Rule 15c2-12

SUPPORTING STATEMENT

A. Justification

(1) Necessity for Information Collection

At the time the securities laws first were enacted, the market for most municipal securities was largely confined to limited geographic regions. The localized nature of the market, arguably, allowed investors to be aware of factors affecting the issuer and its securities. Moreover, municipal securities investors were primarily institutions, which in other instances are accorded less structured protection under the federal securities laws. Since 1933, however, the municipal markets have become nationwide in scope and now include a broader range of investors. At the same time that the investor base for municipal securities has become more diverse, the structure of municipal financing has become more complex. In the era preceding the adoption of the Securities Act of 1933, municipal offerings consisted largely of general obligation bonds. Today, however, municipal issuers include greater proportions of revenue bonds that are not backed by the full faith and credit of a governmental entity and which, in many cases, may pose greater credit risks to investors. In addition, more innovative forms of financing have focused increased attention on call provisions and redemption rights in weighing the merits of individual municipal bond investment opportunities.

Today there are over $2.6 trillion of municipal securities outstanding. Despite its reputation as a "buy and hold" market, trading volume is also substantial, with over $6.6 trillion of long and short-term municipal securities traded in 2007 in more than nine million transactions. The availability of accurate information concerning municipal offerings is integral to the efficient operation of the municipal securities market. In the Commission's view, a thorough, professional review of municipal offering documents by underwriters could encourage appropriate disclosure of foreseeable risks and accurate descriptions of complex put and call features, as well as novel financing structures now employed in many municipal offerings. In addition, with the increase in novel or complex financing, there may be greater value in having investors receive disclosure documents describing fundamental aspects of their investments. Yet, underwriters are unable to perform this function effectively when offering statements are not provided to them on a timely basis. Moreover, where sufficient quantities of offering statements are not available, underwriters are hindered in meeting present delivery obligations imposed on them by MSRB rules.

For these reasons, in 1989, pursuant to Sections 15(c)(1) and (2) of the Securities Exchange Act of 1934, the Commission adopted Rule 15c2-12 (the "Rule" or "Rule 15c2-12"), a limited rule designed to prevent fraud by enhancing the timely access of underwriters, public investors, and other interested persons to municipal offering statements. In the context of the access to offering statements provided by the Rule, the

Commission also reemphasized the existence and nature of an underwriter's obligation to have a reasonable basis for its implied recommendation of any municipal securities that it underwrites.

While the availability of primary offering disclosure significantly improved following the adoption of Rule 15c2-12, there was a continuing concern about the adequacy of disclosure in the secondary market. To enhance the quality, timing, and dissemination of disclosure in the secondary municipal securities market, the Commission in 1994 adopted amendments to Rule 15c2-12 ("1994 Amendments"). Among other things, the 1994 Amendments placed certain requirements on brokers, dealers, and municipal securities dealers ("broker-dealers" or, when used in connection with primary offerings, "Participating Underwriters"). Specifically, under the 1994 Amendments, Participating Underwriters are prohibited, subject to certain exemptions, from purchasing or selling municipal securities covered by the Rule in a primary offering, unless the Participating Underwriter has reasonably determined that an issuer of municipal securities or an obligated person has undertaken in a written agreement or contract for the benefit of holders of such securities ("continuing disclosure agreement") to provide specified annual information and event notices to certain information repositories. The information to be provided consists of: (1) certain annual financial and operating information and audited financial statements ("annual filings"); (2) notices of the occurrence of any of eleven specific events ("event notices"); and (3) notices of the failure of an issuer or other obligated person to make a submission required by a continuing disclosure agreement ("failure to file notices") (annual filings, event notices and failure to file notices may be collectively referred to as "continuing disclosure documents").

