operating or controlling the U.S. branch, agency, or subsidiary.

(f) Simplified programs for less active banking entities—(1) Banking entities with no covered activities. A banking entity that does not engage in activities or investments pursuant to subpart B or subpart C (other than trading activities permitted pursuant to §255.6(a) of subpart B) may satisfy the requirements of this section by establishing the required compliance program prior to becoming engaged in such activities or making such investments (other than trading activities permitted pursuant to §255.6(a) of subpart B).

(2) Banking entities with modest activities. A banking entity with total consolidated assets of $10 billion or less as reported on December 31 of the previous two calendar years that engages in activities or investments pursuant to subpart B or subpart C (other than trading activities permitted under §255.6(a) of subpart B) may satisfy the requirements of this section by including in its existing compliance policies and procedures appropriate references to the requirements of section 13 of the BHC Act and the part and adjustments as appropriate given the activities, size, scope and complexity of the banking entity.

§ 255.21 Termination of activities or investments; penalties for violations.

(a) Any banking entity that engages in an activity or makes an investment in violation of section 13 of the BHC Act or this part, or acts in a manner that functions as an evasion of the requirements of section 13 of the BHC Act or this part, shall, upon discovery, promptly terminate the activity and, as relevant, dispose of the investment.

(b) Whenever the SEC finds reasonable cause to believe any banking entity has engaged in an activity or made an investment in violation of section 13 of the BHC Act or this part, or engaged in any activity or made any investment that functions as an evasion of the requirements of section 13 of the BHC Act or this part, the SEC may take any action permitted by law to enforce compliance with section 13 of the BHC Act and this part, including directing the banking entity to restrict, limit, or terminate any or all activities under this part and dispose of any investment.

APPENDIX A TO PART 255—REPORTING AND RECORDKEEPING REQUIREMENTS FOR COVERED TRADING ACTIVITIES

I. PURPOSE

a. This appendix sets forth reporting and recordkeeping requirements that certain banking entities must satisfy in connection with the restrictions on proprietary trading set forth in subpart B ("proprietary trading restrictions"). Pursuant to §255.20(d), this appendix generally applies to a banking entity that, together with its affiliates and subsidiaries, has significant trading assets and liabilities. These entities are required to (i) furnish periodic reports to the SEC regarding a variety of quantitative measurements of their covered trading activities, which vary depending on the scope and size of covered trading activities, and (ii) create and maintain records documenting the preparation and content of these reports. The requirements of this appendix must be incorporated into the banking entity’s internal compliance program under §255.20 and Appendix B.

b. The purpose of this appendix is to assist banking entities and the SEC in:

(i) Better understanding and evaluating the scope, type, and profile of the banking entity’s covered trading activities;

(ii) Monitoring the banking entity’s covered trading activities;

(iii) Identifying covered trading activities that warrant further review or examination by the banking entity to verify compliance with the proprietary trading restrictions;

(iv) Evaluating whether the covered trading activities of trading desks engaged in market making-related activities subject to §255.4(b) are consistent with the requirements governing permitted market making-related activities;

(v) Evaluating whether the covered trading activities of trading desks that are engaged in permitted trading activity subject to §§255.4, 255.5, or 255.6(a)-(b) (i.e., underwriting and market making-related related activity, risk-mitigating hedging, or trading in certain government obligations) are consistent with the requirement that such activity not result, directly or indirectly, in a material exposure to high-risk assets or high-risk trading strategies;

(vi) Identifying the profile of particular covered trading activities of the banking entity, and the individual trading desks of the
banking entity, to help establish the appropriate frequency and scope of examination by the SEC of such activities; and
(vii) Assessing and addressing the risks associated with the banking entity’s covered trading activities.

c. The quantitative measurements that must be furnished pursuant to this appendix are intended to serve as a dispositive tool for the identification of permissible or impermissible activities.

d. In order to allow banking entities and the Agencies to evaluate the effectiveness of these metrics, banking entities must collect and report these metrics for all trading desks beginning on the dates established in §255.20 of the final rule. The Agencies will review the data collected and revise this collection requirement as appropriate based on a review of the data collected prior to September 30, 2015.

