

broker or dealer or a subsidiary or affiliate consolidated pursuant to appendix C to this section, § 402.2c, may be withdrawn by action of a stockholder or a partner, or by redemption or repurchase of shares of stock by any of the consolidated entities or through the payment of dividends or any similar distribution, nor may any unsecured advance or loan be made to a stockholder, partner, sole proprietor, employee or affiliate if, after giving effect thereto and to any other such withdrawals, advances or loans and any Payments of Payment Obligations (as defined in § 240.15c3-1d of this title, appendix D to SEC Rule 15c3-1, modified as provided in appendix D to this section, § 402.2d) under satisfactory subordination agreements which are scheduled to occur within 180 calendar days following such withdrawal, advance or loan, either:

(i) The ratio of liquid capital to total haircuts, determined as provided in § 402.2, would be less than 150 percent; or

(ii) Liquid capital minus total haircuts would be less than 120 percent of the minimum capital required by § 402.2(b) or § 402.2(c) as applicable; or

(iii) In the case of any government securities broker or dealer included in such consolidation, the total outstanding principal amounts of satisfactory subordination agreements of the government securities broker or dealer (other than such agreements which qualify as equity under § 240.15c3-1(d) of this title) would exceed 70% of the debt-equity total as defined in § 240.15c3-1(d).

(3) *Miscellaneous provisions.* (i) Excess liquid capital is that amount in excess of the amount required by the greater of § 402.2(a) or, §§ 402.2 (b) or (c), as applicable. For the purposes of paragraphs (i)(1) and (i)(2) of this section, a government securities broker or dealer may use the amount of excess liquid capital, liquid capital and total haircuts reported in its most recently required filed Form G-405 for the purposes of calculating the effect of a projected withdrawal, advance or loan relative to excess liquid capital or total haircuts. The government securities broker or dealer must assure itself that the excess liquid capital, liquid capital

or the total haircuts reported on the most recently required filed Form G-405 have not materially changed since the time such report was filed.

(ii) The term equity capital includes capital contributions by partners, par or stated value of capital stock, paid-in capital in excess of par, retained earnings or other capital accounts. The term equity capital does not include securities in the securities accounts of partners and balances in limited partners' capital accounts in excess of their stated capital contributions.

(iii) Paragraphs (i)(1) and (i)(2) of this section shall not preclude a government securities broker or dealer from making required tax payments or preclude the payment to partners of reasonable compensation, and such payments shall not be included in the calculation of withdrawals, advances or loans for purposes of paragraphs (i)(1) and (i)(2) of this section.

(iv) For the purposes of this subsection (i), any transaction between a government securities broker or dealer and a stockholder, partner, sole proprietor, employee or affiliate that results in a diminution of the government securities broker's or dealer's liquid capital shall be deemed to be an advance or loan of liquid capital.

(j) *Modification of appendices to § 240.15c3-1 of this title.* For purposes of this section, appendix C to this section (§ 402.2c) is substituted for appendix C to Rule 15c3-1 (§ 240.15c3-1c of this title), and appendix D to Rule 15c3-1 (§ 240.15c3-1d of this title), relating to Satisfactory Subordination Agreements, is modified as provided in appendix D to this section (§ 402.2d).

(Approved by the Office of Management and Budget under control number 1535-0089)

[52 FR 27931, July 24, 1987, as amended at 53 FR 28984, Aug. 1, 1988; 60 FR 11024, Mar. 1, 1995]

§ 402.2a Appendix A—Calculation of market risk haircut for purposes of § 402.2(g)(2).

The market risk haircut is the sum of the Treasury market risk haircut and the other securities haircut, calculated as follows.

(a) *Treasury market risk haircut.* The "Treasury market risk haircut" equals

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the sum of the total governments offset portion haircut, the total futures and options offset haircut, the total hedging disallowance haircut, and the residual net position haircut, calculated with respect to financings and positions in Treasury market risk instruments, except to the extent that a permissible election is made pursuant to paragraph (b)(1) of this section to include qualified positions in the calculation of the other securities haircut.

(1) *Total governments offset portion haircut.* The “total governments offset portion haircut” equals the sum of the governments offset portion haircuts calculated for each category in § 402.2(f)(1). The “governments offset portion haircuts” equal, for each category in § 402.2(f)(1), the product of the offset haircut factor for that category set out in § 402.2(f)(2) and the smaller of the absolute values of the gross long immediate position or gross short immediate position for that category. Schedules B and C in paragraph (c) of this section can be used to make this calculation.

(i)(A) The “gross long immediate position” for purposes of this part equals, for each category except categories MB and AR in § 402.2(f)(1), the sum of the market values of each long immediate position in Treasury market risk instruments with a term to maturity (or, in the case of a floating rate note, the time to the next scheduled interest rate adjustment or the term to maturity, whichever is less) corresponding to such category, the contract values of each reverse repurchase agreement with a term to maturity or time to the next scheduled interest rate adjustment, whichever is less, corresponding to that category, and the values of the cash collateral of each security borrowing with a term to maturity or time to next scheduled interest rate adjustment, whichever is less, corresponding to such category.

(B) In the case of category MB, the “gross long immediate position” equals the sum of the market values of all long immediate positions in fixed rate mortgage-backed securities which are Treasury market risk instruments.

(C) In the case of category AR, the “gross long immediate position” equals the sum of the market values of all

long immediate positions in adjustable rate mortgage-backed securities which are Treasury market risk instruments.

(ii)(A) The “gross short immediate position” for purposes of this section equals, for each category except categories MB and AR in § 402.2(f)(1), the sum of the market values of each short immediate position in Treasury market risk instruments with a term to maturity (or, in the case of a floating rate note, the time to the next scheduled interest rate adjustment or the term to maturity, whichever is less) corresponding to such category, and the values of funds received from each financing transaction (including repurchase agreements, securities lending secured by cash collateral, and term financings, but excluding subordinated debt which meets the requirements of § 240.15c3-1d of this title modified as provided in § 402.2d) with a term to maturity or time to the next scheduled interest rate adjustment, whichever is less, corresponding to that category.

(B) In the case of category MB, the “gross short immediate position” equals the sum of the market values of all short immediate positions in fixed rate mortgage-backed securities which are Treasury market risk instruments.

