

associated with maintaining its risk management control system each year.<sup>129</sup> Thus, the continuing annual burden would be, in aggregate, approximately \$84,897 for all six SIBHCs.<sup>130</sup>

Pursuant to proposed Rule 17i-5, an SIBHC would be required to create records regarding stress tests and the basis for credit risk weights, and preserve those and other records relating to its business for certain prescribed time periods. We estimate that an SIBHC would incur an annual cost of about \$17,280 to create a record regarding stress tests as required by proposed Rule 17i-5.<sup>131</sup> Further, we estimate that, on average, an SIBHC would incur an annual cost of approximately \$371 to create a record regarding the basis for credit risk weights.<sup>132</sup> These estimates are based on informal discussions with potential respondents. Further, we estimate that, on average, an SIBHC would incur an annual cost of \$1,413 to maintain records pursuant to proposed Rule 17i-

5.<sup>133</sup> Thus, the aggregate annual cost relating to proposed new Rule 17i-5 for all SIBHCs would be approximately \$114,382.<sup>134</sup>

Proposed Rule 17i-6 would require an SIBHC to file certain monthly and quarterly reports with the Commission, as well as an annual audit report. We estimate that the average cost for an SIBHC to prepare and file the monthly reports would be about \$399 per month, and thus approximately \$4,788 per year.<sup>135</sup> We estimate that, on average, an SIBHC would incur a quarterly cost of \$798 to prepare and file the required quarterly reports, and thus would incur an annual cost of \$3,192 to file these reports.<sup>136</sup> Finally, we estimate that, on average, an SIBHC would incur an annual cost of \$9,750 to prepare and file an annual audit.<sup>137</sup> Thus, we estimate that the total cost that, in aggregate, SIBHCs would incur that are associated with proposed Rule 17i-6 would be approximately \$106,385.<sup>138</sup>

<sup>133</sup> We estimate, based on our present estimates for Rule 17a-4, which previously have been subject to notice and comment and have been approved by OMB, that an SIBHC will spend about 24 hours per year to maintain records as required pursuant to proposed Rule 17i-5. The staff believes that an SIBHC would have a programmer analyst perform this task. According to the SIA's *Report on Management and Professional Earnings in the Securities Industry—2002*, the hourly cost of a programmer analyst is \$58.88.  $(\$58.88 \times 24) = \$1,413.12$ .

<sup>134</sup>  $(\$17,280 + \$370.50 + \$1,413.12) \times 6 \text{ SIBHCs} = \$114,381.72$ .

<sup>135</sup> We estimate that an SIBHC would spend about 8 hours per month and 96 hours per year to prepare and file these monthly reports. We believe that an SIBHC would have a senior accountant prepare and file these reports. According to the SIA's *Report on Management and Professional Earnings in the Securities Industry—2002*, the hourly cost of a senior accountant is \$49.88.  $(\$49.88 \times 8 \text{ hours}) = \$399.04$ .  $(\$399.04 \times 12 \text{ months}) = \$4,788.48$ .

<sup>136</sup> We estimate that an SIBHC would spend about 16 hours per quarter and 64 hours per year to prepare and file these quarterly reports. We believe that an SIBHC would have a senior accountant prepare and file these reports. According to the SIA's *Report on Management and Professional Earnings in the Securities Industry—2002*, the hourly cost of a senior accountant is \$49.88.  $(\$49.88 \times 16 \text{ hours}) = \$798.08$ .  $(\$798.08 \times 4 \text{ quarters}) = \$3,192.32$ .

<sup>137</sup> We estimate that an SIBHC would spend about 200 hours per year to prepare and file an annual audit. We believe that an SIBHC would have a senior internal auditor work with accountants to prepare and file these reports. According to the SIA's *Report on Management and Professional Earnings in the Securities Industry—2002*, the hourly cost of a senior internal auditor is \$48.75.  $(\$48.75 \times 200 \text{ hours}) = \$9,750$ .

<sup>138</sup>  $(\$4,788.48 + \$3,192.32 + \$9,750) \times 6 \text{ SIBHCs} = \$106,385$ . The hourly burden estimates relating to proposed Rule 17i-6 are based on the present estimates for Rule 17a-12, which were previously subject to notice and comment and have been approved by OMB. However, those estimates were reduced somewhat due to the fact that SIBHCs would not be required to create any special report, but instead could provide the required information to the Commission in its existing format.

