

SUPPORTING STATEMENT

A. Justification.

1. Necessity for Information Collection.

The Securities Exchange Act of 1934 (“Exchange Act”) regulates the nation’s securities markets and the securities professionals who participate in those markets.

Under the Exchange Act, broker-dealers must register with the Securities and Exchange Commission (“Commission”). Section 15(a)(1) of the Exchange Act provides that it is unlawful for broker-dealers to solicit or effect transactions in most securities unless they are registered as broker-dealers with the Commission pursuant to Section 15(b) of the Exchange Act. Section 15B(a)(1) of the Exchange Act also provides that it is unlawful for municipal securities dealers, other than registered broker-dealers, to solicit or effect transactions in municipal securities unless they are registered with the Commission as municipal securities dealers pursuant to Section 15B(a)(2) of the Exchange Act. In addition, Section 15C(a)(1) of the Exchange Act provides that it is unlawful for government securities broker-dealers, other than registered broker-dealers and certain financial institutions, to solicit or effect transactions in government securities unless they are registered as government securities broker-dealers with the Commission pursuant to Section 15C(a)(2) of the Exchange Act.

Sections 15(b)(1) and (2) of the Exchange Act authorize the Commission to prescribe by rule an application form for registration that contains such information about broker-dealers that is necessary or appropriate in the public interest or for the protection of investors. Section 17(a)(1) of the Exchange Act authorizes the Commission to require registered broker-dealers and registered municipal securities dealers to make and file such reports as the Commission determines as necessary or appropriate in the public interest or for the protection of investors.

To implement these provisions, the Commission adopted Form BD (17 C.F.R. 249.501), the uniform application for broker-dealer registration. Form BD requires the applicant or registrant filing the form to provide the Commission with certain information concerning the nature of its business and the background of its principals, controlling persons, and employees. Form BD is designed to permit the Commission to determine whether the applicant meets the statutory requirements to engage in the securities business.

In 1981, the Central Registration Depository (“CRD”) was created as a cooperative effort between the National Association of Securities Dealers (“NASD”) and the North American Securities Administration Association (“NASAA”), in order to facilitate a “one stop” filing process for broker-dealers and their associated persons (i.e., only one form had to be filed with the CRD to satisfy NASD and participating state registration requirements). The CRD is operated and maintained by the NASD and is used by the Commission (since 1992),¹ SROs, and

¹ Securities Exchange Act Release No. 31660 (Dec. 28, 1992), 58 FR 11.

state securities regulators in connection with registering and licensing broker-dealers and their associated persons.

2. Purpose of, and Consequences of Not Requiring, the Information Collection.

The Commission uses the information disclosed by applicants in Form BD: (1) to determine whether the applicant meets the standards for registration set forth in the provisions of the Exchange Act; (2) to develop a central information resource where members of the public may obtain relevant, up-to-date information about broker-dealers, municipal securities dealers, and government securities broker-dealers, and where the Commission, other regulators, and SROs may obtain information for investigatory purposes in connection with securities litigation; and (3) to develop statistical information about broker-dealers, municipal securities dealers, and government securities broker-dealers. Without the information disclosed in Form BD, the Commission could not effectively implement policy objectives of the Exchange Act with respect to its investor protection function.

3. Role of Improved Information Technology and Obstacles to Reducing Burden.

Broker-dealer applicants currently file Form BD with the NASD. The NASD then enters the information into the CRD system and forwards it electronically to the Commission. This method of collecting information reduces the regulatory burden upon broker-dealers by permitting them to file applications for registration and amendments thereto at one central location, rather than filing Form BD separately with the Commission, SROs, and other regulators.

4. Efforts to Identify Duplication.

As noted above, broker-dealer applicants use Form BD to register with the Commission, the states, and certain SROs. By filing Form BD in one central location, the Commission provides “one stop” filing for applicants, so that they are not required to file multiple copies of Form BD. The requirements to disclose information in Form BD do not duplicate any other federal statute or rule.

5. Effect on Small Entities.

All broker-dealers, regardless of size, are required to disclose the information requested in Form BD. Therefore, the proposed amendment to Form BD will affect small broker-dealers registered or registering with the Commission. The Commission believes, however, that the disclosure requirements of Form BD are not unduly burdensome, particularly in relation to the important objectives served by the disclosure of registration information.