(C) In the case of category AR, the “gross short immediate position” equals the sum of the market values of all short immediate positions in adjustable rate mortgage-backed securities which are Treasury market risk instruments.

(iii) The term *long immediate position* in a Treasury market risk instrument means, for purposes of this part:

(A) The net long position in a Treasury market risk instrument as of the trade date, except when the settlement date, in the case of a Treasury market risk instrument except a mortgage-backed security, is scheduled more than five business days in the future, and, in the case of a mortgage-backed security, more than thirty calendar days in the future;

(B) The net long when-issued position in a marketable U.S. Treasury security between announcement and issue date;

(C) The net long when-issued position in a government agency or a government-sponsored agency debt security

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between release date and issue date; and

(D) The net long when-issued position in a security described in § 402.2(e)(1)(vi) between announcement date and issue date.

(iv) The term *short immediate position* on a Treasury market risk instrument means, for purposes of this part:

(A) The net short position in a Treasury market risk instrument as of the trade date, except when the settlement date, in the case of a Treasury market risk instrument except a mortgage-backed security, is scheduled more than five business days in the future, and, in the case of a mortgage-backed security, more than thirty calendar days in the future;

(B) The net short when-issued position in a marketable U.S. Treasury security between announcement and issue date;

(C) The net short when-issued position in a government agency or a government-sponsored agency debt security between release date and issue date; and

(D) The net short when-issued position in a security described in § 402.2(e)(1)(vi) between announcement date and issue date.

(2) *Net immediate position interim haircut.* The “net immediate position interim haircut” equals, for each category in § 402.2(f)(1), the product of the net position haircut factor for that category and the sum of the gross long immediate position and the gross short immediate position for that category. For purposes of this part, a gross long immediate position shall be a positive number and a gross short immediate position shall be a negative number. Schedules B and C in paragraph (c) of this section can be used to make this calculation.

(3) *Total futures and options offset haircut.* The “total futures and options offset haircut” equals the sum of the futures and options offset haircuts calculated for each category in § 402.2(f)(1). The “futures and options offset haircut” equals, for each category in § 402.2(f)(1), the product of a futures and options offset factor of 20 percent and the smaller of the absolute values of the positive and negative aggregate interim haircuts for that category.

Schedule D in paragraph (c) of this section can be used to make this calculation.

(i) *Positive aggregate interim haircut.* The “positive aggregate interim haircut” equals, for each category in § 402.2(f)(1), the sum of the positive net immediate position interim haircut (see paragraph (a)(2) of this section), the gross long futures and forward interim haircut, and the positive gross options interim haircut for that category. Schedule D in paragraph (c) of this section can be used to make this calculation.

(A) *Gross long futures and forward interim haircut.* The “gross long futures and forward interim haircut” equals, for each category in § 402.2(f)(1), the sum of the interim haircuts on each long futures position and long forward position placed, in the case of a futures or forward contract which is a Treasury market risk instrument except those on mortgage-backed securities, in the category corresponding to the sum of the term to maturity of the contract and the term to maturity of the underlying instrument at the time of the maturity of the contract or, in the case of a futures or forward contract on Treasury market risk mortgage-backed securities, in the category corresponding to the type of Treasury market risk mortgage-backed security.

(I) For purposes of this part, the *interim haircut on each long futures position and each long forward position* is the product of the net position haircut factor for the category corresponding to, in the case of a futures or forward contract which is a Treasury market risk instrument except those on mortgage-backed securities, the maturity of the underlying instrument at the time of the maturity of the contract or, in the case of a futures or forward contract on Treasury market risk mortgage-backed securities, the type of Treasury market risk mortgage-backed security and the value of the long futures position or long forward position evaluated at the current market price for such contract.

(2) For purposes of this part, the gross long futures and forward interim haircut shall be a positive number.

(B) *Positive gross options interim haircut.* The “positive gross options interim haircut” equals, for each category in § 402.2(f)(1), the sum of the interim haircuts on each purchased call and sold put placed in the category in which the underlying instrument would be placed.

(1) For purposes of this part, the “interim haircut on each purchased call and sold put” equals the lesser of the market value of the option or, (i) in the case of an option on a cash instrument, the product of the net position haircut factor for the category to which the underlying cash instrument corresponds and the market value of the underlying cash instrument or, (ii) in the case of an option on a futures contract, the interim haircut on the underlying futures contract.

(2) For purposes of this part, the positive gross options interim haircut is a positive number.

(ii) *Negative aggregate interim haircut.* The “negative aggregate interim haircut” equals, for each category in § 402.2(f)(1), the sum of the negative net immediate position interim haircut (see paragraph (a)(2) of this section), the gross short futures and forward interim haircut, and the negative gross options interim haircut for that category. Schedule D in paragraph (c) of this section can be used to make this calculation.

(A) *Gross short futures and forward interim haircut.* The “gross short futures and forward interim haircut” equals, for each category in § 402.2(f)(1), the sum of the interim haircuts on each short futures position and short forward position placed, in the case of a futures or forward contract which is a Treasury market risk instrument except those on mortgage-backed securities, in the category corresponding to the sum of the term to maturity of the contract and the term to maturity of the underlying instrument at the time of the maturity of the contract or, in the case of a futures or forward contract on Treasury market risk mortgage-backed securities, in the category corresponding to the type of Treasury market risk mortgage-backed security.

(1) For purposes of this part, the “interim haircut on each short futures position and each short forward position”

is the product of the net position haircut factor for the category corresponding to, in the case of a futures or forward contract which is a Treasury market risk instrument except those on mortgage-backed securities, the maturity of the underlying instrument at the time of the maturity of the contract or, in the case of a futures or forward contract on Treasury market risk mortgage-backed securities, the type of Treasury market risk mortgage-backed security and the value of the short futures position or short forward position evaluated at the current market price for such contract.

(2) For purposes of this part, the gross short futures and forward interim haircut is a negative number.

(B) *Negative gross options interim haircut.* The “negative gross options interim haircut” equals, for each category in § 402.2(f)(1), the sum of the interim haircuts on each sold call and purchased put placed in the category in which the underlying instrument would be placed.

(1) For purposes of this part, the “interim haircut on each sold call and purchased put” equals the lesser of the market value of the option or, (i) in the case of an option on a cash instrument, the product of the net position haircut factor for the category to which the underlying cash instrument corresponds and the market value of the underlying cash instrument or, (ii) in the case of an option on a futures contract, the interim haircut on the underlying futures contract.

