

only one SIBHC may be required to send a notice as required by proposed Rule 17i-8 every other year. Thus, we estimate that the annual cost of proposed Rule 17i-8 for all SIBHCs would be about \$32.¹⁴⁴

2. One-time Costs

We believe that an SIBHC would incur five types of one-time costs associated with becoming an SIBHC: (i) Costs associated with drafting a Notice of Intention to submit to the Commission; (ii) costs associated with assessing its present structure, businesses, and controls, and designing and implementing a risk management control system in order to comply with proposed Rule 17i-4; (iii) costs associated with creating and documenting a contingency plan regarding funding and liquidity of the affiliate group; (iv) costs associated with upgrading the information technology ("IT") systems it uses to manage group-wide risk, make and retain records and reports, and calculate group-wide capital; and (v) costs associated with developing mathematical models to calculate its group-wide allowances for market and credit risk as required by proposed Rule 17i-7.

Proposed Rule 17i-2 would require that an IBHC file a Notice of Intention to become supervised by the Commission that includes certain information and documents. We estimate that each IBHC that files a Notice of Intention to become supervised by the Commission as an SIBHC would incur a cost of approximately \$50,940 to draft a Notice of Intention, compile the various documents to be included with the Notice of Intention, and work with the Commission staff.¹⁴⁵ Further, we believe

hourly cost of an attorney is \$63.75. ($\63.75×1 hour) = \$63.75. The hourly burden estimate for proposed Rule 17i-8 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 that are registered with the Commission. Thus, 9% ($692/7,217$) 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 6 IBHCs that we believe will register to be supervised as SIBHCs, one may be required to file notice pursuant to proposed Rule 17i-8 every other year ($(6 \text{ SIBHCs} \times 9\%) = 0.54$).

¹⁴⁴ ($\$63.75 \times (30 \text{ minutes/one hour})$) = \$31.88.

¹⁴⁵ We estimate that an SIBHC will spend 900 hours to perform this task. Further, we believe that an SIBHC would have a senior compliance person perform this 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. ($\56.60×900 hours) = \$50,940.

that an IBHC would have an attorney review the Notice of Intention, and that it would incur a cost of approximately \$6,375 relating to this review.¹⁴⁶ Consequently, we estimate that the total costs that would be incurred by the six IBHCs we believe will file Notices of Intention to become supervised by the Commission as SIBHCs is about \$343,890.¹⁴⁷

Each SIBHC would incur a one-time cost to assess its present structure, businesses, and controls, and establish, document and maintain a risk management control system in order to comply with proposed Rule 17i-4. We estimate that the one-time cost for an SIBHC to assess its present structure, businesses, and controls, and establish, document and maintain a risk management control system will cost approximately \$203,760.¹⁴⁸ Thus, we anticipate the total aggregate cost for all SIBHCs would be about \$1.2 million.¹⁴⁹

Pursuant to proposed Rule 17i-5, an SIBHC would be required to document a contingency plan regarding funding

¹⁴⁶ We believe that an SIBHC will have an attorney review the Notice of Intention and that it would take an attorney 100 hours to complete this review. According to SIA's *Report on Management and Professional Earnings in the Securities Industry—2002*, the hourly cost of an attorney is \$63.75. ($\63.75×100 hours) = \$6,375.

¹⁴⁷ ($\$50,940 + \$6,375$) $\times 6$ SIBHCs = \$343,890. The hourly burden estimates used to derive these cost estimates are based on the estimates made in the Commission's OTC derivatives dealer releases, which contained a similar requirement. 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. We adjusted those estimates such that the burden hours associated with creation of VaR models was moved to the burden estimates for proposed Rule 17i-7. We also adjusted the estimates based on the staff's experience in implementing the OTC derivatives dealer rules.

¹⁴⁸ We estimate that the average amount of time an SIBHC would spend assessing its present structure, businesses, and controls, and designing and implementing a risk management control system would be about 3,600 hours. We believe that an SIBHC would have a senior compliance person performing this 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. ($\$56.60 \times 3,600$ hours) = \$203,760.

¹⁴⁹ ($\$203,760.00$ per SIBHC $\times 6$ SIBHCs expected to apply) = \$1,222,560. The estimates of the initial and annual burdens for proposed Rule 17i-4 are based on the estimates the Commission made in adopting Rule 15c3-4. Proposed Rule 17i-4 makes Rule 15c3-4 applicable to SIBHCs. Our burden estimates for proposed Rule 17i-4 are higher than our burden estimates for Rule 15c3-4 because an SIBHC would be establishing, documenting, and maintaining a system of internal risk management controls for the affiliate group, and not just for one firm. We based our burden estimates for proposed Rule 17i-4 on our burden estimates for Rule 15c3-4 because Rule 15c3-4 and proposed Rule 17i-4 are substantially similar and because no comments were received regarding the burden estimates for Rule 15c3-4.

and liquidity of the affiliate group. We estimate that it would cost each SIBHC about \$1,958 to document such a contingency plan.¹⁵⁰ Consequently, it would cost the six SIBHCs we expect to file Notices of Intention to be supervised by the Commission, in aggregate, approximately \$11,746.¹⁵¹

The IT systems used by IBHCs to manage risk, make and retain records and reports, and calculate capital differ widely based on the types of business and the size of the IBHC. In addition, these IT systems may be in varying stages of readiness to meet the requirements of the proposed rules. We estimate that it will cost an IBHC that has well-developed IT systems to manage group-wide risk, make and retain their records, provide reports, and calculate group-wide capital about \$1 million to upgrade its IT systems. We estimate that it will cost an IBHC that has less well-developed IT systems approximately \$10 million to upgrade its IT systems. Thus, we estimate that, on average, it will cost each of the six SIBHCs about \$5.5 million to upgrade their IT systems, or approximately \$33 million in total. We believe that the costs for an SIBHC to update information technology systems in order to comply with proposed Rules 17i-1 through 17i-8 would be an initial, one-time cost. These estimates are based on the experience of Commission staff, as well as informal discussions with potential respondents.

Pursuant to proposed Rule 17i-7 an SIBHC would be required to calculate its group-wide allowances for market, credit, and operational risk on a monthly basis. SIBHCs would generally use mathematical models to calculate market and credit risk. The SIBHC's size, the types of business in which it engages, and the complexity of its portfolio will all factor into the cost of model development. We estimate, based on staff experience, our experience with OTC derivatives dealers, and discussions with industry participants, that it will cost an SIBHC between \$6,750 (if the firm already manages risks using mathematical models and simply needs to adjust those models to assure they comply with the qualitative and quantitative requirements set forth in

¹⁵⁰ We estimate that, on average, an SIBHC would spend about 40 hours to create and document a contingency plan regarding funding and liquidity of the affiliate group. This estimate is based on the staff's experience. Further, we believe that an SIBHC would have a senior treasury manager perform this task. According to the SIA's *Report on Management and Professional Earnings in the Securities Industry—2002*, the hourly cost of a senior treasury manager is \$48.94. ($\48.94×40 hours) = \$1,957.60.

¹⁵¹ ($\$1,957.60 \times 6$ SIBHCs) = \$11,746.