e. In addition to the quantitative measurements required in this appendix, a banking entity may need to develop and implement other quantitative measurements in order to effectively monitor its covered trading activities for compliance with section 13 of the BHC Act and this part. All banking entities must ensure that they have robust measures in place to identify and monitor the risks taken in their trading activities, to ensure that the activities are within risk tolerances established by the banking entity, and to monitor and examine for compliance with the proprietary trading restrictions in this part.

f. On an ongoing basis, banking entities must carefully monitor, review, and evaluate all furnished quantitative measurements, as well as any others that they choose to utilize in order to maintain compliance with section 13 of the BHC Act and this part. All measurement results that indicate a heightened risk of impermissible proprietary trading, including with respect to otherwise-permitted activities under §§255.4 through 255.6(a) and (b), or that result in a material exposure to high-risk assets or high-risk trading strategies, must be escalated within the banking entity for review, further analysis, explanation to the SEC, and remediation, where appropriate. The quantitative measurements discussed in this appendix should be helpful to banking entities in identifying and managing the risks related to their covered trading activities.

II. DEFINITIONS

The terms used in this appendix have the same meanings as set forth in §§255.2 and 255.3. In addition, for purposes of this appendix, the following definitions apply:

Calculation period means the period of time for which a particular quantitative measurement must be calculated.

Comprehensive profit and loss means the net profit or loss of a trading desk’s material sources of trading revenue over a specific period of time, including, for example, any increase or decrease in the market value of a trading desk’s holdings, dividend income, and interest income and expense.

Covered trading activity means trading conducted by a trading desk under §§255.4, 255.5, 255.6(a), or 255.6(b). A banking entity may include trading under §§255.3(d), 255.6(c), 255.6(d) or 255.6(e).

Measurement frequency means the frequency with which a particular quantitative metric must be calculated and recorded.

Trading desk means the smallest discrete unit of organization of a banking entity that purchases or sells financial instruments for the trading account of the banking entity or an affiliate thereof.

III. REPORTING AND RECORDKEEPING OF QUANTITATIVE MEASUREMENTS

a. Scope of Required Reporting

General scope. Each banking entity must subject to this part by §255.20 must furnish the following quantitative measurements for each trading desk of the banking entity, calculated in accordance with this appendix:

• Risk and Position Limits and Usage;
• Risk Factor Sensitivities;
• Value-at-Risk and Stress VaR;
• Comprehensive Profit and Loss Attribution;
• Inventory Turnover;
• Inventory Aging; and
• Customer-Facing Trade Ratio

b. Frequency of Required Calculation and Reporting

A banking entity must calculate any applicable quantitative measurement for each trading day. A banking entity must report each applicable quantitative measurement to the SEC on the reporting schedule established in §255.20 unless otherwise requested by the SEC. All quantitative measurements for any calendar month must be reported within the time period required by §255.20.

c. Recordkeeping

A banking entity must, for any quantitative measurement furnished to the SEC...
1. Risk and Position Limits and Usage

Description: For purposes of this appendix, Risk and Position Limits are the constraints that define the amount of risk that a trading desk is permitted to take at a point in time, as defined by the banking entity for a specific trading desk. Usage represents the portion of the trading desk’s limits that are accounted for by the current activity of the desk. Risk and position limits and their usage are key risk management tools used to control and monitor risk taking and include, but are not limited, to the limits set out in §255.4 and §255.5. A number of the metrics that are described below, including “Risk Factor Sensitivities” and “Value-at-Risk and Stress Value-at-Risk,” relate to a trading desk’s risk and position limits and are useful in evaluating and setting these limits in the broader context of the trading desk’s overall activities, particularly for the market making activities under §255.4(b) and hedging activity under §255.5. Accordingly, the limits required under §255.4(b)(2)(i) and §255.5(b)(1)(i) must meet the applicable requirements under §255.4(b)(2)(ii) and §255.5(b)(1)(ii) and also must include appropriate metrics for the trading desk limits including, at a minimum, the “Risk Factor Sensitivities” and “Value-at-Risk and Stress Value-at-Risk” metrics except to the extent any of the “Risk Factor Sensitivities” or “Value-at-Risk and Stress Value-at-Risk” metrics are demonstrably ineffective for measuring and monitoring the risks of a trading desk based on the types of positions traded by, and risk exposures of, that desk.