(2) For purposes of this part, the negative gross options interim haircut is a negative number.

(4) *Total hedging disallowance haircut.* The “total hedging disallowance haircut” equals the sum of the hedging disallowance haircuts calculated pursuant to each netting of qualified netting interim haircuts. The “hedging disallowance haircut” equals the absolute value of the product of the applicable category pair hedging disallowance haircut factor specified in § 402.2(f)(3) and the smaller in absolute value of any two qualified netting interim haircuts, netted in accordance with the provisions of this paragraph. Schedule E in paragraph (c) of this section can be used to make this calculation.

(i) *Qualified netting interim haircut.* The term “qualified netting interim haircut” means a residual position interim haircut or a net residual position interim haircut.

(A) *Residual position interim haircut.* The “residual position interim haircut” equals, for each category in § 402.2(f)(1), the sum of the positive aggregate interim haircut and the negative aggregate interim haircut corresponding to the category, calculated in accordance with the provisions of paragraph (a)(3) of this section.

(B)(1) *Net residual position interim haircut.* The “net residual position interim haircut” equals, for any two categories between which netting is permitted, the sum of (i) the residual position interim haircuts calculated for those categories, in the case of the category of the larger in absolute value of the two residual position interim haircuts being netted, and (ii) zero, in the case of the category of the smaller in absolute value of the two residual position interim haircuts being netted.

(2) For the purposes of this paragraph (a)(4), netting is permitted only between categories for which a category pair hedging disallowance haircut factor has been specified in paragraph § 402.2(f)(3).

(ii) Net residual position interim haircuts shall be substituted for the residual position interim haircuts in the respective categories in which they have been placed and shall be considered as if they were residual position interim haircuts. New net residual position interim haircuts may continue to be calculated until for each category pair for which netting is permitted at least one of the two qualified netting interim haircuts is zero or both qualified netting interim haircuts are of the same sign.

(5) *Residual net position haircut.* The “residual net position haircut” equals the sum of the absolute values of all qualified netting interim haircuts remaining in each category after the completion of the calculation of permissible nettings described in paragraph (a)(4) of this section. Schedule E in paragraph (c) of this section can be used to make this calculation.

(b) *Other securities haircut.* The “other securities haircut” equals the sum of

all deductions specified in § 240.15c3-1 (c)(2)(vi) and (c)(2)(viii) of this title and §§ 240.15c3-1a and 240.15c3-1b of this title for long and short positions in securities, futures contracts, forward contracts, options, and other inventory which are not Treasury market risk instruments as defined in § 402.2(e).

(1) A registered government securities broker or dealer may elect to exclude from its calculation of the Treasury market risk haircut and include in its calculation of the other securities haircut long and short positions in Treasury market risk instruments if such positions form part of a hedge against long and short positions in securities, futures contracts, forward contracts, or options which are not Treasury market risk instruments. Only the portion of the total position in a Treasury market risk instrument that forms part of such hedge may be excluded from the calculation of the Treasury market risk haircut and included in the calculation of the other securities haircut.

(2) For purposes of this paragraph (b), a gross long or short position in Treasury market risk instruments shall be considered part of a hedge if the inclusion of such position in the calculation of the other securities haircut would serve to reduce said haircut.

(3) For purposes of this paragraph (b) as it relates to § 240.15c3-1(c)(2)(vi)(M) (“undue concentration”), references to “10 percent of the “net capital”” shall be understood to refer to 10 percent of the liquid capital and references to “Appendix (D) (17 CFR 240.15c3-1d)” shall be understood to refer to such section as modified by § 402.2d.

(c) *Schedules.* This paragraph sets forth schedules which may be used by government securities brokers or dealers in the calculation of total haircuts as required by this part 402. The appropriate regulatory agency or designated examining authority may specify other substantially similar forms required to be used by government securities brokers or dealers in the calculation of such haircuts.

SCHEDULE A—LIQUID CAPITAL REQUIREMENT,
SUMMARY COMPUTATION
[In thousands of dollars]

1. Liquid capital¹

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**SCHEDULE A—LIQUID CAPITAL REQUIREMENT,
SUMMARY COMPUTATION—Continued**

[In thousands of dollars]

- 2. Haircuts on security and financing positions including contractual commitments:
 - a. Total governments offset portion haircut (Schedule C)
 - b. Total futures and options offset haircut (Schedule D)
 - c. Total hedging disallowance haircut (Schedule E)
 - d. Residual net position haircut (Schedule E)
 - e. Other securities haircut (use SEC factors)

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**SCHEDULE A—LIQUID CAPITAL REQUIREMENT,
SUMMARY COMPUTATION—Continued**

[In thousands of dollars]

- 3. Haircuts on credit exposure:
 - a. Total counterparty exposure haircut ..
 - b. Total concentration of credit haircut
 - c. Credit volatility haircut
- 4. Total haircuts (sum of lines 2 a through e, 3 a, b, and c)
- 5. Capital-to-risk ratio (line 1 divided by line 4)

¹Identical to the amount reported on line 3640 of the Report on Finances and Operations of Government Securities Brokers and Dealers, Form G-405.

Schedule B

Calculation of Net Immediate Positions in
Securities and Financings

Maturity Category 1/ A B C D E F G H I J MB AR	Financings		Securities Positions		Total Securities and Financing Positions (+)	Offset Portions (-)	Net Immediate Positions (+/-)	
	Long 2/ (+)	Short 2/ (-)	Long (+)	Short (-)				
0-45 days							A	
45-135 days							B	
135 days- 9 months							C	
9-18 months							D	
1.5-3.5 years (1.5-3 years)							E	
3.5-7.5 years (3-5.5 years)							F	
7.5-15 years (5.5-9 years)							G	
15-30 years (9-12 years)							H	
(12-21 years)							I	
(21 years and over)							J	
mortgage-backed adjustable rate mortgage-backed							MB AR	
Column Number	1	2	3	4	5 (1+3)	6 (2+4)	7# (Note 1)	8# (5+6)

Carry forward to Schedule C.