6. Consequences of Less Frequent Collection.

Broker-dealer applicants generally are required to file Form BD only once to register and are required to file amendments to Form BD only when information originally reported in Form

BD changes or becomes inaccurate. Therefore, less frequent collection for Form BD information would impair the accuracy of the information available to the Commission and lessen the protection afforded investors.

7. Inconsistencies with Guidelines in 5 CFR 1320.5(d)(2).

This collection is consistent with the guidelines in 5 CFR 1320.5(d)(2).

8. Consultations Outside the Agency.

Not applicable.

9. Payment or Gift to Respondents.

Not applicable.

10. Assurance of Confidentiality.

No assurance of confidentiality is provided. The information filed in Form BD is available to the public.

11. Sensitive Questions.

Form BD does not impose the burden of any questions of a sensitive nature.

12. Estimate of Respondent Reporting Burden.

Based on the number of initial applications on Form BD the Commission received in fiscal year 2006, Commission staff estimates that the total number of initial applications that the Commission will receive on Form BD will be approximately 335. Commission staff has previously estimated that the average time necessary to complete the initial Form BD is approximately 2.75 hours.² Although the time necessary to complete Form BD will vary depending on the nature and complexity of the entity's business, Commission staff estimates that total annual burden hours required for filing initial Forms BD is 921 hours (2.75 x 335).

Once registered on Form BD, broker-dealer will be required to file amendments to Form BD when information originally reported in Form BD changes or becomes inaccurate. Commission staff has previously estimated that the average time necessary to complete an amendment to Form BD is approximately 20 minutes.³ Based on the number of amendments on Form

² Securities Exchange Act Release No. 41594 (July 2, 1999), 64 FR 37586.

³ Id.

BD the Commission received in fiscal year 2006, Commission staff estimates that the total number of amendments that the Commission will receive on Form BD will be approximately 17,839 from approximately 5,000 registered broker-dealers. Therefore, Commission staff estimates that the total annual burden hours for filing Form BD amendments by registered broker-dealers is 5,887 hours (17,839 amendments per year x 0.33 hours per amendment).

The Commission staff previously estimated the total annual filing burden for Form BD and Form BD amendments to be 8,250 hours. Because of the estimated decline in the total number of responses, Commission staff now estimates that the total annual filing burden for Form BD and Form BD amendments is 6,808 hours (5,887 + 921).

13. Estimates of Total Annualized Cost Burden

Not applicable. It is not anticipated that respondents will have to incur any capital and start-up costs, nor any additional operational or maintenance costs (other than as provided in Item 12), to comply with the collection of information.

14. Estimate of Cost to Federal Government.

Commission staff estimates that the review and processing of an initial Form BD takes approximately 2 hours of staff time. Thus, estimating staff time and related overhead at \$75 per hour, costs to the government in connection with initial Form BD filings is \$50,250 (335 x 2 x \$75). With respect to Form BD amendments, the staff estimates that it takes approximately 1 hour of staff time to review and process these filings. Thus, the government's costs in connection with Form BD amendments filed by broker-dealers is \$1,337,925 (17,839 x 1 x \$75). In sum, the total cost to the government for reviewing and processing Form BD and Form BD amendments is \$1,388,175 (\$1,337,925 + \$50,250).

For the purposes of this submission, our estimates regarding cost burdens have been computed according to the guidelines set forth in GSA, Guide to Estimating Reporting Costs (1973). Accordingly, the Commission staff has valued related overhead at 35 percent of the value of the combined salaries of the aforementioned participants.

15. Explanation of Changes in Burden.

The Commission staff's estimated total annual filing burden for Form BD and Form BD amendments decreased by 1,442 hours (8,250 - 6,808 hours) due to a decrease in the number of broker-dealers filing Form BD and Form BD amendments. The Commission staff's estimated total annualized cost burden for filing Form BD and Form BD amendments decreased \$201,825 (\$1,590,000 - \$1,388,175) due to a decrease in the number of broker-dealers filing Form BD and Form BD amendments.

16. Information Collections Planned for Statistical Purposes.

Not applicable.

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.

Not applicable. The collection of information on Form BD does not employ statistical methods.