General Calculation Guidance: Risk and Position Limits must be reported in the format used by the banking entity for the purposes of risk management of each trading desk. Risk and Position Limits are often expressed in terms of risk measures, such as VaR and Risk Factor Sensitivities, but may also be expressed in terms of other observable criteria, such as net open positions. When criteria other than VaR or Risk Factor Sensitivities are used to define the Risk and Position Limits, both the value of the Risk and Position Limits and the value of the variables used to assess whether these limits have been reached must be reported.

Calculation Period: One trading day.

IV. QUANTITATIVE MEASUREMENTS

a. Risk-Management Measurements

1. Risk and Position Limits and Usage

2. Risk Factor Sensitivities

i. Description: For purposes of this appendix, Risk Factor Sensitivities are changes in a trading desk’s Comprehensive Profit and Loss that are expected to occur in the event of a change in one or more underlying variables that are significant sources of the trading desk’s profitability and risk.

ii. General Calculation Guidance: A banking entity must report the Risk Factor Sensitivities that are monitored and managed as part of the trading desk’s overall risk management policy. The underlying data and methods used to compute a trading desk’s Risk Factor Sensitivities will depend on the specific function of the trading desk and the internal risk management models employed. The number and type of Risk Factor Sensitivities that are monitored and managed by a trading desk, and furnished to the SEC, will depend on the explicit risks assumed by the trading desk. In general, however, reported Risk Factor Sensitivities must be sufficiently granular to account for a preponderance of the expected price variation in the trading desk’s holdings.

A. Trading desks must take into account any relevant factors in calculating Risk Factor Sensitivities, including, for example, the following with respect to particular asset classes:

• Commodity derivative positions: risk factors with respect to the related commodities set out in 17 CFR 202.2, the maturity of the positions, volatility and/or correlation sensitivities (expressed in a manner that demonstrates any significant non-linearities), and the maturity profile of the positions;

• Credit positions: risk factors with respect to credit spreads that are sufficiently granular to account for specific credit sectors and market segments, the maturity profile of the positions, and risk factors with respect to interest rates of all relevant maturities;

• Credit-related derivative positions: risk factor sensitivities, for example credit spreads, shifts (parallel and non-parallel) in credit spreads—volatility, and/or correlation sensitivities (expressed in a manner that demonstrates any significant non-linearities), and the maturity profile of the positions;

• Equity derivative positions: risk factor sensitivities such as equity positions, volatility, and/or correlation sensitivities (expressed in a manner that demonstrates any significant non-linearities), and the maturity profile of the positions;

• Equity positions: risk factors for equity prices and risk factors that differentiate between important equity market sectors and segments, such as a small capitalization equities and international equities;

• Foreign exchange derivative positions: risk factors with respect to major currency pairs and maturities, exposure to interest rates at
relevant maturities, volatility, and/or correlation sensitivities (expressed in a manner that demonstrates any significant nonlinearities), as well as the maturity profile of the positions; and

• Interest rate positions, including interest rate derivative positions: risk factors with respect to major interest rate categories and maturities and volatility and/or correlation sensitivities must be expressed in a manner that demonstrates any significant nonlinearities, and shifts (parallel and non-parallel) in the interest rate curve, as well as the maturity profile of the positions.

B. The methods used by a banking entity to calculate sensitivities to a common factor shared by multiple trading desks, such as an equity price factor, must be applied consistently across its trading desks so that the sensitivities can be compared from one trading desk to another.

iii. Calculation Period: One trading day.


3. Value-at-Risk and Stress Value-at-Risk

i. Description: For purposes of this appendix, Value-at-Risk ("VaR") is the commonly used percentile measurement of the risk of future financial loss in the value of a given set of aggregated positions over a specified period of time, based on current market conditions. For purposes of this appendix, Stress Value-at-Risk ("Stress VaR") is the percentile measurement of the risk of future financial loss in the value of a given set of aggregated positions over a specified period of time, based on market conditions during a period of significant financial stress.