Note 1: The offset portion (Column 7) is the smaller of Columns 5 and 6. The categories are designated in Sec. 402.2(f)(1). A category contains all securities with maturities greater than or equal to the lower of the designated maturities, but less than the higher. Maturity designations in parentheses refer to maturities of zero-coupon instruments to be placed in that category. In categories A, B, C, and D, zero-coupon instruments are to be treated in the same manner as all other instruments. A half year (.5) is always considered to be 6 months.

2/ Long financings are financings which provide securities to a broker or dealer; short financings are those which provide funds.

Schedule C

Governments Offset Portion and Net Immediate
Position Interim Haircuts Calculation

Maturity Category ^{1/}	Governments Offset Portion			Net Immediate Position		
	\$ Amounts (+)	Factors	Haircuts (+)	\$ Amounts (+/-)	Factors	Interim Haircuts (+/-)
A 0-45 days			None			None
B 45-135 days			0.0002			0.0012
C 135 days- 9 months			0.0003			0.0020
D 9-18 months			0.0007			0.0045
E 1.5-3.5 years (1.5-3 years)			0.0022			0.0110
F 3.5-7.5 years (3-5.5 years)			0.0044			0.0220
G 7.5-15 years (5.5-9 years)			0.0050			0.0330
H 15-30 years (9-12 years)			0.0090			0.0450
I (12-21 years)			0.0155			0.0775
J (21 years and over)			0.0338			0.1125
MB mortgage-backed			0.0066			0.0330
AR adjustable rate mortgage-backed			0.0022			0.0110
Total Governments Offset Portion Haircut \$ _____						
Column Number	7 (Note 1)	9	10# (7x9)	8 (Note 1)	11	12## (8x11)

Carry to Schedule A, line 2a
Carry forward to Schedule D (or Schedule E, if no forwards, futures, or options).

Note 1: From Schedule B.

^{1/} The categories are designated in Sec. 402.2(f)(1). A category contains all securities with maturities greater than or equal to the lower of the designated maturities, but less than the higher. Maturity designations in parentheses refer to maturities of zero-coupon instruments to be placed in the category. In categories A, B, C, and D, zero-coupon instruments are to be treated in the same manner as all other instruments. A half year (.5) is always considered to be 6 months.

Schedule D

Consolidation of Net Immediate Position Interim Haircuts
with Gross Futures and Options Interim Haircuts
(In thousands of dollars)

Maturity Category 1/	Net Immediate Position Interim Haircuts		Gross Interim Haircuts		Aggregate Interim Haircuts		Futures & Options Offset Portions 2/		Residual Position Interim Haircuts	
	(+/-)	(+)	(-)	(+)	(-)	(+)	(-)	(+)	(+/-)	
B 45-135 days									B	
C 135 days-9 months									C	
D 9-18 months									D	
E 1.5-3.5 years (1.5-3 years)									E	
F 3.5-7.5 years (3-5.5 years)									F	
G 7.5-15 years (5.5-9 years)									G	
H 15-30 years (9-12 years)									H	
I (12-21 years)									I	
J (21 years and over)									J	
MB mortgage-backed adjustable rate									MB	
AR mortgage-backed									AR	
Column Number	12	13	14	15	16	17	18	19	20##	
	(Note 1)							(Note 2)	(17+18)	

Total Futures and Options Offset Portion: \$ _____ x20%
Factor: \$ _____ #
Total Futures and Options Offset Haircut: \$ _____ #

Carry to Schedule A, line 2b.
Carry forward to Schedule E.
Note 1: From Schedule C.
Note 2: Column 19 is the smaller of columns 17 and 18.
1/ The categories are designated in Sec. 402.2(f)(1). A category contains all securities with maturities greater than or equal to the lower of the designated maturities, but less than the higher. Maturity designations in parentheses refer to maturities of zero-coupon instruments to be placed in the category. In categories A, B, C, and D, zero-coupon instruments are to be treated in the same manner as all other instruments. A half year is always considered to be 6 months.
2/ The total futures and options haircut is calculated from the total of column 19.

Schedule E

Calculation of Hedging Disallowance Haircuts when Netting Haircuts Across Categories 1/
(In thousands of dollars)

Maturity Category 2/	20% Disallowance		30% Disallowance		40% Disallowance		Qualified Netting Interim Haircuts (+)
	Residual Position Interim Haircuts (+/-)	Hedging Disallowance Haircuts (+)	Residual Position Interim Haircuts (+/-)	Hedging Disallowance Haircuts (+)	Residual Position Interim Haircuts (+/-)	Hedging Disallowance Haircuts (+)	
B 45-135 days							
C 135 days-9 months							
D 9-18 months							
E 1.5-3.5 years							
F (1.5-3 years)							
G 3.5-7.5 years							
H (3-5.5 years)							
I 7.5-15 years							
J (5.5-9 years)							
MB (9-12 years)							
AR (12-21 years)							
(21 years and over)							
MB mortgage-backed adjustable rate							
AR mortgage-backed							

Total Hedging Disallowance Haircut: \$ _____

Column Number	Residual Net Position Haircut: \$		28##
	25	26 (Note 2)	
20 (Note 1)			
21			
22 (Note 2)			
23			
24 (Note 2)			
25			
26 (Note 2)			
27# (Note 3)			

Column 27 carries forward to Schedule A, line 2c.
Column 28 total carries forward to Schedule A, line 2d.
Note 1: From Schedule D (or Schedule C, if no forwards, futures, or options).
Note 2: Net of two offsetting haircuts of paired maturity categories.
Note 3: For every entry in column 20 there should be an entry in either column 27 or 28 (but never both).
1/ See Sec 402.2(f)(3) for category pair hedging disallowance haircut factors.
2/ The categories are designated in Sec. 402.2(f)(1). A category contains all securities with maturities greater than or equal to the lower of the designated maturities, but less than the higher. Maturity designations in parentheses refer to maturities of zero-coupon instruments to be placed in the category. In categories A, B, C, and D, zero-coupon instruments are to be treated in the same manner as all other instruments. A half year (.5) is always considered to be 6 months.

