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adequately collateralized by government securities outstanding for not more than one business day and offset by government securities failed to deliver of the same issue and quantity. In no event may a government securities interdealer broker exclude any overnight bank loan attributable to the same government securities failed-to-deliver contract for more than one business day. A government securities interdealer broker need not deduct from net worth the amount by which the market value of securities failed to receive outstanding longer than thirty (30) calendar days exceeds the contract value of those failed to receive as required by § 240.15c3-1(c)(2)(iv)(E) of this title.

(8)(i) For purposes of this paragraph (e), a government securities interdealer broker shall deduct from net worth 5 percent of its net exposure to each counterparty.

(ii) *Net exposure.* For purposes of this paragraph (e), net exposure shall equal:

(A) The sum of the dollar amount of funds, debt instruments, other securities, and other inventory at risk, in the first instance, to the government securities interdealer broker in the event of the counterparty's default,

(B) Reduced, but not to less than zero, by the sum of:

(1) The dollar amount of funds, debt instruments, other securities, and other inventory at risk, in the first instance, to the counterparty in the event of the government securities interdealer broker's default;

(2) The deductions taken from net worth for unsecured receivables, repurchase and reverse repurchase deficits, aged fails to deliver, and aged fails to receive arising from transactions with the counterparty;

(3) Demand deposits in the case where the counterparty is a commercial bank;

(4) Loans for one business day of immediately available funds (commonly referred to as "sales of federal funds") held by the government securities interdealer broker in connection with the clearance of securities on the day the loan is made in the case where the counterparty is a commercial bank;

(5) Custodial holdings of securities in the case where the counterparty is a

clearing bank or clearing broker of the government securities interdealer broker; and

(6) Exposure to a counterparty due to holding marketable instruments subject to market risk haircuts under appendix A to this section (§ 402.2a) for which the counterparty is the obligor.

(9) On the application of the government securities interdealer broker, the designated examining authority may extend the periods of time in this paragraph (e) if it determines that the extension is warranted because of exceptional circumstances and that the government securities interdealer broker is acting in good faith.

(f) *Effective date.* This part shall be effective July 25, 1987, *provided however*, that until the last business day in October 1987, registered government securities brokers and dealers need not comply with § 402.2 (a), (b), and (c) as long as:

(1) A registered government securities broker or dealer that acts solely as an introducing broker within the meaning of § 240.15c3-1(a)(2) of this title has and maintains liquid capital, as defined in § 402.2(d), in an amount of not less than \$5,000; and

(2) Any other registered government securities broker or dealer has and maintains liquid capital, as defined in § 402.2(d), in an amount of not less than \$50,000.

[52 FR 27931, July 24, 1987, as amended at 60 FR 11024, Mar. 1, 1995]

§ 402.2 Capital requirements for registered government securities brokers and dealers.

(a) *General rule.* No government securities broker or dealer shall permit its liquid capital to be below an amount equal to 120 percent of total haircuts as defined in paragraph (g) of this section.

(b)(1) *Minimum liquid capital for brokers or dealers that carry customer accounts.* Notwithstanding the provisions of paragraph (a) of this section, a government securities broker or dealer that carries customer or broker or dealer accounts and receives or holds funds or securities for those persons within the meaning of § 240.15c3-1(a)(2)(i) of this title, shall have and maintain liquid capital in an amount not less than \$250,000 (see paragraph (a)

of appendix E to this section, § 402.2e, for temporary minimum requirements), after deducting total haircuts as defined in paragraph (g) of this section.

(2) *Minimum liquid capital for brokers or dealers that carry customer accounts, but do not generally hold customer funds or securities.* Notwithstanding the provisions of paragraphs (a) and (b)(1) of this section, a government securities broker or dealer that carries customer or broker or dealer accounts and is exempt from the provisions of § 240.15c3-3 of this title, as made applicable to government securities brokers and dealers by § 403.4 of this chapter, pursuant to paragraph (k)(2)(i) thereof (17 CFR 240.15c3-3(k)(2)(i)), shall have and maintain liquid capital in an amount not less than \$100,000 (see paragraph (b) of appendix E to this section, § 402.2(e), for temporary minimum requirements), after deducting total haircuts as defined in paragraph (g) of this section.