To further promote the more efficient, effective, and wider availability of municipal securities information to investors and market participants, on December 5, 2008, the Commission adopted amendments to Rule 15c2-12 ("2008 Amendments") to provide for a single centralized repository, the MSRB, for the electronic collection and availability of information about outstanding municipal securities in the secondary market. Specifically, the 2008 Amendments require the Participating Underwriter to reasonably determine that the issuer or obligated person has undertaken in its continuing disclosure agreement to provide the continuing disclosure documents: (1) solely to the MSRB; and (2) in an electronic format and accompanied by identifying information, as prescribed by the MSRB.

Currently, under paragraph (b) of Rule 15c2-12, a Participating Underwriter is required: (1) to obtain and review an official statement "deemed final" by an issuer of the securities, except for the omission of specified information, prior to making a bid, purchase, offer, or sale of municipal securities; (2) in non-competitively bid offerings, to send, upon request, a copy of the most recent preliminary official statement (if one exists) to potential customers; (3) to send, upon request, a copy of the final official statement to potential customers for a specified period of time; (4) to contract with the issuer to receive, within a specified time, sufficient copies of the final official statement to comply with the Rule's delivery requirement, and the requirements of the rules of the MSRB; and

(5) before purchasing or selling municipal securities in connection with an offering, to reasonably determine that the issuer or obligated person has undertaken, in a written agreement or contract, for the benefit of holders of such municipal securities, to provide continuing disclosure documents to the MSRB in an electronic format as prescribed by the MSRB. In addition, under paragraph (c) of the Rule, a broker-dealer that recommends the purchase or sale of a municipal security must have procedures in place that provide reasonable assurance that it will receive prompt notice of any event specified in paragraph (b)(5)(i)(C) of the Rule and any failure to file annual financial information regarding the security.

Under paragraph (d)(1)(iii) of the current Rule, a primary offering of municipal securities in authorized denominations of $100,000 or more is exempt from the Rule, if the securities, at the option of the holder thereof, may be tendered to an issuer of such securities or its designated agent for redemption or purchase at par value or more at least as frequently as every nine months until maturity, earlier redemption, or purchase by an issuer or its designated agent. These securities are referred to as demand securities or variable rate demand obligations ("VRDOs"). Under the proposed amendments to the Rule, the Commission proposes to modify the exemption for demand securities by adding proposed paragraph (d)(5) to the Rule, which would apply current paragraphs (b)(5) and (c) of the Rule to a primary offering of demand securities in authorized denominations of $100,000 or more.

Under the current paragraph (b)(5)(i)(C) of the Rule, a Participating Underwriter must reasonably determine that the issuer or obligated person has undertaken in a continuing disclosure agreement to provide an event notice to the MSRB when any of the following events with respect to the securities being offered in an offering occurs, if material: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse opinions or events affecting the tax-exempt status of the security; (7) modifications to rights of security holders; (8) bond calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of securities; and (11) rating changes.

Under the proposed amendments to paragraph (b)(5)(i)(C) of the Rule, Participating Underwriters would be required to reasonably determine that the issuer or obligated person has undertaken in a continuing disclosure agreement to provide event notices to the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of ten business days, rather than only in "a timely manner." In addition, the Commission proposes to add the following event items to paragraph (b)(5)(i)(C) of the Rule: (1) the issuance by the IRS of proposed or final determinations of taxability, Notices of Proposed Issue (IRS form 5701-TEB) or other material notices or determinations with respect to the tax-exempt status of the securities; (2) tender offers; (3) bankruptcy, insolvency, receivership or similar

event of the issuer or obligated person; (4) the consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (5) appointment of a successor or additional trustee, or the change of name of a trustee, if material. Further, the Commission proposes to delete the "if material" condition from paragraph (b)(5)(i)(C) of the Rule and instead indicate in specific event items listed in that paragraph whether notice of such event must be made only to the extent that such event is material. In this regard, Participating Underwriters would need to reasonably determine that notice of the following events would be made in all circumstances: (1) principal and interest payment delinquencies with respect to the securities being offered; (2) unscheduled draws on debt service reserves reflecting financial difficulties; (3) unscheduled draws on credit enhancements reflecting financial difficulties; (4) substitution of credit or liquidity providers, or their failure to perform; (5) defeasances; and (6) rating changes.