INSTRUCTIONS TO SCHEDULES A THROUGH E

Schedules A through E may be used by government securities brokers or dealers subject to 17 CFR 402 to determine the firm's capital-to-risk ratio. Section 402.2 provides that a government securities broker or dealer must meet the applicable minimum dollar

liquid capital requirement and that the firm's ratio of liquid capital to risk (total haircuts) must be at least 1.2:1; liquid capital must exceed risk by at least 20 percent. Total haircuts is the risk measure used in the ratio; it is made up of measures of market risk and measures of credit risk. The market risk of a government securities broker's or dealer's positions is accounted for

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through the Treasury market risk haircut and the other securities haircut. Credit risk is accounted for in the counterparty exposure, concentration of credit, and credit volatility haircuts and in the computation of liquid capital through the various deductions and charges.

Only positions in Treasury market risk instruments and financings may be used in the calculation of the Treasury market risk haircut. Treasury market risk instruments and financings are described in 17 CFR 402.2 and in the instructions to the schedule where they are to be first entered. All other types of financial instruments are to be included in the calculation of the other securities haircut. Calculation of the other securities haircut is based on the SEC's Rule 15c3-1 (17 CFR 240.15c3-1).

Treasury market risk instruments may be excluded from the calculation of the Treasury market risk haircut if they are included in the calculation of the other securities haircut as part of a hedge against long and short positions in securities, futures contracts, forward contracts, or options that are not Treasury market risk instruments. Only the portion of the total position in a Treasury market risk instrument that forms part of such a hedge may be excluded, and the result of this transfer of the Treasury market risk instruments must be a reduction in the other securities haircut.

The categories for classifying Treasury market risk instruments are designated in 17 CFR 402.2(f)(1). The categories, which are designated by a maturity range, contain all securities with remaining terms to maturity greater than or equal to the lower end of the range but less than the higher. A half year is always considered to be 6 months. In categories A through D, zero-coupon instruments are to be treated in the same manner as all other instruments. In categories E through J, the maturity designations in parentheses give the maturities of the zero-coupon instruments to be placed in that category. All mortgage-backed securities that are Treasury market risk instruments are to be placed in category MB or category AR, depending on whether they are backed by conventional or adjustable-rate mortgages.

All haircuts may be calculated to the nearest hundred dollars, unless such rounding would materially affect the liquid capital calculation.

Appendix A to the Preamble published with the temporary regulations for 17 CFR part 402 (52 FR 19669, May 26, 1987) contains an example of the capital calculation. It may also be used as an aid in completing these schedules.

Schedule A—Liquid Capital Requirement Summary Computation

Schedule A is used to determine the capital-to-risk ratio by comparing liquid capital

to total haircuts. Schedule A will be the last schedule completed as many of the haircuts entered on Schedule A are calculated on Schedules B through E.

Line 1—Enter liquid capital, which is identical to the amount reported on line 3640 of the Report on Finances and Operations of Government Securities Brokers and Dealers, Form G-405.

Line 2—Haircuts on "Security and Financing Positions" including contractual commitments:

a. Enter the Total Governments Offset Portion Haircut from column 10 of Schedule C.

b. Enter the Total Futures and Options Offset Haircut from column 19 of Schedule D.

c. Enter the Total Hedging Disallowance Haircut as calculated in Schedule E, column 27.

d. Enter the Residual Net Position Haircut as given in column 28 of Schedule E.

e. Enter the other securities haircut as determined by applying the SEC haircut factors to securities, futures contracts, forward contracts, options and other inventory that are not Treasury market risk instruments as defined in 17 CFR 402.2(e). The other securities haircut is the sum of all applicable deductions as specified in 17 CFR 240.15c3-1 (c)(2)(vi) and (c)(2)(viii) and in 17 CFR 240.15c3-1a and 240.15c3-1b. Any position(s) in Treasury market risk instruments that have been excluded from the calculation of the Treasury market risk haircut because they are part of a hedge with these other instruments are to be included in the calculation of this haircut.

Line 3—Haircuts on credit exposure:

a. Enter the total counterparty exposure haircut which is the sum of the counterparty exposure haircut with each counterparty, except a Federal Reserve Bank. A counterparty exposure haircut is equal to 5 percent of the net credit exposure to a single counterparty which is not in excess of 15 percent of the government securities broker's or dealer's liquid capital. If the net credit exposure to a counterparty does exceed 15 percent of liquid capital, the excess will be used in calculating the total concentration of credit haircut on line 3b.

Net credit exposure equals the difference between the government securities broker's or dealer's credit exposure to a single counterparty and that counterparty's credit exposure to the government securities broker or dealer. The government securities broker's or dealer's credit exposure to a counterparty is equal to the sum of the dollar amount of funds, debt instruments, other securities, and other inventory at risk to the government securities broker or dealer in the event of the counterparty's default and the market value of purchased unlisted options that are Treasury market risk instruments and were written by the counterparty.

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It does not include, however, (1) the deduction taken from net worth for unsecured receivables, repurchase and reverse repurchase agreement deficits, aged fails to deliver, and aged fails to receive arising from transactions with the counterparty; (2) demand deposits in the case where the counterparty is a commercial bank; (3) loans of immediately available funds (commonly referred to as "sales of federal funds") held by the government securities broker or dealer in connection with the clearance of securities on the day the loan is made in the case where the counterparty is a commercial bank; (4) custodial holdings of securities in the case where the counterparty is a clearing bank or clearing broker of the government securities broker or dealer; or (5) credit exposure to the counterparty due to holding marketable instruments for which the counterparty is the obligor.

The counterparty's credit exposure to the government securities broker or dealer equals the dollar amount of funds, debt instruments, other securities, and other inventory at risk to the counterparty in the event of the government security broker's or dealer's default and any unlisted options written by the government securities broker or dealer and held by the counterparty.

b. Enter the total concentration of credit haircut which is the sum of all concentration of credit haircuts applied in cases where the net credit exposure (as defined above) to a single counterparty is in excess of 15 percent of the government securities broker's or dealer's liquid capital. The concentration of credit haircut is 25 percent of the amount of net credit exposure in excess of 15 percent of the government securities broker's or dealer's liquid capital.

c. Enter the credit volatility haircut which equals a factor of 0.15 percent applied to the larger of the gross long or gross short position in money market instruments qualifying as Treasury market risk instruments which mature in 45 days or more, in futures and forwards on these instruments that are settled on a cash or delivery basis, and in futures and forwards on time deposits described in § 402.2(e)(1)(vii), that mature in 45 days or more, settled on a cash or delivery basis. Money market instruments qualifying as Treasury market risk instruments are (1) marketable certificates of deposit with no more than one year to maturity, (2) bankers acceptances, and (3) commercial paper which has no more than one year to maturity and is rated in one of the three highest categories by at least two nationally recognized statistical rating organizations.

