

(2) In addition to the qualification and independence requirements set forth in § 240.17a-5(f), an accountant shall be a registered public accounting firm as that term is defined in the Sarbanes-Oxley Act of 2002 (15 U.S.C. 7201(a)(12)).

(f) *Audit objectives.* The audit shall be conducted in accordance with the rules promulgated by the Public Company Accounting Oversight Board and shall include a review of the accounting system and the internal accounting controls (including appropriate tests thereof) for the period since the date of the prior audited financial statements. The audit shall include all procedures necessary under the circumstances to enable the accountant to express an opinion on the statement of financial condition, results of operations, cash flows, and the computations of allowable capital and allowances for market, credit, and operational risk under § 240.17i-7. The scope of the audit and review of the accounting system and the internal accounting controls shall be sufficient to provide reasonable assurance that any material inadequacies that exist at the date of the examination in the accounting system or internal accounting controls would be disclosed.

(g) *Extent and timing of audit procedures.* The extent and timing of audit procedures are matters for the accountant to determine on the basis of its review and evaluation of existing internal controls and other audit procedures performed in accordance with the rules promulgated by the Public Company Accounting Oversight Board and the audit objectives listed in paragraph (f) of this section.

(h) *Accountant's report, general provisions.* The provisions of § 240.17a-5(i) shall apply to a supervised investment bank holding company and its audit.

(i) *Supplemental reports.* The supervised investment bank holding company shall file, concurrently with the annual audit report, the following supplemental reports prepared by the accountant in accordance with the rules promulgated by the Public Company Accounting Oversight Board:

(1) A supplemental report entitled "Accountant's Report on Reportable Conditions" describing any matter that would be deemed to be a reportable condition under the rules promulgated by the Public Company Accounting Oversight Board that is unresolved as of the date of the accountant's report. The supplemental report shall indicate any corrective action taken or proposed by the supervised investment bank holding company with regard to any identified reportable conditions. If the audit did

not disclose any reportable conditions, the supplemental report shall so state.

(2) A supplemental report entitled "Accountant's Report on Internal Risk Management Control System" indicating the results of the accountant's review of the internal risk management control system established and documented by the supervised investment bank holding company in accordance with § 240.17i-4 and utilized by the affiliate group. This review shall be conducted by the accountant in accordance with procedures agreed to by the supervised investment bank holding company and the accountant conducting the review. The agreed-upon procedures are to be performed in accordance with the rules promulgated by the Public Company Accounting Oversight Board. The purpose of the review is to confirm that the internal risk management control system complies with the requirements of § 240.17i-4 and that the supervised investment bank holding company and its affiliate group are adhering to the requirements of that internal risk management control system.

(3) A supplemental report entitled "Accountant's Report on Inventory Pricing and Modeling" indicating the results of the accountant's review of the procedures for pricing financial instrument inventory (including modeling procedures) established by the supervised investment bank holding company and utilized by the affiliate group. This review shall be conducted by the accountant in accordance with procedures agreed to by the supervised investment bank holding company and the accountant conducting the review. The agreed-upon procedures are to be performed in accordance with the rules promulgated by the Public Company Accounting Oversight Board. The purpose of the review is to confirm that the financial instrument pricing procedures relied upon by the affiliate group conform to the procedures established by the supervised investment bank holding company pursuant to § 240.17i-4 and comply with the qualitative and quantitative standards set forth in § 240.15c3-1e(e) (as required pursuant to § 240.17i-7(b)(1)).

(4) The supervised investment bank holding company shall file, prior to the commencement of the review and no later than December 10 of each year, a statement with the Commission's principal office in Washington, DC that includes:

(i) A description of the procedures for conducting the audit agreed to by the supervised investment bank holding company and the accountant (pursuant

to paragraphs (i)(2) and (i)(3) of this section); and

(ii) A notice describing any changes in those agreed-upon procedures, if any. If there are no changes, the supervised investment bank holding company should indicate that no changes have been made to those procedures.

(j) *Notification of change of fiscal year.* If a supervised investment bank holding company changes its fiscal year, it must file a notice of the change (including a detailed explanation of the reason for the change) with the Commission.

(k) *Extensions and exemptions.* Upon the written request of the supervised investment bank holding company, or on its own motion, the Commission may grant an extension of time or an exemption from any of the requirements of paragraphs (a) through (j) of this section either unconditionally or on specified terms and conditions.

(l) *When filed.* The reports provided for in this section shall be considered filed when two copies are received at the Commission's principal office in Washington, DC, and one copy is received at the regional or district office of the Commission for the region or district in which the broker or dealer has its principal place of business. The copies sent to the Commission's principal office shall be addressed to the Division of Market Regulation.

(m) *Confidentiality.* All reports and statements filed by the supervised investment bank holding company with the Commission pursuant to this section shall be accorded confidential treatment.

§ 240.17i-7. Calculations of allowable capital and risk allowances or alternative capital assessment.

(a) *Computation of allowable capital.* The supervised investment bank holding company shall calculate allowable capital on a consolidated basis, which shall be the sum of:

(1) Common shareholders' equity on the consolidated balance sheet of the supervised investment bank holding company less:

- (i) Goodwill;
- (ii) Deferred tax assets;
- (iii) Other intangible assets; and
- (iv) Other deductions from common stockholders' equity as required by the Federal Reserve Board in calculating Tier 1 capital (as defined in 12 CFR 225, Appendix A).

(2) Cumulative and non-cumulative preferred stock, except that the amount of the cumulative preferred stock may not exceed 33% of the items included in allowable capital pursuant to paragraph (a)(1) of this section, provided that: