

Further, the time burden relating to the annual audit was increased in recognition of the fact that the audit of a holding company is generally more time consuming than the audit of one entity (for both the accountants and the firm employees working with them). However, many of these holding companies are already audited at the holding company level, so, aside from the special supplemental reports, no additional burden should be imposed by proposed Rule 17i-6. We believe that most well-managed SIBHCs already report to their senior management much of the information required to be provided to the Commission pursuant to proposed Rule 17i-6.

7. Proposed Rule 17i-8

Proposed Rule 17i-8 would require SIBHCs to report on the occurrence of certain events that may have a material adverse effect on the SIBHC. The proposed early warning system is modeled after the early warning system used with respect to broker-dealers in Exchange Act Rule 17a-11. Like Exchange Act Rule 17a-11, proposed Rule 17i-8 is designed to give the Commission advance warning of problems that may pose material risks to the financial and operational capability of an SIBHC and its affiliated broker-dealers. The proposed rule would be integral to the supervision of SIBHCs and their affiliated broker-dealers.

We estimate that it would take an SIBHC approximately one hour to create a notice required to be submitted to the Commission pursuant to proposed Rule 17i-8. This estimate is based on our present estimates for Rule 17a-11, which were previously subject to notice and comment and have been approved by OMB. The Commission received 692 Rule 17a-11 Notices from 627 broker-dealers during the year ending December 2001. At that time, there were approximately 7,217 active broker-dealers registered with the Commission.¹¹⁷ Thus, 9% of active, registered broker-dealers had a situation arise which caused them to file a notice pursuant to Rule 17a-11. Using this 9% figure, we estimate that of the approximately six IBHCs that we believe will register to be supervised as SIBHCs, one may be required to file notice pursuant to proposed Rule every other year.¹¹⁸ Thus, we estimate that the

annual burden of proposed Rule 17i-8 for all SIBHCs would be about 30 minutes.

E. Collection of Information Is Mandatory

The collections of information requirements in proposed new Rules 17i-1 through 17i-8 would be mandatory for every IBHC that files a Notice of Intention to be supervised by the Commission as an SIBHC and every SIBHC that is supervised by the Commission.

F. Confidentiality

The information and documents collected, retained, and/or filed pursuant to Proposed new Rules 17i-1 through 17i-8 would be accorded confidential treatment.

G. Record Retention Period

Proposed Rule 17i-5(b) would require that an IBHC preserve for three years in an easily accessible place information relating to (i) its Notice of Intention; (ii) its group-wide system of internal risk management controls; (iii) the records it is required to make and keep current; (iv) the reports it is required to make; and (v) its calculations of allowable capital and allowances for market, credit, and operational risk.

H. Request for Comments Regarding Paperwork Burden Estimates

Under 44 U.S.C. 3506(c)(2)(B), the Commission solicits comments to evaluate:

- Whether the proposed collection of information is necessary for the proper performance of the functions of the Commission, including whether the information would have practical utility;
- The accuracy of the Commission's estimate of the burden of the proposed collection of information;
- Ways in which we might enhance the quality, utility, and clarity of the information to be collected; and
- Ways in which we might minimize the burden of the collection of information on those required to respond, including through the use of automated collection techniques or other forms of information technology.

Persons wishing to submit comments on the collection of information requirements should address them to The Office of Management and Budget, Room 3208, Attention: Desk Officer for the Securities and Exchange Commission, Office of Information and Regulatory Affairs, New Executive Office Building, Washington, DC 20503; and should also send a copy of their comments to Jonathan G. Katz,

Secretary, Securities and Exchange Commission, 450 Fifth Street, NW., Washington, DC 20549-0609. The submission should reference File No. S7-22-03. OMB is required to make a decision concerning the collection of information between 30 and 60 days after publication of this document in the **Federal Register**; therefore, comments to OMB are best assured of having full effect if OMB receives them within 30 days of this publication.

The Commission has submitted the proposed collections of information to OMB for approval. Requests for the materials submitted to OMB by the Commission with regard to these collections of information should be in writing, refer to File No. S7-22-03, and be submitted to the Securities and Exchange Commission, Records Management, Office of Filings and Information Services, 450 Fifth Street, NW., Washington, DC 20549-0609.

V. Costs and Benefits of the Proposed Rules and Rule Amendments

The Commission has identified certain costs and benefits that would be associated with the proposed framework for supervising SIBHCs. Supervision pursuant to this system is voluntary, and eligible IBHCs would not be required to be supervised in this manner. This framework would include requirements for IBHCs that file Notices of Intention to be supervised by the Commission as SIBHCs, as well as recordkeeping and reporting requirements for SIBHCs, including a requirement that an SIBHC calculate and report a calculation of allowable capital and allowances for market, credit and operational risk.

A. Benefits

There are many quantifiable and non-quantifiable benefits that would be created by these rules. We have attempted to delineate those costs below.

U.S. securities firms that do business in the EU have indicated that they may need to demonstrate that they are subject to consolidated supervision at the holding company level that is "equivalent" to EU consolidated supervision. Generally, EU "consolidated supervision" would take the form of a series of rules, imposed at the holding company level, regarding firms' internal controls, capital adequacy, intra-group transactions, and risk concentration. Without a demonstration of "equivalent" supervision, securities firms located in the EU have stated that they may either be subject to additional capital charges or required to form a sub-holding

¹¹⁷ Of approximately 7,739 broker-dealers registered with the Commission in 2001, approximately 341 were not yet active because their registration was pending SRO approval and approximately 181 were inactive because they had ceased doing a securities business and had filed a Form BDW with the Commission. Of those, 7,217 active, registered broker-dealers, three were registered OTC derivatives dealers.

¹¹⁸ $(6 \text{ SIBHCs} \times 9\%) = 0.54$.