Line 4—Enter total haircuts which is the sum of lines 2 a through e, and 3 a, b, and c.

Line 5—Enter the capital-to-risk ratio which is found by dividing line 1, "Liquid capital," by line 4, "Total haircuts." The

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capital-to-risk ratio must be at least equal to 1.2:1.

Schedule B—Calculation of Net Immediate Position in Securities and Financings

Schedule B is used to calculate the net immediate position in and offset portion of securities and financings. The results are then carried over to Schedule C for initial haircut calculations. Futures, forwards, and options which are Treasury market risk instruments are to be entered on Schedule D.

Positions in and financings on debt instruments other than mortgage-backed or adjustable rate mortgage-backed securities should be placed in the category corresponding to their remaining term to maturity. In the case of a floating rate note, however, the note should be placed in the category corresponding to the time to the next scheduled interest rate adjustment or remaining term to maturity, whichever is less.

Column 1—Under "Financings-Long" report in the appropriate category the contract value of reverse repurchase agreements and the value(s) of cash collateral on security borrowings. Financings so reported should be placed in the category corresponding to the remaining term to maturity or time to the next scheduled interest rate adjustment, whichever is less.

Column 2—Under "Financings-Short" report in the appropriate category as a negative number the values of funds received from financing transactions. Include repurchase agreements, securities lending secured by cash collateral, and term financings, but exclude subordinated debt which meets the requirements of 17 CFR 240.15c3-1d as modified by 17 CFR 402.2d. Financings so reported should be placed in the category corresponding to the remaining term to maturity or time to the next scheduled interest rate adjustment, whichever is less.

Columns 3 and 4—Report in the appropriate column by maturity or type of mortgage-backed security under "Securities Positions" the sum of the market values of immediate positions in Treasury market risk instruments. The net position in each individual Treasury market risk instrument is to be appropriately reported as a long (+) or short (−) position in summation with all other positions of the same category (long/short). Short positions are assigned a negative value. Treasury market risk instruments are defined in 17 CFR 402.2(e). Those to be reported in Schedule B are:

(1) Government securities as defined in 17 CFR 400.3(m) except equity securities and mortgage-backed securities which do not pass through to the security holder on a pro rata basis a distribution based on the monthly payments and prepayments of principal and interest on the underlying pool of mortgage collateral less fees and expenses;

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(2) Zero-coupon receipts or certificates based on marketable Treasury notes or bonds;

(3) Marketable certificates of deposit of no more than one year to maturity;

(4) Bankers acceptances;

(5) Commercial paper of no more than one year to maturity rated in one of the three highest categories by at least two nationally recognized statistical rating organizations; and

(6) Securities described in § 402.2(e)(1)(vi).

Report all positions as of the trade date. If the settlement date is scheduled for more than five business days in the future (or, in the case of a mortgage-backed security, more than thirty calendar days in the future), then report the position as a forward contract on Schedule D. Also, under "Securities Positions" in the appropriate column and category, report any when-issued position in a marketable Treasury security between announcement and issue date, any when-issued position in a government agency or a government-sponsored agency debt security between release date and issue date, and any when-issued position in a security described in § 402.2(e)(1)(vi) between announcement date and issue date.

Exclude positions in Treasury market risk instruments which form part of a hedge against long and short positions in securities, futures contracts, forward contracts, or options that are not Treasury market risk instruments and are to be included in the calculation of the other securities haircut. Only that portion of the total position in a Treasury market risk instrument that forms part of such a hedge may be excluded, and the inclusion of the Treasury market risk instruments must reduce the other securities haircut.

Column 5—Under "Total Securities and Financing Positions (+)" report in the appropriate category the sum of the long financings (column 1) and long securities positions (column 3).

Column 6—Under "Total Securities and Financing Positions (-)" report in the appropriate category the sum of the short financings (column 2) and short securities positions (column 4).

Column 7—Under "Offset Portions" report in the appropriate category the lesser of the absolute values of the positive (column 5) or negative (column 6) total securities and financing positions.

Column 8—Under "Net Immediate Positions" report in the appropriate category the sum, or net value, of the positive (column 5) and negative (column 6) total securities and financing positions.

Columns 7, "Offset Portions," and 8, "Net Immediate Positions," are to be carried to Schedule C.

Schedule C—Governments Offset Portion and Net Immediate Position Interim Haircuts Calculation

Schedule C is used to calculate the total governments offset portion haircut and net immediate position interim haircuts by applying offset and net position haircut factors to the offset portions and net immediate positions in Treasury market risk instruments and financings. The total governments offset portion haircut is then carried to Schedule A, and the net immediate position interim haircuts are carried to Schedule D or E.

Column 7—Transfer to column 7, "Governments Offset Portion—\$ Amounts," column seven from Schedule B, "Offset Portions."

Column 9—These are the governments offset portion haircut factors given at 17 CFR 402.2(f)(2). They may be updated from time to time.

Column 10—Under "Governments Offset Portion—Haircuts" report in the appropriate category the product of the corresponding values in column 7, "\$ Amounts," and in column 9, "Factors."

To determine the total governments offset portion haircut, sum the values under "Governments Offset Portion—Haircuts" in column 10, and enter this number in the appropriate space. Carry this value to Schedule A, line 2a, converting, if necessary, to thousands of dollars.

Column 8—Transfer to column 8, "Net Immediate Positions—\$ Amounts," column eight from Schedule B, "Net Immediate Positions."

Column 11—These are the net immediate position haircut factors given at 17 CFR 402.2(f)(2). They may be updated from time to time.

Column 12—Under "Net Immediate Positions—Interim Haircuts" place in the appropriate category the product of the corresponding values in column 8, "\$ Amounts," and in column 11, "Factors." A haircut on a short position remains negative.

Carry column 12 to Schedule D, or, if there are no futures, forwards, or options positions, to Schedule E.

Schedule D—Consolidation of Net Immediate Position Interim Haircuts with Gross Futures and Options Interim Haircuts

Schedule D is used to enter haircuts on futures, forwards and options positions and to calculate the total futures and options offset haircut and the residual position interim haircuts as needed for Schedules A and E respectively. If there are no futures and options positions, it is not necessary to fill out Schedule D.

