

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-98668]

September 29, 2023

Order Regarding Net Capital Computation for Jefferies Financial Services, Inc.

Jefferies Financial Services, Inc. (“JFSI”) has submitted an amendment to its application to the Securities and Exchange Commission (“Commission”) for authorization to use the market and credit risk standards of paragraphs (d) through (f) of Rule 18a-1 to the Securities Exchange Act of 1934 (“Exchange Act”).¹ For market risk, paragraphs (d) through (f) require that a firm utilize a VaR model that utilizes a 99 percent, one-tailed confidence level with price changes equivalent to a ten business-day movement in rates and prices. For credit risk, paragraphs (d) through (f) require that a firm utilize a maximum potential exposure model equivalent to the VaR of the counterparty’s positions with a 99 percent, one-tailed confidence level with price changes equivalent to a one-year movement in rates and prices; or based on a review of the security-based swap dealer’s procedures for managing collateral and if the collateral is marked to market daily and the firm has the ability to call for additional collateral daily the Commission may approve a time horizon of not less than ten business days.²

JFSI’s amendment requests approval to use models to compute regulatory capital charges as follows:

¹ See 17 CFR 240.18a-1(d); 17 CFR 240.18a-1(e); and 17 CFR 240.18a-1(f). The Commission approved JFSI’s application to calculate net capital using the market and credit risk standards of paragraphs (d) through (f) for interest rate products on October 29, 2021 (Exchange Act Release No. 93479).

² See 17 CFR 240.18a-1(e)(2)(iii)(B) and 17 CFR 240.18a-1(d)(9)(ii)(B).

- (1) Use of models to compute deductions for market and credit risk for interest rate cash, option, forward and swap products;³
- (2) Use of models to compute deductions for market and credit risk for equity cash, option and swap products;
- (3) Use of models to compute deductions for market risk only for equity OTC call spreads;
- (4) Use of models to compute deductions for market and credit risk for FX spot, forward, option and swap products; and,
- (5) Use of models to compute deductions for market risk only for interest rate nonlinear products.

Based on a review of the amendment that JFSI submitted, including an assessment of the adequacy of the firm's internal risk management controls, the mathematical models the firm will use for internal risk management and regulatory capital purposes, and the firm's financial position, the Commission has determined that the amendment meets the requirements of paragraphs (d) through (f) of Rule 18a-1 for equity, interest rate and FX products as described in (1) through (4) above.

Using the market and credit risk standards of paragraphs (d) through (f) of Rule 18a-1 for calculating net capital should help JFSI align its supervisory risk management practices and regulatory capital requirements more closely, and would adequately capture the material risks. As a result, this also should help to ensure the integrity of the risk measurement, monitoring and management process. The Commission, therefore, finds that approval of the amendment is necessary or appropriate in the public interest or for the protection of investors.

³ See Exchange Act Release No. 93479 (Order Regarding Net Capital and Initial Margin Computations for Jefferies Financial Services, Inc.).

Accordingly, IT IS ORDERED, under paragraph (d)(5)(i) of Rule 18a-1⁴ to the Exchange Act, that JFSI may calculate net capital using the market and credit risk standards of paragraphs (d) through (f) of Rule 18a-1, instead of the provisions of paragraphs (c)(1)(iii), (iv), (vi), (vii), and (c)(1)(ix)(A) and (B) of Rule 18a-1 and Rule 18a-1b, to compute a deduction for:

- (1) Market risk for interest rate cash, option, forward and swap products; equity cash, option and swap products; equity OTC call spreads; FX spot, forward, option and swap products; and interest rate nonlinear products; and
- (2) Credit risk for interest rate cash, option, forward and swap products; equity cash, option and swap products; and FX spot, forward, option and swap products.⁵

By the Commission.

Vanessa A. Countryman,

Secretary.

⁴ See 17 CFR 240.18a-1(d)(5)(i).

⁵ See 17 CFR 240.18a-1(c)(1)(iii) and (iv); 17 CFR 240.18a-1(c)(1)(vi) and (vii); 17 CFR 240.18a-1(c)(1)(ix)(A) and (B); and 17 CFR 240.18a-1b.