

**SUPPORTING STATEMENT**  
**for the Paperwork Reduction Act Information Collection Submission for**  
**Appendix F to Rule 15c3-1**  
**OMB Control Number 3235-0496**

**A. JUSTIFICATION**

**1. Necessity of Information Collection**

Appendix F to Rule 15c3-1<sup>1</sup> under the Securities Exchange Act of 1934 (“Exchange Act”) is one of several Commission rules that apply to certain of the broker-dealers known as over-the-counter (“OTC”) derivatives dealers.

Rule 15c3-1 is the Commission’s net capital rule for broker-dealers.<sup>2</sup> Under Appendix F, an OTC derivatives dealer that is not a security-based swap dealer may apply to the Commission for authorization to compute net capital charges for market and credit risk in accordance with Appendix F in lieu of computing securities haircuts under paragraph (c)(2)(vi) of Exchange Act Rule 15c3-1.<sup>3</sup> The application must contain, among other things, a description of the methods used for computing market and credit risk, including a description of all statistical models used for pricing OTC derivative instruments and for computing value-at-risk (“VAR”), a description of controls over those models, and a statement regarding whether the firm has developed its own internal VAR models. The application must also contain a description of the firm’s internal risk management systems and how those systems meet certain requirements in Exchange Act Rule 15c3-4.<sup>4</sup>

In addition, if the OTC derivatives dealer materially amends its VAR model or internal risk management control system, the firm must file an application describing the changes, which must be approved by the Commission before the changes may be implemented.

In addition to obtaining Commission approval of its application, the VAR models of OTC derivatives dealers must meet certain enumerated qualitative and quantitative requirements. For example: the OTC derivatives dealer must conduct backtesting by comparing each of its most recent 250 business days’ actual net trading profit or loss with the corresponding daily VAR measures generated for determining market risk, and once each quarter the firm must identify the number of business days for which the actual daily net trading loss exceeded the corresponding daily VAR measure; the firm must conduct stress tests of VAR model and develop appropriate procedures to follow in response to the results of those tests; and the firm must provide the Commission with evidence that its VAR model takes account of specific risk if the firm intends to use the model to compute capital charges for equity price risk.

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<sup>1</sup> 17 CFR 240.15c3-1f.

<sup>2</sup> 17 CFR 240.15c3-1. An OTC derivatives dealer that is also registered as a security-based swap dealer is subject to the net capital provisions of Exchange Act Rule 18a-1 (17 CFR 240.18a-1).

<sup>3</sup> An OTC derivatives dealer that is also registered as a security-based swap dealer may apply to the Commission for authorization to compute deductions for market and credit risk using models under paragraph (d) of Rule 18a-1.

<sup>4</sup> 17 CFR 240.15c3-4.

Under paragraph (a)(5) of Rule 15c3-1, a broker-dealer for which the Commission has granted its application to compute capital charges in accordance with Appendix F is required to maintain tentative net capital of not less than \$100 million and net capital of not less than \$20 million.

## **2. Purpose and Use of Information Collection**

Appendix F to Rule 15c3-1 is an integral part of the Commission's financial responsibility program for OTC derivatives dealers. The purpose of Appendix F is to provide certain OTC derivatives dealers an alternative method for computing net capital charges for market and credit risk, while ensuring that these firms have, on hand at all times, sufficient liquid resources to meet their obligations and liabilities.

## **3. Consideration Given to Information Technology**

Firms subject to Appendix F use automated systems for computing their capital requirements. Because there are relatively few OTC derivatives dealers, it is not economically feasible for the Commission to develop a system which would allow for electronic filing of OTC derivatives dealers' applications under Appendix F.

## **4. Duplication**

OTC derivatives dealers are not otherwise required to obtain, maintain, and report the information required by Appendix F, so no duplication exists.

## **5. Effect on Small Entities**

Appendix F does not affect small entities because OTC derivatives dealers using Appendix F must maintain tentative net capital of not less than \$100 million and net capital of not less than \$20 million.

## **6. Consequences of Not Conducting Collection**

Collecting the required information less frequently would lessen the protection afforded to the public.

## **7. Inconsistencies with Guidelines in 5 CFR 1320.5(d)(2)**

There are no special circumstances. This collection is consistent with the guidelines in 5 CFR 1320.5(d)(2).

## **8. Consultations Outside the Agency**

The required Federal Register notice with a 60-day comment period soliciting comments on this collection of information was published. No public comments were received.

## 9. Payment or Gift

No gifts or payments will be given to respondents.

## 10. Confidentiality

Under paragraph (a)(4) of Appendix F, applications for authorization to use appendix F and applications to amend VAR models or the broker-dealer's internal risk management system shall be deemed to be confidential.

## 11. Sensitive Questions

No questions of a sensitive nature are asked. The information collection does not collect personally identifiable information. The agency has determined that neither a PIA nor a SORN are required in connection with the collection of information.

## 12. Information Collection Burden

At present, three OTC derivatives dealers have been approved to use Appendix F, no additional OTC derivatives dealers have applied to use Appendix F, and the staff does not expect that any additional OTC derivatives dealer will apply to use Appendix F during the next three years.

The Commission estimates that the three OTC derivatives dealers will spend an average of approximately 1,000 hours each per year reporting information concerning their VAR models and internal risk management systems, for a total annual burden of approximately 3,000 hours.<sup>5</sup>

Rule	Burden Type	Number of Respondents	Number of Annual Responses Per Respondent	Time Per Response (Hours)	Total Annual Burden (Hours)
Rule 15c3-1 (Appendix F)	Reporting	3	1	1,000	3,000
<b>Total Aggregate Burden</b>					<b>3,000</b>

<sup>5</sup> Three (3) OTC derivatives dealers x 1,000 hours = 3,000 hours.

### 13. Costs to Respondents

The Commission believes that there are no reporting costs associated with the rule.

### 14. Costs to Federal Government

There are no costs to the Federal Government.

### 15. Changes in Burden

The estimated time burden has decreased from approximately 6,000 hours per year to approximately 3,000 hours per year because the estimated number of respondents has decreased from 6 to 3. The Commission now estimates that three OTC derivatives dealers are approved to use Appendix F and that there are no pending applications or anticipated applicants. The Commission previously estimated that a total of six OTC derivatives dealers would be approved to use Appendix F at the end of three years, consisting of three current OTC derivatives dealers, two broker-dealers with pending applications, and one anticipated applicant.

IC	IC Title	Annual No. of Responses			Annual Time Burden (Hrs.)		
		<i>Previously approved</i>	<i>Requested</i>	<i>Change</i>	<i>Previously approved</i>	<i>Requested</i>	<i>Change</i>
IC1	Existing Dealer Maintenance	5	3	(2)	5,000	3,000	(2,000)
IC2	New Registrant Start-up	1	0	(1)	333	0	(333)
IC3	New Registrant Maintenance	1	0	(1)	667	0	(667)
	Total for all ICs	6	3	(3)	6,000	3,000	(3,000)

### 16. Information Collection Planned for Statistical Purposes

Not applicable. The information collection is not used for statistical purposes

### 17. Approval to Omit OMB Expiration Date

The Commission is not seeking approval to omit the OMB expiration date.

### 18. Exceptions to Certification for Paperwork Reduction Act Submissions

This collection complies with the requirements in 5 CFR 1320.9.

## B. COLLECTIONS OF INFORMATION EMPLOYING STATISTICAL METHODS

This collection does not involve statistical methods.