Report on Schedule D futures, forwards, and options which are Treasury market risk instruments as defined in § 402.2(e). These futures, forwards, and listed option contracts may be based on any of the Treasury market

risk instruments described in the instructions to columns 3 and 4 on Schedule B or on time deposits whose changes in yield are closely correlated with marketable certificates of deposit which are Treasury market risk instruments, as described in § 402.2(e)(1)(vii). Options on Treasury market risk futures contracts and unlisted options on marketable Treasury bills, notes, and bonds are also to be included. Futures contracts may settle on a cash or delivery basis. Any of these contracts which are being included as part of a hedge in the calculation of the other securities haircut must be excluded from Schedule D.

Report as a forward contract any position for which the time between trade date and settlement date is more than five business days (30 calendar days for a mortgage-backed security). Any when-issued position in a marketable Treasury security established between announcement and issue date, any when-issued position in a government agency or a government-sponsored agency debt security established between release date and issue date, and any when-issued position in a security described in § 402.2(e)(1)(vi) between announcement date and issue date is reported in the appropriate category on Schedule B under "Securities Positions."

Column 12—Transfer to column 12, "Net Immediate Position Interim Haircuts," column 12 from Schedule C, "Net Immediate Positions—Interim Haircuts," converting, if necessary, to thousands of dollars.

Columns 13 and 14—Under "Gross Interim Haircuts—Futures and Forward" enter in the appropriate category the sum of the interim haircuts on the futures or forward positions belonging to that category. The interim haircut on a futures or forward position equals the product of the value of the position evaluated at the current market price for such contract and the net position haircut factor that corresponds to either the term to maturity of the underlying instrument or, for mortgage-backed securities, the type of security. The term to maturity of the underlying instrument is the term to maturity of the deliverable security at the time of the maturity of the futures or forward contract. The haircut on a futures or forward position on a non-mortgaged-backed instrument is to be entered in the category corresponding to the sum of the remaining time to maturity of the futures or forward contract and the maturity of the underlying instrument. Haircuts on futures and forwards on mortgage-backed securities are to be entered in the appropriate mortgage-backed securities category. The interim haircuts on long futures and forwards are positive (column 13), and on short futures and forwards, negative (column 14).

Columns 15 and 16—Under "Gross Interim Haircuts—Options" enter, in the category in which the instrument directly underlying

the contract would be entered, the lesser of (1) the market value of the option or (2) the net immediate position interim haircut on the underlying cash instrument or gross futures interim haircut on the underlying futures contract. Note that in the case of an option on a futures contract the category in which the option contract is to be entered is the sum of the remaining time to maturity of the futures or forward contract and the maturity of the instrument underlying the futures or forward contract. The haircut factor used to determine the gross futures interim haircut is that factor corresponding to the term to maturity of the deliverable security at the time of the maturity of the futures or forward contract. Gross option haircuts on purchased calls and sold puts are positive, those on sold calls and purchased puts are negative.

Column 17—Under "Aggregate Interim Haircuts (+)" enter in the appropriate category, the sum of any positive net immediate position interim haircut (column 12) and the positive gross option (column 15) and gross futures and forward (column 13) interim haircuts for that category.

Column 18—Under "Aggregate Interim Haircuts (-)" enter in the appropriate category, the sum of any negative net immediate position interim haircut (column 12) and the negative gross option (column 16) and gross futures and forward (column 14) interim haircuts for that category.

Column 19—Under "Futures and Options Offset Portions" enter, in the appropriate category, the lesser of the absolute values of the positive and negative aggregate interim haircuts (columns 17 and 18) for that category.

The total futures and options offset portion is the sum of the values in column 19 under "Futures and Options Offset Portions."

The total futures and options offset haircut is the total futures and options offset portion multiplied by a factor of 20 percent and is carried to line 2b, Schedule A.

Column 20—Enter in the appropriate category under "Residual Position Interim Haircuts" the sum, or net value, of the positive and negative aggregate interim haircuts. Carry this to column 20 on Schedule E.

Schedule E—Calculation of Hedging Disallowance Haircuts When Netting Haircuts Across Categories

Schedule E is used to calculate the hedging disallowance and residual net position haircuts which are then carried to Schedule A. The purpose of Schedule E is to hedge positions in different categories in order to reduce total haircuts. Netting the residual position interim haircuts reflects the risk reduction inherent in hedges between positions in different categories where the price volatility is reasonably well correlated.

Section 402.2(f)(3) of the rule specifies the hedging disallowance haircut factors for the category pairs. Netting of residual position interim haircuts is permitted only between any two categories for which a hedging disallowance haircut factor is specified. Hedging disallowance haircuts are similar to offset haircuts in that they are applied to the smaller of the two residual position interim haircuts and represent the portion of the hedge being “disallowed.” A hedging disallowance haircut is determined each time two residual position interim haircuts are netted.

There are three levels of permissible netting corresponding to the three hedging disallowance haircut factors: The 20 percent, 30 percent, and 40 percent levels. It is not necessary to net all possible pairs at any one level. A greater reduction in total haircuts can sometimes be obtained by choosing not to net a pair at one level (e.g., the 20 percent level) so that one element of the pair can be netted against a third category at another level (e.g., the 30 percent level).

Column 20—Transfer column 20, “Residual Position Interim Haircuts,” from Schedule D. If there are no futures or options positions, transfer instead column 12, “Net Immediate Positions—Interim Haircuts,” from Schedule C.

Column 21—Use the matrix at 17 CFR 402.2(f)(3) to determine the categories from which the residual position interim haircuts may be paired at the 20 percent level. For each pair multiply the smaller of the absolute values of the two residual position interim haircuts by the hedging disallowance haircut factor of 20 percent, and, in the category of the smaller, enter the resulting hedging disallowance haircut.

Column 22—For each pair being netted at this level, enter under “Net Residual Position Interim Haircuts” (1) the sum, or net value, of the two residual position interim haircuts (and/or net residual position interim haircuts) in the category of the larger (in absolute value) of the two interim haircuts that were netted, and (2) a zero in the category of the smaller.