(2) Purposes of and Consequences of Not Requiring the Information Collection

Under the current Rule 15c2-12, the municipal securities underwriter is required: (1) to obtain and review a copy of an official statement deemed final by an issuer of the securities, except for the omission of specified information; (2) in non-competitively bid offerings, to make available, upon request, the most recent preliminary official statement, if any; (3) to contract with the issuer of the securities, or its agent, to receive, within specified time periods, sufficient copies of the issuer's final official statement to comply both with this rule and any rules of the MSRB; (4) to provide, for a specified period of time, copies of the final official statement to any potential customer upon request; (5) before purchasing or selling municipal securities in connection with an offering, to reasonably determine that the issuer or other specified person has undertaken, in a written agreement or contract, for the benefit of holders of such municipal securities, to provide certain information about the issue or issuer on a continuing basis to the MSRB; and (6) to obtain the information the issuer of the municipal security has undertaken to provide prior to recommending a transaction in the municipal security.

The proposed amendments to the Rule would: (i) specify the time period for submission of event notices; (ii) expand the Rule's current categories of events; and (iii) modify an exemption in the current Rule used for demand securities. The proposed amendments are intended to promptly make available to broker-dealers, institutional and retail investors, and others important information about significant events relating to municipal securities and their issuers. The proposed amendments would help enable investors and other municipal securities market participants to be better informed about

important events that occur with respect to municipal securities and their issuers, including with respect to demand securities, and thus would allow investors to better protect themselves against fraud. In addition, the proposed amendments would provide brokers, dealers, and municipal securities dealers with access to important information about municipal securities that they can use to carry out their obligations under the securities laws. This information could be used by individual and institutional investors; underwriters of municipal securities; other market participants, including broker-dealers and municipal securities dealers; analysts; municipal securities issuers; the MSRB; vendors of information regarding municipal securities; Commission staff; and the public generally.

(3) Role of Improved Information Technology and Obstacles to Reducing Burden

Since the 1994 Amendments to the Rule, there have been significant advancements in technology and information systems that allow market participants and investors, both retail and institutional, easily, quickly, and inexpensively to obtain information through electronic means. The exponential growth of the Internet and the capacity it affords to investors, particularly retail investors, to obtain, compile and review information has likely helped to keep investors better informed. In addition to the Commission's EDGAR system, which contains filings by public companies and mutual funds, the Commission has increasingly encouraged, and in some cases required, the use of the Internet and websites by public reporting companies and mutual funds to provide disclosures and communicate with investors.

The Commission believes that, at present, information about municipal issuers and their securities may not be as consistently available or comprehensive as information about other classes of issuers and their securities. This may be due, in part, to the lack of a central point of collection and availability of information in the municipal securities sector. Therefore, in the 2008 Amendments the Commission adopted amendments to Rule 15c2-12 to provide for a single centralized repository, the MSRB, to receive submissions in an electronic format as a means to encourage a more efficient and effective process for the collection and availability of continuing disclosure documents.

(4) Efforts to Identify Duplication

The information collection requested from the underwriter is not duplicative, since this information would not otherwise be required by the Commission.

