

Rule 15c1-6

Supporting Statement

A. Justification

1. Necessity of Information Collection

The Commission adopted Rule 15c1-7 in 1937 (17 CFR 240.15c1-7) to protect the public from broker-dealers that transact unauthorized trades. The rule provides that any act of a broker-dealer designed to effect securities transactions with or for a customer account over which the broker-dealer (directly or through an agent or employee) has discretion will be considered a fraudulent, manipulative, or deceptive practice under the federal securities laws, unless a record is made of the transaction immediately by the broker-dealer. The record must include (a) the name of the customer, (b) the name, amount, and price of the security, and (c) the date and time when such transaction took place.

The Commission is statutorily authorized by Section 15 of the Securities Exchange Act of 1934 ("Exchange Act") 15 U.S.C. 78o(c)(2), to adopt rules and regulations that define and prescribe means reasonably designed to prevent such acts and practices as are fraudulent, deceptive, or manipulative. Further statutory authority is found in Section 23(a) of the Exchange Act, 15 U.S.C. 78w.

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

The information required by the rule is necessary for the execution of the Commission's mandate under the Exchange Act to prevent fraudulent, manipulative, and deceptive acts and practices by broker-dealers. This is used by the Commission and the various self-regulatory organizations in compliance examinations to determine whether such trades have occurred.

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

The compilation of this information must be done on an individual basis for each potential investor. Thus, improved information technology would not reduce the burden.

4. Efforts to Identify Duplication

While similar information is required by Rule 17a-3 (17 CFR 240.17a-3), the staff has determined that it is neither desirable nor feasible at this time to

eliminate the record-making function of Rule 15c1-7 and rely instead on Rule 17a-3 for such information.

5. Effect on Small Entities

The rule requirements are not unduly burdensome on smaller broker-dealers. Most small broker-dealers do not have discretionary accounts, and thus would not be subject to the rule.

6. Consequences of Less Frequent Collection

The information is only collected once per covered transactions; it is not possible to reduce the number of collections.

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

The information collection is not conducted in a matter that is inconsistent with 5 CFR 1320.5(d)(2).

8. Consultations Outside the Agency

Not applicable; since the rule's adoption, no consultations have taken place outside the agency.

9. Payment or Gift to Respondents

Not applicable

10. Assurance of Confidentiality

Because the information is gathered by the Commission during compliance examinations, it is accorded confidential treatment pursuant to Regulation 200.80(b)(7) under the Freedom of Information Act, 17 CFR 200.80(b)(7).

11. Sensitive Questions

Not applicable; no information of a sensitive nature is required under the rule.

12. Estimate of Respondent Reporting Burden

Of the 5,560 registered broker-dealers, approximately 10% (or 556 registered broker-dealers) would need to comply with the rule. It takes approximately 5 minutes per transaction to comply with the rule. The staff estimates that approximately 400,000 transactions (719.4 transactions per respondent (400,000 transactions divided by 556 respondents)) are effected

in discretionary accounts annually. Thus, it is estimated that respondents incur an aggregate annual total of 33,333 hours (approximately 60 hours per respondent per year) to comply with the rule.

The approximate internal cost per hour of complying with the collection of information imposed by Rule 15c1-7 is \$100, resulting in a total cost of compliance for all respondents of \$3,333,000, (33,333 hours @ \$100). This is, however, solely a monetization of the hour burden and not a cost burden.

13. Estimate of total annualized cost burden

There is no cost burden imposed by the collection of information.

14. Estimate of Cost to Federal Government

During the fiscal year 1994, the operational costs of ensuring compliance with the rule amounted to approximately \$10,000. Based on similar rules (e.g., Rule 15c1-5, 15c1-6) staff now estimates an approximate costs of \$20,250 (150 hours @ \$135). This amount is based upon our computation of the value of staff time devoted to this activity and the related overhead, valued at 35 percent of staff time. This estimate was computed based upon GSA, Guide to Estimating Reporting Costs (1973).

15. Explanation of Changes in Burden

The estimated burden hours of collecting information pursuant to Rule 15c1-7 has not changed. The estimated cost burden has increased based on the cost burden per hour for similar rules (e.g., Rule 15c1-5, 15c1-6). See question 14 above.

16. Information Collections Planned for Statistical Purposes

Not applicable; there is no intention to publish the information for any purpose.

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, nor would the implementation of such methods reduce the burden or improve the accuracy of results.