ii. General Calculation Guidance: Banking entities must compute and report VaR and Stress VaR by employing generally accepted standards and methods of calculation. VaR should reflect a loss in a trading desk that is expected to be exceeded less than one percent of the time over a one-day period. For those banking entities that are subject to regulatory capital requirements imposed by a Federal banking agency, VaR and Stress VaR must be computed and reported in a manner that is consistent with such regulatory capital requirements. In cases where a trading desk does not have a standalone VaR or Stress VaR calculation but is part of a larger aggregation of positions for which a VaR or Stress VaR calculation is performed, a VaR or Stress VaR calculation that includes only the trading desk’s holdings must be performed consistent with the VaR or Stress VaR model and methodology used for the larger aggregation of positions.

iii. Calculation Period: One trading day.

ii. General Calculation Guidance: The specific categories used by a trading desk in the attribution analysis and amount of detail for the analysis should be tailored to the type and amount of trading activities undertaken by the trading desk. The new position attribution must be computed by calculating the difference between the prices at which instruments were bought and/or sold and the prices at which those instruments are marked to market at the close of business on that day multiplied by the notional or principal amount of each purchase or sale. Any fees, commissions, or other payments received (paid) that are associated with transactions executed on that day must be added (subtracted) from such difference. These factors must be measured consistently over time to facilitate historical comparisons.

iii. Calculation Period: One trading day.

c. Customer-Facing Activity Measurements

1. Inventory Turnover

i. Description: For purposes of this appendix, Inventory Turnover is a ratio that measures the turnover of a trading desk’s inventory. The numerator of the ratio is the absolute value of all transactions over the reporting period. The denominator of the ratio is the value of the trading desk’s inventory at the beginning of the reporting period.

ii. General Calculation Guidance: For purposes of this appendix, for derivatives, other than options and interest rate derivatives, value means gross notional value, for options, value means delta adjusted notional value, and for interest rate derivatives, value means 10-year bond equivalent value.

iii. Calculation Period: One trading day.

2. Inventory Aging

i. Description: For purposes of this appendix, Inventory Aging generally describes a schedule of the trading desk’s aggregate assets and liabilities and the amount of time that those assets and liabilities have been held. Inventory Aging should measure the age profile of the trading desk’s assets and liabilities.

ii. General Calculation Guidance: In general, Inventory Aging must be computed using a trading desk’s trading activity data and must identify the value of a trading desk’s aggregate assets and liabilities. Inventory Aging must include two schedules, an asset-aging schedule and a liability-aging schedule. Each schedule must record the value of assets or liabilities held over all holding periods. For derivatives, other than options, and interest rate derivatives, value means gross notional value, for options, value means delta adjusted notional value, and, for interest rate derivatives, value means 10-year bond equivalent value.

iii. Calculation Period: 30 days, 60 days, and 90 days.

3. Customer-Facing Trade Ratio—Trade Count Based and Value Based

i. Description: For purposes of this appendix, the Customer-Facing Trade Ratio is a ratio comparing (i) the transactions involving a counterparty that is a customer of the trading desk to (ii) the transactions involving a counterparty that is not a customer of the trading desk. A trade count based ratio must be computed that records the number of transactions involving a counterparty that is a customer of the trading desk and the number of transactions involving a counterparty that is not a customer of the trading desk. A value based ratio must be computed that records the value of transactions involving a counterparty that is a customer of the trading desk and the value of transactions involving a counterparty that is not a customer of the trading desk.

ii. General Calculation Guidance: For purposes of calculating the Customer-Facing Trade Ratio, a counterparty is considered to be a customer of the trading desk if the counterparty is a market participant that makes use of the banking entity’s market making-related services by obtaining such services, responding to quotations, or entering into a continuing relationship with respect to such services. However, a trading desk or other organizational unit of another banking entity would not be a client, customer, or counterparty of the trading desk if the other entity has trading assets and liabilities of $50 billion or more as measured in accordance with §255.20(d)(1) unless the trading desk documents how and why a particular trading desk or other organizational unit of the entity should be treated as a client, customer, or counterparty of the trading desk. Transactions conducted anonymously on an exchange or similar trading facility that permits trading on behalf of a broad range of market participants would be considered transactions with customers of the trading desk. For derivatives, other than options, and interest rate derivatives, value means gross notional value, for options, value means delta adjusted notional value, and, for interest rate derivatives, value means 10-year bond equivalent value.

iii. Calculation Period: 30 days, 60 days, and 90 days.