(5) Effect on Small Entities

The Rule is one of general applicability that does not depend on the size of a broker-dealer. Since the Rule is designed to apply to all registered broker-dealers, the Rule must apply in the same manner to small as well as large broker-dealers. The Commission believes that many of the substantive requirements of the Rule have been observed by underwriters and issuers as a matter of business practice or to fulfill their

existing obligations under the MSRB rules and the general anti-fraud provisions of the federal securities laws. Moreover the Rule focuses only on offerings of municipal securities of $1 million or more, in which any additional costs imposed by the establishment of specific standards are balanced by the potential harm to the large number of investors that may purchase securities on the basis of inaccurate information. The Commission is sensitive to concerns that the Rule not impose unnecessary costs on municipal issuers. When the Rule was proposed, many commenters, including the MSRB and the Public Securities Association (n/k/a the Securities Industry and Financial Markets Association (SIFMA)), indicated that the Rule would not impose unnecessary costs or force a majority of responsible issuers to depart from their current practices. The commenters suggested that the Rule should, however, encourage more effective disclosure practices among those issuers that did not currently provide adequate and timely information to the market. The Rule also contains exemptions for underwriters participating in certain offerings of municipal securities issued in large denominations that are sold to no more than 35 sophisticated investors or have short-term maturities. The current Rule also contains an exemption for underwriters participating in certain offerings of municipal securities issued in large denominations that have short-term tender or put features, which would be modified by the Commission's proposal.

(6) Consequences of Less Frequent Collection

Providing underwriters with a more flexible standard may jeopardize the protection that Rule 15c2-12 provides. The Commission understands that the Rule imposes an additional burden on underwriters; however, the Commission seeks to accomplish this goal in the least intrusive manner, by imposing minimal additional costs on broker-dealers while enhancing investor protection. Moreover, the Commission has already limited application of the Rule to primary municipal offerings of $1 million or more and has incorporated a limited placement exemption into the Rule.

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

The requirements of the Rule are not inconsistent with the Guidelines of 5 CFR 1320.5(d)(2)

(8) Consultation Outside the Agency

Commission staff consults with issuers, investors, bond lawyers, broker-dealers and other market participants on issues relating to municipal securities on an ongoing basis. Commission staff regularly attends municipal market conferences and meets with representatives of various organizations from major segments of the municipal finance industry. The Commission held Municipal Market Roundtables in 1999, 2000 and 2001 to discuss a broad range of municipal market issues, including disclosure issues in the secondary market.

Recent discussions with municipal securities industry participants have generally supported the Commission staff's belief that certain aspects of the Rule should be

reconsidered. These municipal securities industry participants have raised a number of areas in which the Rule's provisions could be clarified or enhanced and have expressed a desire for additional information about these securities. In particular, many of these participants expressed an interest in: (i) modifying the scope of the Rule to include certain municipal securities that are currently exempt from the Rule; (ii) expanding the Rule's list of events that require event notices; and (iii) clarifying the Rule's timeliness requirements for submission of event notices.

(9) Payment of Gift to Respondents

Not Applicable.

(10) Assurances of Confidentiality

No assurances of confidentiality have been provided.

(11) Sensitive Questions

Not Applicable.

(12) Estimate of Respondent Reporting Burden

a. Brokers, Dealers, and Municipal Securities Dealers

The cost of compliance under the amended Rule should not be burdensome, since the substantive requirements of the Rule are already observed by underwriters and issuers as a matter of business practice or in order to fulfill their existing obligations under the MSRB rules and general anti-fraud provisions of the federal securities laws. In addition, the Rule applies only to primary offerings of municipal securities in excess of $1 million. Thus, the number of broker-dealers affected by the Rule is substantially reduced. Also, there is an exemption to the Rule for underwriters participating in certain offerings of municipal securities issued in large denominations that are sold to no more than 35 sophisticated investors or have short-term maturities. Under the proposed amendments to the Rule to modify the exemption for demand securities, it is estimated that the number of municipal securities offerings that are subject to the Rule annually would increase by 20%. It is estimated that average annual burden on each broker-dealer would also increase by 20%, or .20 hours (12 minutes = 60 minutes x .20). Thus it is estimated that approximately 250 broker-dealers will incur an estimated average burden of 1.2 hours per year to comply with the Rule, resulting in an aggregate annual burden of 300 hours. (250 x 1.2 hours = 300 hours)

The proposed amendments to the Rule specifying the time period for event notices to be submitted and expanding the Rule's categories of events will not impact the annual reporting burden for broker-dealers.

