

SUPPORTING STATEMENT

Justification

1. Necessity of Information Collection. Rule 17a-25 [17 CFR 240.17a-25] Registered broker-dealers are required to electronically submit securities transaction information, including identifiers for prime brokerage arrangements, average price accounts, and depository institutions, in a standardized format when requested by the Commission staff. In addition, the rule requires broker-dealers to submit, and keep current, contact person information for electronic blue sheets (“EBS”) requests.
2. Purposes of, and Consequences of Not Requiring, the Information Collection. Rule 17a-25 requires registered broker-dealers to submit securities trading data in an uniform electronic format, preferably using the existing reporting mechanism known as the electronic blue sheet system (“EBS”), when requested by the Commission staff for enforcement and other regulatory purposes. Rule 17a-25 also requires the electronic submission of trading information to include new data elements to the EBS that will assist the Commission staff in conducting complex enforcement inquiries and investigations. Additionally, the Rule requires broker-dealers to submit and keep current, contact person information for EBS requests. The Commission uses the information for enforcement inquiries or investigations and trading reconstructions, as well as for inspections and examinations.
3. Role of Improved Information Technology and Obstacles to Reducing Burden. The EBS system is designed to reduce the burden of collecting and transmitting securities trading data. This technology increases the speed, accuracy and availability of trading information, thereby generating benefits to both investors and the financial markets.
4. Efforts to Identify Duplication. Not applicable. There is no apparent duplication of information.
5. Effect on Small Entities. The Commission believes that Rule 17a-25 has a minimal effect on the approximately 1,000 broker-dealers who qualify as a small business or organization. Most provisions apply only to the 5400 that do business with the general public. The vast majority of the information required in Rule 17a-25 involves collections of information that broker-dealers already maintain in compliance with existing regulations, and SRO rules currently

require broker-dealers to have adequate systems and procedures to submit the EBS transaction reports. The Commission estimates that no small broker-dealers would be required to modify their EBS-related software to capture and report the new data. However, a small broker-dealer would incur only minimal costs if the Commission asks the firm to supply information about contact persons who respond to data requests from the Commission.

6. Consequences of Less Frequent Collection. The Commission requests securities trading data only when necessary for a specific enforcement inquiry or other regulatory purpose.
7. Inconsistencies with Guidelines in 5 CFR 1320.5(d)(2). The information collection is conducted in a manner that is consistent with 5 CFR 1320.5(d)(2).
8. Consultations Outside the Agency. All Commission rule proposals are published in the Federal Register for public comment. Rule 17a-25 was originally published for comment on May 2, 2000 and the final rule was adopted on June 29, 2001.
9. Payment or Gift to Respondents. The respondents receive no payments or gifts.
10. Assurance of Confidentiality. Information filed pursuant to Rule 17a-25 will be kept confidential, subject to the Freedom of Information Act, 5 U.S.C. 552.
11. Sensitive Questions. Information required under this rule is of a sensitive nature.
12. Estimate of Respondent Reporting Burden. The annual hour burden of Rule 17a-25 for individual broker-dealers would vary widely because of differences in the levels of activities of the respondents and because of differences in the current recordkeeping systems of the respondents. However, it is estimated that each broker-dealer who responds electronically will take 8 minutes, and each broker-dealer who responds manually will take 1½ hours, to prepare and submit the securities trading data requested by the Commission. Based on its experience with the EBS system, the Commission estimates that it sends approximately 48,960 electronic blue sheet requests per year, of which approximately 18 requests are sent to manual response firms. Accordingly, the annual aggregate hour burden for electronic and manual response firms is estimated to be hours 6,553 (48,942 x 8 ÷ 60) and 27 hours (18 X 1.5), respectively.

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In addition, the Commission estimates that it will request 1,400 broker-dealers to supply the contact information identified in Rule 17a-25(c) and the submission should take each broker-dealer approximately 5 minutes to prepare. To be conservative, the Commission estimates that each of these broker-dealers will revise the contact information twice a year, and each revision will also take approximately 5 minutes to prepare (10 minutes total). Accordingly, the annual aggregate burden for supplying the information requested in Rule 17a-25(c) is 350 hours ($1400 \times 15 \div 60$).

Thus, the annual aggregate burden for all respondents to the collection of information requirements of Rule 17a-25 is estimated at 6900 hours.

13. Estimate of Total Annualized Cost Burden. The Commission estimates that approximately 100 broker-dealers would have to make a one-time adjustment to their existing EBS software to capture additional data elements identified in Rule 17a-25(c). The Commission assumes adjustments to the systems have been made. The Commission believes that there will be no additional costs associated with the operation and maintenance of the modified EBS systems. In addition, Rule 17a-25 will not impose any additional recordkeeping requirements for the broker-dealers since broker-dealers already maintain all of the information required for EBS reports. Therefore the annualized cost burden is \$0.
14. Estimate of Cost to Federal Government. Estimated staff time is \$2,852,500.
15. Explanation of Changes in Burden. The increase in burden hours is based on the actual number of electronic and manual submissions received by the Commission from January 1, 2003 to date. The Commission estimates that it sends an average 136 electronic blue sheet requests to an estimated 30 brokers per month making the total electronic blue sheets request submitted per year 48,960 (136 x 30 x 12).

In connection with the current extension, the Commission received one comment letter from Noland Cheng, Chairman, SIA Operations Committee, Securities Industry Association (SIA), dated September 15, 2006 ("SIA Letter"). The SIA Letter presented estimates with respect to EBS requests issued by the Commission that differed significantly from those compiled by the Commission. For example, the SIA Letter indicated that one large firm had reported that it received 4,800 EBS requests over the past year, of which 3,100 were from the SEC. The Commission's systems, however, indicate that the total for all SEC EBS requests in 2005 was only 1,732 - and that a total of only 1,576 EBS requests had been issued by the SEC so far in 2006. The Commission staff raised these discrepancies with representatives of the SIA in a conference call on October 3, 2006, and the SIA agreed to recheck its estimates on the volume of EBS requests and to report back to the Commission on this matter. In the October 3 conference call, the Commission staff also reminded the SIA representatives that our initial estimates on the potential burdens of EBS reporting were based on information provided by the SIA in extensive consultations with the Commission staff when Rule 17a-25 was initially proposed. If the burdens of EBS reporting have grown substantially since then, it would be helpful for the SIA to

provide a more extensive explanation of the recent increases in costs so that the Commission could work with the SIA to seek to identify reasonable means to reduce these burdens while retaining the EBS system as an essential investigative tool for the Commission and the self-regulatory organizations (SROs). Moreover, the Commission staff reminded the SIA representatives that the Rule 17a-25 builds upon the EBS formats that are delineated by the SROs' rules and requirements. In fact, the SROs, acting within the framework of the Intermarket Surveillance Group (ISG), have recently conducted extensive discussions with the industry on its ability to comply with the SROs' EBS formats. Accordingly, if the SIA believes that changes to the SROs' EBS formats are necessary to reduce costs and potential reporting duplications, the most effective means to pursue these proposals would be to work with the SEC and the SROs within the context of this ISG initiative. As always, the Commission staff looks forward to working cooperatively with the SIA and the SROs in order to enhance the effectiveness of the EBS system.

16. Information Collections Planned for Statistical Purposes. The Commission does not intend to publish or disclose specific trading data or information for statistical use. When the Commission undertakes market reconstructions, however, some aggregate information may be used for statistical purposes.
17. Explanation as to Why Expiration Date Will Not Be Displayed. Not applicable
18. Exceptions to Certification. Not applicable.

B. Collection of Information Employing Statistical Methods

The collection of information does not employ statistical methods.