(c)(1) *Minimum liquid capital for introducing brokers that receive securities.* Notwithstanding the provisions of paragraphs (a) and (b) of this section, a government securities broker or dealer that introduces on a fully disclosed basis transactions and accounts of customers to another registered or noticed government securities broker or dealer but does not receive, directly or indirectly, funds from or for, or owe funds to, customers, and does not carry the accounts of, or for, customers shall have and maintain liquid capital in an amount not less than \$50,000 (see paragraph (c) of appendix E to this section, § 402.2(e), for temporary minimum requirements), after deducting total haircuts as defined in paragraph (g) of this section. A government securities broker or dealer operating pursuant to this paragraph (c)(1) may receive, but shall not hold customer or other broker or dealer securities.

(2) *Minimum liquid capital for introducing brokers that do not receive or handle customer funds or securities.* Notwithstanding the provisions of paragraphs (a), (b) and (c)(1) of this section, a government securities broker or dealer that does not receive, directly or indirectly, or hold funds or securities for, or owe funds or securities to, customers, and does not carry accounts of,

or for, customers and that effects ten or fewer transactions in securities in any one calendar year for its own investment account shall have and maintain liquid capital in an amount not less than \$25,000 (see paragraph (d) of appendix E to this section, § 402.2(e), for temporary minimum requirements), after deducting total haircuts as defined in paragraph (g) of this section.

(d) *Liquid capital.* “Liquid capital” means net capital as defined in § 240.15c3-1(c)(2) of this title with the following modifications:

(1) The percentages used to calculate the deductions for failed to deliver contracts required by § 240.15c3-1(c)(2)(ix) of this title when the underlying instrument is a Treasury market risk instrument as defined in paragraph (e) of this section are the appropriate net position haircut factors specified in paragraph (f)(2) of this section;

(2) The percentages used to calculate deductions required by § 240.15c3-1(c)(2)(iv)(B) of this title for securities that are Treasury market risk instruments are the appropriate net position haircut factors specified in paragraph (f)(2) of this section;

(3) The deduction required by § 240.15c3-1(c)(2)(iv)(F)(3)(i) of this title relating to repurchase agreement deficits shall be determined without reference to § 240.15c3-1(c)(2)(iv)(F)(3)(i)(B) or § 240.15c3-1(c)(2)(iv)(F)(3)(i)(C);

(4) The deductions from net worth required by §§ 240.15c3-1 (c)(2)(vi) and (c)(2)(viii) of this title and the adjustments to net worth set forth in § 240.15c3-1a and § 240.15c3-1b of this title (Appendices A and B to SEC Rule 15c3-1) are omitted;

(5) Net pair-off receivables and money differences need not be deducted as otherwise would be required under § 240.15c3-1(c)(2)(iv)(B) of this title until the close of business of the third business day following the day the funds are due;

(6) Give-up receivables outstanding no more than 30 days from the billing date, which shall be no later than the last day of the month in which they arise, need not be deducted as otherwise would be required under § 240.15c3-1(c)(2)(iv)(B) of this title;

(7) Loans to commercial banks for one business day 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 need not be deducted; and

(8) In determining net worth, all long and short positions in unlisted options that are Treasury market risk instruments shall be evaluated in the manner set forth in § 240.15c3-1(c)(2)(i)(B)(1) and not in the manner set forth in § 240.15c3-1(c)(2)(i)(B)(2) of this title.

