

counterparty as provided in paragraph (c)(1)(ii)(E) of this section) calculated daily using a VaR model that meets the requirements of § 240.15c3-1e(e), except that for repurchase agreements, reverse repurchase agreements, stock lending and borrowing, and similar collateralized transactions, maximum potential exposure shall be calculated using a time horizon of five days;

(ii) *Credit risk weights.* (A) *General standard.* The credit risk weights that shall be applied to certain assets and counterparties shall be determined according to standards published by the Basel Committee on Banking Supervision, as modified from time to time;

(B) *Internal credit ratings.* The supervised investment bank holding company may, upon a determination by the Commission pursuant to § 240.17i-2(a) or (c), determine credit ratings for counterparties that are not rated using internal calculations, and the supervised investment bank holding company may use these internal credit ratings in lieu of ratings issued by a nationally recognized statistical rating organization for purposes of determining credit risk weights;

(C) *Internal calculations.* The supervised investment bank holding company may, upon a determination by the Commission pursuant to § 240.17i-2(a) or (c), determine credit risk weights of counterparties based on internal calculations;

(D) *Receivables covered by guarantees.* For the portion of a current exposure covered by a guarantee, where that guarantee is an unconditional and irrevocable guarantee of the due and punctual payment and performance of the obligation and the supervised investment bank holding company or member of the affiliate group can demand payment after any payment is missed without having to make collection efforts, the supervised investment bank holding company or member of the affiliate group may substitute the credit risk weight of the guarantor for the credit risk weight of the counterparty if the guarantee is evidenced by a written obligation of the guarantor that allows the holding company or member of the affiliate group to substitute the guarantor for the counterparty upon default or nonpayment by the counterparty;

(E) *Receivables covered by credit derivatives.* The supervised investment bank holding company may reduce the credit risk weight of a counterparty by

using credit derivatives (such as credit default swaps, total return swaps, and similar instruments used to manage credit risk) that provide credit protection equivalent to guarantees, if the credit derivative is used for bona fide hedging purposes to reduce the credit risk weight of a counterparty, is not incorporated into the VaR model used for deriving potential exposures, and is not held for market-making purposes. The credit risk weight for the covered portion of the exposure shall be the credit risk weight of the writer of the derivative. The uncovered portion of the exposure shall be assigned the credit risk weight of the counterparty; or

(2) Upon a determination by the Commission pursuant to § 240.17i-2(a) or (c), using a calculation consistent with standards published by the Basel Committee on Banking Supervision, as modified from time to time.

(d) *Allowance for operational risk.* A supervised investment bank holding company shall compute an allowance for operational risk on a consolidated basis consistent with the appropriate standards published by the Basel Committee on Banking Supervision, as modified from time to time.

(e) *Alternative capital assessment.* If the Commission determines pursuant to § 240.17i-2(a) or (c), the supervised investment bank holding company may compute a capital assessment using the standards promulgated by the Basel Committee on Banking Supervision (as modified from time to time) that it is required to submit to a financial regulator or supervisor in lieu of the computations described in paragraphs (a) through (d) of this section.

**§ 240.17i-8. Notification provisions for supervised investment bank holding companies.**

(a) A supervised investment bank holding company shall send written notice promptly (but within 24 hours), in accordance with paragraph (c) of this section, after the occurrence of the following events:

(1) Any backtesting exception determined in accordance with § 240.15c3-1e(e)(1)(iii) and (iv) that would require that the supervised investment bank holding company use a higher multiplication factor in the calculation of its allowances for market or credit risk;

(2) If a computation shows that allowable capital (calculated in accordance with § 240.17i-7(a)) is less than 110% of the sum of the affiliate

group's allowances for market, credit, and operational risk (calculated in accordance with § 240.17i-7(b), (c), and (d));

(3) An affiliate declares bankruptcy or otherwise becomes insolvent;

(4) The supervised investment bank holding company becomes aware that a nationally recognized statistical rating organization has determined to reduce its assessment of the creditworthiness of an affiliate or the credit rating(s) assigned to one or more outstanding short or long-term obligations of an affiliate;

(5) The supervised investment bank holding company becomes aware that any financial regulatory agency or self-regulatory organization has taken enforcement action or some other, similar formal regulatory action against an affiliate; or

(6) The supervised investment bank holding company becomes ineligible to be supervised by the Commission as a supervised investment bank holding company.

(b) The supervised investment bank holding company shall file a written report if there is a material change, along with a description of the reason for the change, in:

(1) The ownership or organization of the affiliate group;

(2) The material affiliate status of any affiliate group entity; or

(3) The major business functions of any material affiliate.

(c) Every notice or report required to be given or transmitted pursuant to this section shall be given or transmitted to the principal office of the Commission in Washington, DC, and the regional or district office of the Commission for the region or district in which the supervised investment bank holding company's subsidiary broker or dealer has its principal place of business. For the purposes of this section, "notice" shall be given or transmitted by telegraphic notice or facsimile transmission. The reports required by paragraph (b) of this section may be transmitted by overnight delivery. The notices and reports filed under this section shall be accorded confidential treatment.

Dated: October 24, 2003.

By the Commission.

**Margaret H. McFarland,**

*Deputy Secretary.*

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