Each broker-dealer would also incur a one-time burden to have its internal compliance attorney prepare and issue a notice advising its employees who work on primary offerings of municipal securities about the proposed revisions to Rule 15c2-12. This task would take each broker-dealer's internal compliance attorney approximately 30 minutes, resulting in a one-time aggregate annual burden of 125 hours. (250 x .5 hours = 125 hours).

Therefore, the total annual burden on these respondents will be 425 hours (300 hours (annual burden) + 125 hours (one time burden)) in the first year and 300 hours for each year thereafter.

b. Issuers

Under the current Rule, it is estimated that approximately 10,000 issuers have an annual burden. Under the proposed amendments to modify the Rule's exemption for demand securities, it is estimated that the number of issuers subject to an annual burden would increase by approximately 2,000 issuers. Thus, under the proposed amendment to the Rule it is estimated that Rule 15c2-12 would apply to approximately 12,000 issuers in any given year.

Issuers prepare annual financial information and notices of material events as a usual and customary practice in the municipal securities market. Often, annual financial information is required to be prepared by issuers pursuant to state law. It is estimated that, on an annual basis, issuers will submit a total of approximately 18,000 annual filings to the MSRB in an electronic format. Preparation and submission of each annual filing to the MSRB in an electronic format will require approximately 45 minutes. Therefore the total burden on issuers will be 13,500 hours. (18,000 x .75 hours = 13,500 hours).

Under the proposed amendments to the Rule, the categories of event notices would be expanded and the materiality determination for certain existing event notices would be eliminated. These proposed changes, in conjunction with the proposed modification of the Rule's exemption for demand securities would increase the number of event notices submitted on annual basis. It is estimated that, on an annual basis, issuers will submit approximately 78,757 event notices to the MSRB in an electronic format. The preparation and submission of such a notice to the MSRB in an electronic format will require approximately 45 minutes. Therefore, the total burden on issuers will be 59,068 hours. (78,757 x .75 hours) = 59,068 hours).

It is estimated that, on an annual basis, issuers will submit approximately 2,400 failure to file notices to the MSRB in an electronic format. The preparation and submission of such a notice to the MSRB in an electronic format will require approximately 30 minutes. Therefore, the total burden on issuers will be 1,200 hours. (2,400 x .5 hours) = 1,200 hours).

The total burden on issuers will therefore be 73,768 hours. (13,500 hours (for annual filings) + 59,068 hours (for event notices) + 1,200 hours (for failure to file notices) = 73,768 hours).

c. MSRB

The MSRB is the sole official repository for continuing disclosure documents for municipal securities. Under the proposed amendments to the Rule, it is estimated that the total burden on the MSRB to collect, store, retrieve, and make available these disclosure documents would increase 29% or 2,030 hours (7,000 hours x .29). It is estimated that the total burden on the MSRB to collect, store, retrieve, and make available these disclosure documents is 9,030 hours.

d. Estimated Total

For the first year, the estimated annual burden for Rule 15c2-12 is 83,223 hours. (425 hours (total estimated burden for broker-dealers) + 73,768 hours (total estimated burden for issuers) + 9,030 hours (total estimated burden for the MSRB) = 83,223 hours). Thereafter, the estimated aggregate total annual burden for Rule 15c2-12 is 83,098 hours. (300 hours (total estimated burden for broker-dealers) + 73,768 hours (total estimated burden for issuers) + 9,030 hours (total estimated burden for the MSRB) = 83,098 hours).[1]

