

Rule 15c2-7 Supporting Statement

A. Justification

1. Necessity of Information Collection

The Securities and Exchange Commission (“Commission”) adopted Rule 15c2-7 in 1964 to enhance reliability and transparency of inter-dealer quotation systems. The rule was primarily derived from the findings of a Special Study of Securities Markets (“Special Study”). Based on the Special Study, the Commission determined that additional regulation was necessary to strengthen the integrity of wholesale quotations systems and in turn, the over-the-counter market.

Rule 15c2-7 enumerates certain criteria that broker-dealers must meet to furnish a quotation for a security to an inter-dealer quotation system, such as the OTC Bulletin Board (“OTCBB”) or the Pink Sheets, operated by Pink OTC Markets, Inc. Prior to the adoption of Rule 15c2-7, broker-dealers could submit price quotations to inter-dealer quotation systems on behalf of other broker-dealers as correspondents, or in furtherance of a pre-existing agreement, without indicating the identity of other involved broker-dealers.

The Commission found that this practice and broker-dealers’ resulting inability to identify participants to transactions precluded users of inter-dealer quotation systems from determining the full depth and activity of the market for a particular security. The Commission further determined that broker-dealers’ failure to identify quotations entered on behalf of third-parties created an environment where inter-dealer quotation systems could be used for fraudulent or manipulative purposes.

Rule 15c2-7 requires that broker-dealers acting as correspondents for other broker-dealers disclose to the inter-dealer quotation system both the existence of the relationship and the identity of the other party when submitting a price quotation in that capacity. Rule 15c2-7 also requires that a quotation for a security submitted in furtherance of any other existing arrangement between or among broker-dealers must be accompanied by a disclosure to the inter-dealer quotation system that identifies each broker-dealer involved in the arrangement. The rule further requires that the inter-dealer quotation system must make it a general practice to disclose any of these relationships with each published quotation. Lastly, Rule 15c2-7 requires that when a broker-dealer is involved in an arrangement that calls for multiple broker-dealers to submit quotations for a particular security, that broker-dealer must inform all involved broker-dealers of both the arrangement and the identity of the involved parties.

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

The information required by Rule 15c2-7 is necessary for the Commission’s mandate under the Securities Exchange Act of 1934 to prevent fraud, manipulation and deceptive acts and practices. When Rule 15c2-7 was adopted in 1964, the information it required was critical to the Commission’s role in monitoring broker-dealers and protecting the integrity of over the counter markets. It was through the disclosures required by Rule 15c2-7 that inter-dealer quotation systems would reflect the demand for and market activity related to the securities quoted on these systems.

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

Improvements to information and data processing technologies have reduced regulatory burdens that may have otherwise arisen under Rule 15c2-7. The Commission is not aware of any technical or legal obstacles to reducing the burden through the use of improved information technology.

4. Efforts to Identify Duplication

The information required under Rule 15c2-7 does not duplicate that required by any other federal regulation.

5. Effects on Small Entities

The requirements for Rule 15c2-7 apply evenly to all broker-dealers submitting quotations through inter-dealer quotation systems. The Commission does not believe the requirements of Rule 15c2-7 are unduly burdensome on small entities.

6. Consequences of Less Frequent Collection

Rule 15c2-7 was adopted after the Commission determined that its information requirements were necessary to improve the integrity of inter-dealer quotation systems. Less frequent collection of the required information could potentially result in a reversion to the pre-adoption environment that was cause for the Commission's concern.

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

The collection of information required by Rule 15c2-7 is conducted in a manner consistent with the guidelines of 5 CFR 1320.5(d)(2).

8. Consultations Outside the Agency

Rule 15c2-7 was proposed in 1964 based upon the recommendations of the Special Study. The proposed rule was subject to public comment after announcement in the Federal Register on March 27, 1964.

9. Payment or Gift to Respondents

Not applicable.

10. Assurance of Confidentiality

No assurance of confidentiality is provided.

11. Sensitive Questions

No questions of a sensitive nature are asked.

12. Estimates of Respondent Reporting Burden

There are approximately 5,808 broker-dealers registered with the Commission. Any of these broker-dealers could be potential respondents for Rule 15c2-7, so the Commission is using that number as the number of respondents. Only quotations entered into an inter-dealer quotation system such as the Pink Sheets or OTCBB, are covered by Rule 15c2-7. According to representatives of both Pink Sheets and the OTCBB, neither entity has recently received, nor anticipates receiving, any Rule 15c2-7 notices. However, because such notices could be made, the Commission estimates that one filing is made annually pursuant to Rule 15c2-7.

Based on prior industry estimates, the time required to enter a notice pursuant to Rule 15c2-7 is 45 seconds, or .75 minutes. The Commission sees no reason to change this estimate. In sum, it is thought that impacted respondents spend a total of .0125 hours per year to comply with the requirements of Rule 15c2-7 (1 notice (x) 45 seconds/notice). The Commission estimates that a typical employee of a broker-dealer charged to ensure compliance with Commission regulations receives annual compensation of \$128,960. This compensation is the equivalent of \$62.00 per hour (\$128,960 divided by 2,080 payroll hours per year). Thus, the Commission estimates that the annual cost burden of compliance with Rule 15c2-7 is \$0.78 (\$62.00/hour multiplied by 0.0125 hours).

13. Estimates of Total Annualized Cost Burden

Not applicable; (a) it is not anticipated that respondents will have to incur any capital and start up cost to comply with the rule; (b) it is not anticipated that the respondents will have to incur any additional operational or maintenance cost (other than provided for in Item no. 12 above) to comply with the rule.

14. Estimated Cost to the Federal Government

The government does not experience any direct costs based on the record keeping required pursuant to Rule 15c2-7.

15. Explanation of Changes in Burden

The change in estimated reporting burden is based on discussions with representatives of the OTCBB and the Pink Sheets. Based on those discussions, the Commission believes that the industry practice relating to the notices made under Rule 15c2-7 has become at most minimal. .

16. Information Collection Planned for Statistical Purposes

Not applicable. There are no plans to require the publication of these records in the future.

17. Explanation of Why Expiration Date Will Not Be Displayed

Not applicable.

18. Exceptions to the Certification

Not applicable.

B. Collecting Information Employing Statistical Methods

Not applicable.