(e) *Treasury market risk instruments.* (1) For purposes of this part, the term “Treasury market risk instrument” means the following dollar-denominated securities, debt instruments, and derivative instruments:

(i) Government securities, except equity securities and those mortgage-backed securities described in paragraph (e)(2) of this section;

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

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

(iv) Bankers acceptances;

(v) 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;

(vi) Securities, other than equity securities, issued by international orga-

nizations that have a statutory exemption from the registration requirements of the Securities Act of 1933 and the Securities Exchange Act of 1934 provided their changes in yield are closely correlated to the changes in yield of similar Treasury securities, including STRIPS;

(vii) Futures, forwards, and listed options on Treasury market risk instruments described in paragraphs (e)(1)(i)-(vi) of this section or on time deposits whose changes in yield are closely correlated with the Treasury market risk instruments described in paragraph (e)(1)(iii) of this section, settled on a cash or delivery basis;

(viii) Options on those futures contracts described in paragraph (e)(1)(vii) of this section, settled on a cash or delivery basis; and

(ix) Unlisted options on marketable Treasury bills, notes or bonds.

(2) “Treasury market risk instrument” does not include mortgage-backed securities that do not pass through to each 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.

(f)(1) *Haircut categories.* For purposes of this part, the applicable categories within which non-zero-coupon and zero-coupon Treasury market risk instruments are classified are:

Category	Term or type for non-zero-coupon instruments	Term for zero-coupon instruments
A	Less than 45 days	Less than 45 days.
B	At least 45 days but less than 135 days	At least 45 days but less than 135 days.
C	At least 135 days but less than 9 months	At least 135 days but less than 9 months.
D	At least 9 months but less than 1 year, 6 months	At least 9 months but less than 1 year, 6 months.
E	At least 1 year, 6 months but less than 3 years, 6 months.	At least 1 year, 6 months but less than 3 years.
F	At least 3 years, 6 months but less than 7 years, 6 months.	At least 3 years but less than 5 years, 6 months.
G	At least 7 years, 6 months but less than 15 years	At least 5 years, 6 months but less than 9 years.
H	15 years and over	At least 9 years but less than 12 years.
I .....	.....	At least 12 years but less than 21 years
J .....	.....	21 years and over.
MB	All fixed rate mortgage-backed securities that are Treasury market risk instruments..	
AR	All adjustable rate mortgage-backed securities that are Treasury market risk instruments.	

(2) *Haircut factors.* For purposes of this part, the applicable net position and offset haircut factors to be used in

the calculation of the Treasury market risk haircut are as follows:

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Category	Haircut factors	
	Net position haircuts (percent)	Offsets (percent)
A	None	None
B	0.12	0.02
C	0.20	0.03
D	0.45	0.07
E	1.10	0.22
F	2.20	0.44
G	3.30	0.50
H	4.50	0.90
I	7.75	1.55
J	11.25	3.38
MB	3.30	0.66

Category	Haircut factors	
	Net position haircuts (percent)	Offsets (percent)
AR	1.10	0.22

(3) *Category pair hedging disallowance haircut factors.* For purposes of this part, the applicable category pair hedging disallowance haircut factors to be used in the calculation of the Treasury market risk haircut are as follows:

Category	Percent disallowed									
	C	D	E	F	G	H	I	J	MB	
B	30	40	.....	.....	.....	.....	.....	.....	.....	.....
C	20	30	.....	.....	.....	.....	.....	.....	.....
D	20	30	40	.....	.....	.....	.....	.....
E	20	30	40	.....	.....	.....	.....
F	20	30	40	.....	30	.....
G	20	30	30	30	.....
H	20	40	40	.....
I	40	.....	.....

(g) *Total haircuts.* “Total haircuts” equals the sum of the credit risk haircut and the market risk haircut.

(1) *Credit risk haircut.* The “credit risk haircut” equals the sum of the total counterparty exposure haircut, the total concentration of credit haircut and the credit volatility haircut.

(i) *Net credit exposure.* For purposes of this part, net credit exposure shall equal:

(A) 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 written by the counterparty that are Treasury market risk instruments,

(B) Reduced, but not to less than zero, by the sum of:

(1) The dollar amount of funds, debt instruments, other securities, and other inventory at risk to the counterparty in the event of the government securities broker’s or dealer’s default and the market value of unlisted options written by the government securities broker or dealer and held by the counterparty that are Treasury market risk instruments;

(2) The deductions 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;

(3) Demand deposits in the case where the counterparty is a commercial bank;

(4) Loans for one business day 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;

(5) Custodial holdings of securities in the case where the counterparty is a clearing bank or clearing broker of the government securities broker or dealer; and

(6) Exposure to a counterparty due to holding marketable instruments subject to market risk haircuts under appendix A to this section (§402.2a) for which the counterparty is the obligor.