(13) Estimate of Total Annualized Cost Burden

a. Issuers

1. Current Issuers

The Commission expects that some issuers that currently submit continuing disclosure documents to the MSRB in an electronic format (referred to herein as "current issuers") could be subject to some additional costs associated with the proposed amendments to the Rule. For current issuers that convert their annual filings, event notices and/or failure to file notices into the MSRB's prescribed electronic format through a third party there would be costs associated with any additional submissions of event notices and failure to file notices. Under the proposed amendments to the Rule, it is estimated that each current issuer would submit one additional event or failure to file notice annually. Current issuers that utilize third party vendors to convert such notices

[1] For purposes of submitting this request to OMB, the Commission has amortized the one-time hourly burden for broker-dealers over a three year period. Amortizing this one-time burden over a three year period results in an annual burden of 41.67 hours per year: (125 hours (one-time annual burden)) / 3 (number of years) = 41.67 hours. Accordingly, the annual aggregate burden for this information collection for the first three years is 83,140 hours: ((83,098 hours (regular aggregate annual burden) + 41.67 hours (one-time broker-dealer burden amortized over a three year period) = 83,139.67 (rounded to 83,140 hours).

into an electronic format for submission to the MSRB would incur a cost of $8 per notice. It is estimated that no more than 20% or 2000 (10,000 current issuers x .2) of current issuers would use a third party vendor to convert continuing disclosure documents into an electronic format for submission to the MSRB. Accordingly, it is estimated that such current issuers would incur a total annual cost of $16,000 (2000 current issuers x $8).

There will be a one-time cost for current issuers to have outside counsel revise the current template for their continuing disclosure agreements to reflect the proposed amendments to the Rule. It is estimated that the total one-time cost for current issuers would be approximately $1,000,000.

2. VRDO Issuers

The Commission estimates that the proposed modification of the Rule's exemption for demand securities would increase the number of issuers affected by the Rule by 2000 issuers ("VRDO issuers"). The Commission expects that some VRDO issuers could be subject to costs associated with the proposed amendments to the Rule. These costs include the preparation of a continuing disclosure agreement and costs associated with the submission of continuing disclosure documents to the MSRB in an electronic format.

It is estimated that there would be a one-time total cost of approximately $1,200,000 associated with preparing a continuing disclosure agreement for each VRDO issuer.

It is estimated that the costs to some VRDO issuers to submit continuing disclosure documents to the MSRB in electronic format could include: (i) an approximate cost of $8 per notice to use a third party vendor to scan a material event notice or failure to file notice, and an approximate cost of $64 to use a third party vendor to scan an average-sized annual financial statement, (ii) an approximate cost ranging from $750 to $4,300 to acquire technology resources to convert continuing disclosure documents into an electronic format, (iii) $50 to $300 solely to upgrade or acquire the software to submit documents in an electronic format, and (iv) approximately $50 per month to acquire Internet access.

For a VRDO issuer that does not have Internet access and elects to have a third party convert continuing disclosure documents into an electronic format ("Category 1"), the total maximum external cost such issuer would incur would be $752 per year. For a VRDO issuer that does not have Internet access and elects to acquire the technological resources to convert continuing disclosure documents into an electronic format internally ("Category 2"), the total maximum external cost such issuer would incur would be $4,900 for the first year and $600 per year thereafter.

The Commission's staff estimates that approximately no more than 20% or 400 VRDO issuers would incur costs associated with acquiring technology resources to convert continuing disclosure documents into an electronic format. In order to provide a

conservative cost estimate for these VRDO issuers, the Commission's staff has assumed that all these VRDO issuers would incur the higher costs associated with Category 2 issuers. Accordingly, the Commission's staff estimates that the estimated maximum annual costs for those VRDO issuers that need to acquire technology resources to submit documents to the MSRB would be approximately $1,960,000[2] for the first year after the adoption of the proposed amendments and approximately $240,000[3] for each year thereafter.

