

Rule 17a-10 - Report on revenue and expenses

Supporting Statement

A. Justification

1. Necessity of Information Collection

Paragraph (a)(1) of Securities Exchange Act of 1934¹ (“Exchange Act”) Rule 17a-10 (17 CFR 240.17a-10) generally requires brokers and dealers that are exempted from the requirement to file monthly and quarterly reports pursuant to paragraph (a) of Exchange Act Rule 17a-5 (17 CFR 240.17a-5) to file with the Commission the Facing Page, a Statement of Income (Loss), and balance sheet from Part IIA of Form X-17A-5² (17 CFR 249.617), and Schedule I of Form X-17A-5 not later than 17 business days after the end of each calendar year.

Paragraph (a)(2) of Rule 17a-10 requires a broker or dealer subject to Rule 17a-5(a) to submit Schedule I of Form X-17A-5 with its Form X-17A-5 for the calendar quarter ending December 31 of each year.

Paragraph (b) of Rule 17a-10 provides that the provisions of paragraph (a) do not apply to members of national securities exchanges or registered national securities associations that maintain records containing the information required by Form X-17A-5 and which transmit to the Commission copies of the records pursuant to a plan which has been declared effective by the Commission.

The primary purpose of Rule 17a-10 is to obtain the economic and statistical data necessary for an ongoing analysis of the securities industry.

As originally adopted in 1968, Rule 17a-10 required brokers and dealers to provide their revenue and expense data on a special form. The Rule was amended in 1977 to eliminate the form. The data previously reported on the form is now reported using Form X-17A-5 and its supplementary schedules.

¹ 15 U.S.C. 78a *et seq.*

² Form X-17A-5 is the Financial and Operational Combined Uniform Single Report (“FOCUS Report”), which is used by brokers and dealers to provide certain required information to the Commission.

The Commission adopted Rule 17a-10 pursuant to sections 15(c)(3), 17(a) and 23(a) of the Exchange Act, 15 U.S.C. sections 78o(c)(3), 78q(a) and 78w(a), respectively.

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

The information submitted pursuant to Rule 17a-10 is used to identify which broker-dealers engage in various securities-related activities and to determine the amount of revenue derived by such broker-dealer firms from these activities. This data is needed by the Commission to evaluate the effects of economic events and public policies on various segments of the securities industry. Only the most current information will assist the Commission in its ongoing analysis of securities industry revenue sources and related expenses. No available information is more current than that obtained through Rule 17a-10.

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

The compilation and filing of the data required reflects the complexity of the broker-dealer's business. The increasing use by the Commission and broker-dealers of computerized systems for information gathering and compilation has minimized the burden associated with Rule 17a-10 to the extent possible at this time.

4. Efforts to Identify Duplication

Not applicable. Rule 17a-10 is the only rule that requires the submission of this information. Because no similar information is already available, no duplication exists.

5. Effects on Small Entities

The required reports are not extensive, and therefore the collection of information is not unduly burdensome for small entities.

6. Consequences of Less Frequent Collection

If this information were collected less frequently, the Commission could not maintain and formulate effective policy regarding the securities industry.

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

Not applicable. The Rule is not inconsistent with 5 CFR 1320.5(d)(2).

8. Consultations Outside the Agency

Not applicable. Consultations outside the agency are not conducted with regard to Rule 17a-10.

9. Payment of Gift to Respondents

Not applicable.

10. Assurance of Confidentiality

Paragraph (c) of Rule 17a-10 provides that the reports filed pursuant to the Rule are to be considered non-public information, except in situations where the Commission determines it is in the public interest to direct otherwise.

11. Sensitive Questions

Questions of a sensitive nature are not asked.

12. Estimate of Respondent Reporting Burden

The staff estimates that approximately 500 broker-dealers are subject to Rule 17a-10.

Because of variations in the size and complexity of broker-dealers subject to Rule 17a-10, it is very difficult to develop a meaningful figure for the amount of respondent time needed to comply with the Rule. The staff estimates that, on average, the amount of time required per response will be approximately 12 hours. This estimation is based on our experience in this area. Each broker-dealer is required to make one filing per year. Therefore, the number of filings is approximately 500 per year, and the estimated total compliance burden is approximately 6,000 burden-hours per year (500 responses per year times 12 hours per response).

13. Estimate of Total Annualized Cost Burden

Not applicable. It is not anticipated that respondents will have to incur capital or start-up costs to comply with the Rule.

14. Estimate of Cost to Federal Government

Commission staff estimates that there is no annual cost associated with reviewing revenue and expense data submitted pursuant to Rule 17a-10.

15. Explanation of Changes in Burden

Not applicable.

16. Information Collection Planned for Statistical Purposes

Not applicable. The Commission does not publish information collected pursuant to Rule 17a-10.

17. Explanation as to Why Expiration Date Will Not Be Displayed

Not applicable.

B. Collection of Information Employing Statistical Methods

Not applicable.