Proposed Rule 17i-7 would require an SIBHC to calculate the affiliate group's allowable capital and allowances for certain types of risk. Once the appropriate systems and models are in place, we estimate that each SIBHC would incur a cost of about \$52,374 to calculate its group-wide allowances for market, credit, and operational risk.<sup>139</sup> In addition, we estimate that each SIBHC will incur a cost of about \$378,000 to maintain its models.<sup>140</sup> Finally, we estimate that each SIBHC will incur an annual cost of approximately \$24,915 to perform stress tests on its models at least once each quarter.<sup>141</sup> Thus, we estimate that the annual cost that SIBHCs will incur, in aggregate, will be approximately \$2.7 million.<sup>142</sup>

Proposed Rule 17i-8 would require SIBHCs to report to the Commission the occurrence of certain material risks. We estimate that it would cost an SIBHC approximately \$64 to create a notice required to be submitted to the Commission pursuant to Proposed Rule 17i-8.<sup>143</sup> However, we estimate that

<sup>139</sup> We estimate, based on staff experience and discussions with industry participants, that, on average, each SIBHC will take approximately 1,050 hours per year to calculate allowable capital and allowances for market, credit, and operational risk and to verify and review that data. We believe that an SIBHC would have a senior accountant perform these calculations and verifications. According to the SIA's *Report on Management and Professional Earnings in the Securities Industry—2002*, the hourly cost of a senior accountant is \$49.88.  $(\$49.88 \times 1,050 \text{ hours}) = \$52,374$ .

<sup>140</sup> We estimate, based on staff experience and discussions with industry participants, that each SIBHC will spend an average of approximately 5,600 hours per year maintaining its models. We believe that an SIBHC would have a senior programmer and a senior research analyst spend approximately 2,800 hours each maintaining its models. According to the SIA's *Report on Management and Professional Earnings in the Securities Industry—2002*, the hourly cost of a senior programmer is \$63.75 and the hourly cost of a senior research analyst is \$71.25.  $(\$63.75 \times 2,800 \text{ hours}) + (\$71.25 \times 2,800 \text{ hours}) = \$378,000$ .

<sup>141</sup> We estimate, based on staff experience and discussions with industry participants, that each SIBHC will spend about 640 hours each year to conduct stress tests on its models. We believe that an SIBHC would have a junior research analyst conduct stress tests on its models. According to the SIA's *Report on Management and Professional Earnings in the Securities Industry—2002*, the hourly cost of a junior research analyst is \$38.93.  $(\$38.93 \times 640 \text{ hours}) = \$24,915.20$ .

<sup>142</sup>  $(\$52,374 + \$378,000 + \$24,915.20) \times 6 \text{ SIBHCs} = \$2,731,735.20$ .

<sup>143</sup> 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. However, we further estimate that only one SIBHC may be required to submit such notice every other year. We believe that an SIBHC would have an attorney create a notice required to be submitted to the Commission pursuant to proposed Rule 17i-8. According to the SIA's *Report on Management and Professional Earnings in the Securities Industry—2002*, the

Continued

<sup>129</sup> We estimate that it would take each SIBHC 250 hours each year to maintain its internal risk management control system, and that an SIBHC would have a senior compliance person perform that task. According to the SIA's *Report on Management and Professional Earnings in the Securities Industry—2002*, the hourly cost of a senior compliance person is \$56.60.  $(250 \text{ hours} \times \$56.60) = \$14,149.50$ .

The hourly burden estimates are roughly based on the estimates made in the Commission's OTC derivatives dealer releases, through which Rule 15c3-4 was promulgated. Proposed Rule 17i-4 states that an SIBHC must comply with Rule 15c3-4 as if it were a broker-dealer. No comments were received in response to the estimates proposed in the OTC derivatives dealers proposing release, and those burden estimates were not changed in the final rule release. Those estimates were increased to account for the fact that an SIBHC would be designing and implementing a system of internal risk management controls for the affiliate group, and not just for one firm.

<sup>130</sup>  $(\$14,149.50 \times 6 \text{ SIBHCs}) = \$84,897$ .

<sup>131</sup> Based on the staff's experience working with models and dealing with firms that use models through implementation of the OTC derivatives dealers rules, as well as informal discussions with potential respondents, we estimate that an SIBHC would spend approximately 256 hours each year to create a record regarding stress tests. We believe that an SIBHC would have a trading floor supervisor or equivalent create this record. According to the SIA's *Report on Management and Professional Earnings in the Securities Industry—2002*, the hourly cost of a trading floor supervisor is \$67.50.  $(\$67.50 \times 256) = \$17,280$ .

<sup>132</sup> Based on the staff's informal discussions with potential respondents, we estimate that an SIBHC would spend 30 minutes per counterparty to create a record regarding credit risk weights, and that, on average, each SIBHC would initiate relationships with 20 new counterparties each year. We believe that an SIBHC would have an intermediate accountant create this record. According to the SIA's *Report on Management and Professional Earnings in the Securities Industry—2002*, the hourly cost of an intermediate accountant is \$37.05.  $(\$37.05 \times (30 \text{ minutes} \times 20 \text{ counterparties})) = \$370.50$ .