3. All Issuers

The Commission estimates that the total additional annual cost for all issuers under the proposed amendments to the Rule is approximately $4,176,000[4] for the first year after the adoption of the proposed amendments and approximately $256,000[5] for each year thereafter. [6]

b. MSRB

Under the proposed amendments to the Rule, the MSRB would incur a one-time cost of $10,000 to modify the indexing systems in its EMMA computer system to accommodate the proposed changes to the Rule that would add additional disclosure events.[7]

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[2] 400 (Category 2 issuers) x $4,900 = $1,960,000.

[3] 400 (Category 2 issuers) x $600 = $240,000.

[4] $1,960,000 (total first year annual technology costs for VRDO issuers) + $1,200,000 (total one-time cost to prepare continuing disclosure agreements for each VRDO issuer) + $16,000 (total annual cost for current issuers to submit additional notices) + $1,000,000 (total one-time cost to modify existing continuing disclosure agreement templates for current issuers) = $4,176,000.

[5] $240,000 (total annual technology costs for VRDO issuers) + $16,000 (total annual costs for current issuers to submit additional notices) = $256,000.

[6] For purposes of submitting this request to OMB, the Commission has amortized certain one-time costs for Issuers to determine an annual cost associated with this information collection. Under this scenario, the first year costs for issuers would be $4,176,000 and the cost for each year thereafter would be $256,000. Amortizing issuers' one-time costs over three years results in an annual cost of approximately $1,562,667 for each of the first three years: $4,176,000 (annual cost in year one) + $512,000 (total annual cost over years two and three)/ 3 years = $1,562,666.6 (rounded to $1,562,667).

[7] For purposes of submitting this request to OMB, the Commission has amortized this one-time cost for the MSRB to determine an annual cost associated with this information collection: $10,000 (one-time annual cost)/ 3 years = $3,333.33 (rounded to $3,334).

c. Total Costs

The Commission estimates the total additional annual cost for all respondents under the proposed amendment will be approximately $1,566,001.[8] The estimated annual cost for all respondents under the current Rule is $7,717,450. Under the proposed amendments to the Rule, the total annual cost for all respondents would be $9,283,451.[9]

(14) Estimate of Cost to the Federal Government

Cost to the federal government results from appropriate regulatory agency staff time and related overhead costs for inspection and examination for compliance with requirements of the Rule. Since the Commission inspects broker-dealers regularly, inspection for compliance with the requirements of this Rule is a part of the overall broker-dealer inspection. Thus, the Commission uses little additional resources to ensure compliance with the Rule. Commission staff estimates that approximately 100 hours of staff time per year are devoted to ensuring compliance with the requirements of the Rule at a cost of $3,500 per year.

(15) Explanation of Changes in Burden

In 2008, the Commission submitted a request to OMB for a revision of the collection of information associated with the 2008 Amendments ("2008 PRA Submission"). OMB approved the revision of the 2008 PRA Submission on December 16, 2008.[10] Under the 2008 PRA Submission, the Commission estimated that the annual aggregate information collection burden for the proposed amendments to the Rule would be 64,541 hours. Under the proposed amendments to the Rule, it is estimated that the annual aggregate information collection burden would be 83,140 hours. This represents an increase of 18,598 hours in the annual aggregate information collection burden.

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[8] The annual aggregate cost for the information collection is approximately $1,566,001: $1,562,667 (estimated additional annual cost for issuers) + $3,334 (estimated annual cost for MSRB) = $1,566,001.

[9] $1,566,001 (estimated additional annual cost for all respondents under proposed amendments) + $7,717,450 (estimated annual cost for all respondents under the current Rule) = $9,283,451.

[10] The Commission submitted a non-substantive revision to the 2008 PRA Submission on December 16, 2008, which was approved by OMB on December 22, 2008. As used hereinafter, the term "2008 PRA Submission" means the submission as modified by this non-substantive revision.

This increase in the annual aggregate information collection burden under the Rule is a result of the following:

a. Brokers, Dealers, and Municipal Securities Dealers

Under the 2008 PRA Submission, the Commission estimated that the Rule imposes a paperwork collection burden for 250 broker-dealers. Under the proposed amendments to the Rule, the number of broker-dealers affected by the Rule would still be 250.

