

the proposed rules) and \$675,000 (if the firm is complex and does not presently use mathematical models to manage risk) to update or create mathematical models.¹⁵² Thus, we estimate that the additional cost to create new models would be, in aggregate, between about \$40,500 and about \$4.1 million for all six firms.¹⁵³

The Commission notes that broker-dealers with tentative net capital of between \$100 million and \$1 billion that are not affiliated with banks generally do not report a VaR figure in their market risk disclosure of their holding companies' annual reports. However, some firms of this size do report a VaR figure in their market risk disclosure of their holding companies' annual reports. IBHCs that do not presently use VaR to manage group-wide risk may not find it to be cost effective to file a Notice of Intention to be supervised by the Commission as an SIBHC. However, this regulatory framework is available to a wide range of firms as an alternative, and may allow some of them to compete more effectively.

As stated previously, there are approximately one hundred applicants who qualify based on the minimum tentative net capital requirements. In addition, it is unclear to what extent IBHCs have made these investments already in the ordinary course of business. Evolving industry best practice for internationally active firms suggests that some IBHCs will have already made some or all the investments required by the proposed

rules, and some IBHCs have plans to make those investments in the near future. As stated previously in section IV.C., we believe that the six IBHCs that qualify will file a Notice of Intention to become supervised by the Commission as SIBHCs because it is cost effective and because they have made or plan to make the necessary investments regardless of Commission rule making. To the extent that a firm that becomes subject to this rule will not incur additional costs to establish, document and maintain a risk management control system, upgrade its IT, or create mathematical models, our estimates with regard to the proposed rules may be reduced. We seek specific comment on the degree to which potential applicants under this rule have already made, or are making, the necessary investments in risk management control systems, IT, and mathematical modeling.

C. Request for Comment Regarding Analysis of Costs and Benefits

To assist the Commission in evaluating the costs and benefits that may result from the proposed supervisory framework for SIBHCs, the Commission requests comments on the potential costs and benefits identified in this release, as well as any other costs or benefits that may result from the proposed rules and rule amendments. In addition, we invite commenters to provide views and data comparing the costs and benefits discussed above with the costs and benefits of the current regulatory framework. Commenters should provide analysis and data relating to the costs and benefits associated with each of the proposed Rules. In particular, we solicit comments on the potential costs for any necessary modifications to accounting, information and recordkeeping systems, and risk management control systems required to implement the proposed rules, and the potential benefits arising from participation in this optional regulatory framework.

VI. Consideration on Burden on Competition, and Promotion of Efficiency, Competition and Capital Formation

Section 3(f) of the Exchange Act¹⁵⁴ requires the Commission, whenever it engages in rulemaking and is required to consider or determine if an action is necessary or appropriate in the public interest, to consider if the action will promote efficiency, competition, and capital formation. Section 23(a)(2) of the

Exchange Act¹⁵⁵ requires the Commission, in adopting rules under the Exchange Act, to consider the impact that any such rule would have on competition. Exchange Act Section 23(a)(2) prohibits the Commission from adopting any rule that would impose a burden on competition not necessary or appropriate in furtherance of the purposes of the Exchange Act.

The Commission's preliminary view is that proposed Rules 17i-1 through 17i-8 would promote both efficiency and capital formation. The proposed rules should provide qualifying IBHCs an opportunity to increase operational efficiency by continuing to compete effectively outside of the United States in countries that require consolidated supervision as a condition of doing business. Although the proposed rules would impose new costs relating to: (i) Creation and implementation of a group-wide system of internal management controls; (ii) recordkeeping; and (iii) reporting, an IBHC filing a Notice of Intention to be supervised by the Commission as an SIBHC would not be subject to consolidated supervision in non-U.S. marketplaces. Further, as this framework for oversight is voluntary, we do not believe IBHCs will file Notices of Intention to be supervised by the Commission as an SIBHC unless the benefits of such an election outweigh the costs with respect to the applying firm.

The Commission notes that broker-dealers with tentative net capital of between \$100 million and \$1 billion that are not affiliated with banks generally do not report a VaR figure in their market risk disclosure of their holding companies' annual reports. However, some firms of this size do report a VaR figure in their market risk disclosure of their holding companies' annual reports. IBHCs that do not presently use VaR to manage group-wide risk may not find it to be cost effective to file a Notice of Intention to be supervised by the Commission as an SIBHC. However, this regulatory framework is available to a wide range of firms as an alternative, and may allow some of them to compete more effectively.

The Commission's preliminary view is that the proposed rules would not have anti-competitive effects on smaller broker-dealers because smaller broker-dealers are generally not interested in consolidated supervision.¹⁵⁶ These rules

¹⁵² We estimate that an SIBHC that already manages risk using mathematical models may need to spend 100 hours to review its models and adjust them to assure they comply with the qualitative and quantitative requirements set forth in the proposed rules. We believe that an SIBHC would have a senior programmer and a senior research analyst spend approximately 50 hours each to 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 programmer is \$63.75 and the hourly cost of a senior research analyst is \$71.25. $((\$63.75 \times 50 \text{ hours}) + (\$71.25 \times 50 \text{ hours})) = \$6,750$. Further, we estimate that a complex SIBHC that does not presently use mathematical models to manage risk would spend approximately 10,000 hours to create mathematical models to use in calculating market and credit risk as required by the proposed rules. We believe that an SIBHC would have a senior programmer and a senior research analyst spend approximately 5,000 hours each to 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 programmer is \$63.75 and the hourly cost of a senior research analyst is \$71.25. $((\$63.75 \times 5,000 \text{ hours}) + (\$71.25 \times 5,000 \text{ hours})) = \$675,000$. These hourly burden estimates are based on staff experience and discussions with industry participants.

¹⁵³ $(\$6,750 \times 6 \text{ SIBHCs}) = \$40,500$. $(\$675,000 \times 6 \text{ SIBHCs}) = \$4,050,000$.

¹⁵⁴ 15 U.S.C. 78c(f).

¹⁵⁵ 15 U.S.C. 78w(a)(2).

¹⁵⁶ Generally, smaller broker-dealers are organized in a simpler manner, and they do not