These net residual position interim haircuts replace the residual position interim haircuts (or net residual position interim haircuts) from which they were derived. Net residual position interim haircuts can in turn be used in any other allowable netting exactly as residual position interim haircuts would be. If further netting of that category at the same level is permissible and possible, it will be necessary to replace the net residual position interim haircut involved with a new (and smaller) net residual position interim haircut in column 22.

Since the net residual position interim haircut in any category containing a hedging disallowance haircut is zero, further netting with any such category is impossible.

After all netting has been completed for category pairs with a 20 percent hedging disallowance haircut factor, move on to column 23.

Column 23—Use the matrix at 17 CFR 402.2(f)(3) to determine the categories from which the residual position interim haircuts and/or net residual position interim haircuts may be paired at the 30 percent level. In each category, the newest (and smallest) net residual position interim haircut determined by netting at the 20 percent level replaces the old value and must be used in hedging in that category at higher levels. For each pair being netted, multiply the smaller of the absolute values of the two (net) residual position interim haircuts by the hedging disallowance haircut factor of 30 percent, and in the category of the smaller, enter the resulting hedging disallowance haircut.

Column 24—For each pair being netted at this level, enter under “Net Residual Position Interim Haircuts” (1) the sum, or net value, of the two residual position interim haircuts and/or net residual position interim haircuts in the category of the larger (in absolute value) of the two interim haircuts that were netted, and (2) a zero in the category of the smaller.

These net residual position interim haircuts replace the residual position interim haircuts (or net residual position interim haircuts) from which they were derived. Net residual position interim haircuts can in turn be used in any other allowable netting exactly as residual position interim haircuts would be. If further netting of that category at the same level is permissible and possible, it will be necessary to replace the net residual position interim haircut involved with a new (and smaller) net residual position interim haircut.

After all netting has been completed for category pairs with a 30 percent hedging disallowance haircut factor, continue to column 25.

Column 25—Use the matrix at 17 CFR 402.2(f)(3) to determine the categories from which the residual position interim haircuts and/or net residual position interim haircuts may be paired at the 40 percent level. In each category, any new net residual position interim haircut determined by netting at the 20 or 30 percent level replaces the old value and must be used in hedging with that category at the 40 percent level. For each pair being netted, multiply the smaller of the absolute values of the two (net) residual position interim haircuts by the hedging disallowance haircut factor of 40 percent and, in the category of the smaller, enter the resulting hedging disallowance haircut.

Column 26—For each pair being netted at this level, enter under “Net Residual Position Interim Haircuts” (1) the sum, or net value, of the two (net) residual position interim haircuts in the category of the larger

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(in absolute value) of the two interim haircuts that were netted, and (2) a zero in the category of the smaller. If further netting of that category at the same level is permissible and possible, it will be necessary to replace the net residual position interim haircut involved with a new (and smaller) net residual position interim haircut.

Column 27—When all possible (net) residual position interim haircuts have been netted, enter under “Hedging Disallowance Haircuts” all hedging disallowance haircuts calculated in the netting procedures, each in its appropriate category.

Enter under “Total Hedging Disallowance Haircut” the sum of all the hedging disallowance haircuts entered in column 27. Carry to Schedule A, line 2c.

Column 28—Under “Qualified Netting Interim Haircuts” enter in the appropriate category the absolute value of the haircut given under “Net Residual Position Interim Haircut” at the highest hedging disallowance factor used for that category (columns 26, 24, or 22). This value will also be the smallest of the net residual position interim haircuts in that category. If the position in a given category was not used in hedging then enter the absolute value of the residual position interim haircut from column 20.

Sum the qualified netting interim haircuts, enter this value under “Residual Net Position Haircut,” and carry to Schedule A, line 2d.

[52 FR 27931, July 24, 1987, as amended at 53 FR 28985, Aug. 1, 1988]

§ 402.2b [Reserved]

§ 402.2c Appendix C—Consolidated computations of liquid capital and total haircuts for certain subsidiaries and affiliates.

(a) Consolidation. (1) A government securities broker or dealer (the “parent broker or dealer”), in computing its liquid capital and total haircuts pursuant to § 402.2:

(i) Shall consolidate in a single computation of liquid capital the assets and liabilities of any subsidiary or affiliate for which the parent broker or dealer guarantees, endorses, or assumes directly or indirectly the obligations or liabilities if the parent broker or dealer has obtained the opinion of counsel described in paragraph (b) of this section with respect to such subsidiary or affiliate;

(ii) May not consolidate in a single computation of liquid capital the assets and liabilities of any subsidiary or affiliate for which the parent broker or

dealer guarantees, endorses, or assumes directly or indirectly the obligations or liabilities if the parent broker or dealer has not obtained the opinion of counsel described in paragraph (b) of this section with respect to such subsidiary or affiliate, but in that event, the parent broker or dealer shall compute its total haircuts by adding the total haircuts of each such subsidiary or affiliate computed in accordance with the provisions of § 402.2 to the haircuts of the parent broker or dealer computed separately in accordance with the provisions of § 402.2; and

(iii) May consolidate in its computation of liquid capital the assets and liabilities of any majority owned and controlled subsidiary or affiliate for which the parent broker or dealer does not guarantee, endorse or assume directly or indirectly the obligations or liabilities if the parent broker or dealer has obtained the opinion of counsel described in paragraph (b) of this section with respect to such subsidiary or affiliate.

(2) With respect to any subsidiary or affiliate whose assets and liabilities are consolidated in the parent broker’s or dealer’s computation of liquid capital according to the provisions of paragraph (a)(1)(i) or (a)(1)(iii) of this section, the parent broker or dealer shall compute its haircuts in accordance with the provisions of § 402.2 as if the consolidated entity were one firm, or, in the alternative, shall add the total haircuts of each consolidated subsidiary or affiliate computed in accordance with the provisions of § 402.2 to the haircuts of the parent broker or dealer computed separately in accordance with the provisions of § 402.2.

(b) Required counsel opinion. The opinion of counsel referred to in paragraph (a) of this section shall demonstrate to the satisfaction of the Commission, through the Designated Examining Authority, that net asset values, or the portion thereof related to the parent broker’s or dealer’s ownership interest in a majority owned and controlled subsidiary or affiliate, may be caused by the parent broker or dealer or an appointed trustee to be distributed to the parent broker or dealer within 30 calendar days. Such opinion shall also set forth the actions necessary to cause