Rule 17i-1 through 17i-8 would create a framework for Commission supervision of SIBHCs. The collections of information included in these proposed rules are necessary to allow the Commission to effectively determine whether SIBHC supervision is necessary or appropriate in furtherance of the purposes of § 17 of the Act and allow the Commission to supervise the activities of these SIBHCs. These rules also would enhance the Commission's supervision of the SIBHCs' subsidiary broker-dealers through collection of additional information and inspections of affiliates of those broker-dealers. Regulatory oversight pursuant to this system is voluntary, and eligible IBHCs would not be required to be supervised in this manner. This framework would include procedures through which an IBHC could file a Notice of Intention to become supervised by the Commission as an SIBHC, as well as recordkeeping and reporting requirements for SIBHCs.

The amendments to Rules 17h-1T and 17h-2T<sup>98</sup> would exempt broker-dealers that are affiliated with an SIBHC from those rules and thus reduce their "collection of information" requirements. This exemption is designed to eliminate duplicative recordkeeping and reporting requirements.

<sup>98</sup> See *supra*, note 64.

*B. Proposed Use of Information*

The Commission would use the information collected under the proposed new Rules to determine whether SIBHC supervision is necessary or appropriate in furtherance of the purposes of § 17 of the Act and to monitor the financial condition, risk management, and activities of SIBHCs on a group-wide basis. In particular, it would allow the Commission access to important information regarding activities of a broker-dealer's affiliates that could impair the financial and operational stability of the broker-dealer or the SIBHC.

*C. Respondents*

An IBHC can file a Notice of Intention to be supervised by the Commission as an SIBHC only if it: (1) Has a subsidiary broker or dealer that can evidence that it has a substantial presence in the securities business; and (2) is not (i) affiliated with an insured bank (with certain exceptions) or a savings association, (ii) a foreign bank, foreign company, or a company that is described in section 8(a) of the International Banking Act of 1978, or (iii) a foreign bank that controls a corporation chartered under section 25A of the Federal Reserve Act.<sup>99</sup> Paragraph (d)(2)(i)(B) of proposed Rule 17i-2 would indicate that the Commission would not consider it to be necessary or appropriate to supervise an IBHC unless it can demonstrate that it owns or controls a broker-dealer that has a substantial presence in the securities business (which may be demonstrated by a showing that the broker-dealer maintains tentative net capital of at least \$100 million).

As of March 31, 2003, approximately 100 registered broker-dealers reported their tentative net capital as being between \$100 million and \$1 billion.<sup>100</sup> Many of these broker-dealers are affiliated with another broker-dealer that reported its tentative net capital as being more than \$100 million.

<sup>99</sup> Federal Reserve Act section 25A [12 U.S.C. 611].

<sup>100</sup> Per March 31, 2003, FOCUS Report filings. Broker-dealers are required to file monthly and/or quarterly reports on Form X-17A-5 pursuant to Rule 17a-5(a) (17 CFR 240.17a-5(a)), commonly referred to as FOCUS Reports. In addition, see *supra*, note, wherein we propose rules and rule amendments that would allow a holding company that owns or controls a broker-dealer that maintains more than \$1 billion in tentative net capital. The supervisory framework provided by those proposed rules and rule amendments would allow the broker-dealers of those entities to calculate market and credit risk capital charges using mathematical modeling techniques, thus we believe those firms will elect that supervisory framework and will not elect to be supervised pursuant to these proposed new rules.

Approximately 35 could not be supervised by the Commission as an SIBHC due to the fact that each is either: (i) affiliated with an insured bank (with certain exceptions) or a savings association,<sup>101</sup> (ii) a foreign bank, foreign company, or a company that is described in section 8(a) of the International Banking Act of 1978, or (iii) a foreign bank that controls a corporation chartered under section 25A of the Federal Reserve Act.<sup>102</sup> In addition, some broker-dealers may not be active in jurisdictions that require securities firms to demonstrate that they have consolidated supervision at the holding company level that is equivalent to EU consolidated supervision, or may not find it to be cost-effective to register as an SIBHC for other reasons. Thus, the Commission estimates that six IBHCs will file notices of intent to be supervised by the Commission as SIBHCs.

*D. Reporting and Recordkeeping Burdens*

*1. Amendments to Rules 17h-1T and 17h-2T*

The amendments to Rules 17h-1T and 17h-2T<sup>103</sup> would exempt broker-dealers that are affiliated with an SIBHC from those rules and thus reduce their "collection of information" requirements. Rule 17h-1T requires that a broker-dealer maintain and preserve records and other information concerning the broker-dealer's holding companies, affiliates, or subsidiaries that are likely to have a material impact on the financial or operational condition of the broker-dealer. Rule 17h-2T requires broker-dealers to file with the Commission quarterly reports concerning the information required to be maintained and preserved under Rule 17h-1T. The present PRA burden for broker-dealers that are presently reporting pursuant to Rules 17h-1T and 17h-2T is 24 hours per year for each broker-dealer respondent. The estimated six firms therefore would have their annual burden reduced by an aggregate of 144 hours per year.

*2. Proposed Rule 17i-2*

Proposed Rule 17i-2 would require that an IBHC file a Notice of Intention to become supervised by the Commission as an SIBHC. The Notice of Intention would have to set forth certain information and include a number of documents. The SIBHC would also have

<sup>101</sup> See Exchange Act section 17(i)(1)(A)(i) [15 U.S.C. 78q(i)(1)(A)(i)].

<sup>102</sup> Federal Reserve Act section 25A [12 U.S.C. 611].

<sup>103</sup> See *supra*, note 64.