(ii) *Total counterparty exposure haircut.* The “total counterparty exposure haircut” equals the sum of the counterparty exposure haircuts taken for all counterparties except a Federal

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Reserve Bank, of the government securities broker or dealer. The “counterparty exposure haircut” equals the product of a counterparty exposure haircut factor of 5 percent and the net credit exposure to a single counterparty not in excess of 15 percent of the government securities broker’s or dealer’s liquid capital.

(iii) *Total concentration of credit haircut.* The “total concentration of credit haircut” equals the sum of the concentration of credit haircuts taken for all counterparties of the government securities broker or dealer. The “concentration of credit haircut” equals the product of a concentration of credit haircut factor of 25 percent and the amount by which the net credit exposure to a single counterparty is in excess of 15 percent of the government securities broker’s or dealer’s liquid capital.

(iv) *Credit volatility haircut.* The “credit volatility haircut” equals the product of a credit volatility haircut factor of 0.15 percent and the dollar amount of the larger of the gross long position or gross short position in those Treasury market risk instruments described in paragraphs (e)(1)(iii), (iv) and (v) of this section that have a term to maturity greater than 44 days, including futures and forwards thereon, settled on a cash or delivery basis, and futures and forwards on time deposits described in paragraph (e)(1)(vii) of this section, that have a term to maturity greater than 44 days, settled on a cash or delivery basis.

(2) *Market risk haircut.* The “market risk haircut” equals the sum of the Treasury market risk haircut and the other securities haircut, calculated in accordance with the provisions of appendix A of this section, § 402.2a.

(h) *Debt-equity requirements.* No government securities broker or dealer shall permit the total of outstanding principal amounts of its satisfactory subordination agreements 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, to exceed the allowable levels set forth in § 240.15c3-1(d) of this title.

(i) *Provisions relating to the withdrawal of equity capital—(1) Notice provisions.*

No equity capital of the government securities 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 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 without providing written notice, given in accordance with paragraph (i)(1)(iv) of this section, when specified in paragraphs (i)(1) (i) and (ii) of this section:

(i) Two business days prior to any withdrawals, advances or loans if those withdrawals, advances or loans on a net basis exceed in the aggregate in any 30 calendar day period, 30 percent of the government securities broker’s or dealer’s excess liquid capital. A government securities broker or dealer, in an emergency situation, may make withdrawals, advances or loans that on a net basis exceed 30 percent of the government securities broker’s or dealer’s excess liquid capital in any 30 calendar day period without giving the advance notice required by this paragraph, with the prior approval of its designated examining authority. When a government securities broker or dealer makes a withdrawal with the consent of its designated examining authority, it shall in any event comply with paragraph (i)(1)(ii) of this section; and

(ii) Two business days after any withdrawals, advances or loans if those withdrawals, advances or loans on a net basis exceed in the aggregate in any 30 calendar day period, 20 percent of the government securities broker’s or dealer’s excess liquid capital.

(iii) This paragraph (i)(1) of this section does not apply to:

(A) Securities or commodities transactions in the ordinary course of business between a government securities broker or dealer and an affiliate where the government securities broker or dealer makes payment to or on behalf of such affiliate for such transaction and then receives payment from such affiliate for the securities or commodities transaction within two business

days from the date of the transaction; or

(B) Withdrawals, advances or loans which in the aggregate in any such 30 calendar day period, on a net basis, equal \$500,000 or less.

(iv) Each required notice shall be effective when received by the Commission in Washington, DC, the regional or district office of the Commission for the area in which the government securities broker or dealer has its principal place of business, and the government securities broker's or dealer's designated examining authority.

(2) *Withdrawal limitations.* No equity capital of the government securities 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

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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 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

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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.