Under the 2008 PRA Submission, the Commission also estimated that it would require each of these broker-dealers an average burden of one hour per year to comply with the Rule. Under the proposed amendments to the Rule that modify its exemption for demand securities, the Commission's staff has estimated that the number of municipal securities offerings subject to the Rule would increase by 20% annually. Accordingly, the Commission's staff estimates that the average annual burden for each broker-dealer would also increase by approximately 20% or 12 minutes (1 hour x .20). Thus the annual recurring paperwork burden for broker-dealers would be 300 hours (250 broker-dealers x 1.2 hours). This represents an increase of 50 hours in the total annual paperwork collection burden for broker-dealers.

The Commission also estimates that a broker-dealer would incur a one-time paperwork burden to have its internal compliance attorney prepare and issue a notice advising its employees about the proposed revisions to Rule 15c2-12. Commission staff estimates that it would take the internal compliance attorney approximately 30 minutes to prepare a notice describing the broker-dealer's obligations in light of the proposed amendments to Rule. Preparation of this notice would result in a one-time paperwork burden of 125 hours for broker-dealers (250 broker-dealers x .5 hours = 125 hours).

b. Issuers

In the 2008 PRA Submission, the Commission estimated that Rule 15c2-12 imposed a paperwork burden on 10,000 issuers in any given year. Under the proposed amendments to the Rule which modify its exemption for demand securities, the Commission's staff has estimated that the number of issuers that the Rule imposes an annual paperwork burden on would increase by 20% or 2000 issuers (10,000 issuers x .20).

In the 2008 PRA Submission, the Commission estimated that under the Rule, 10,000 issuers would prepare approximately 15,000 annual filings yearly. In addition, the Commission estimated that the total annual burden on 10,000 issuers to submit 15,000 annual filings would be 11,250 hours. This annual burden estimate is based on the Commission's estimate that an issuer would require approximately 45 minutes to submit the annual filings to the MSRB. The proposed amendments to the Rule, would not affect the amount of time an issuer would require to submit an annual filing to the MSRB. However, the Commission staff has estimated that the proposed amendments to

the Rule modifying the Rule's exemption for demand securities would increase the number of annual filings submitted by 20% or 3000 annual filings (15,000 annual filings x .20). Therefore, under the proposed amendments, the total burden on 12,000 issuers of municipal securities to submit 18,000 annual filings to the MSRB is estimated to be 13,500 hours (18,000 annual filings x .75 hours = 13,500 hours). This amount represents an increase of 2,250 hours from the 11,250 hours included in the 2008 PRA Submission.

In the 2008 PRA Submission, the Commission's staff estimated that issuers would submit approximately 60,000 event notices annually. In addition, the Commission's staff estimated that the total annual burden for issuers to provide these event notices to the MSRB would be approximately 45,000 hours. This annual burden estimate is based on the Commission's estimate that an issuer would require approximately 45 minutes to submit an event notice to the MSRB. The proposed amendments to the Rule, would not affect the amount of time an issuer would require to submit an event notice to the MSRB. However, the Commission staff has estimated that the proposed amendments to the Rule modifying the Rule's exemption for demand securities would increase the number of event notices submitted by 20% or 12,000 notices (60,000 event notices x .20). In addition, the Commission's staff estimates that the proposed amendments to the Rule's categories of event notices and the deletion of certain materiality determinations in the Rule's existing event categories, would increase the number of event notices submitted annually by an additional 6,757 notices. Therefore, under the proposed amendments, the total burden on 12,000 issuers of municipal securities to submit 78,757 event notices (60,000 + 12,000 + 6,757) to the MSRB is estimated to be 59,068 hours (78,757 event notices x .75 hours = 59,068 hours). This amount represents an increase of 14,068 hours from the 45,000 hours included in the 2008 PRA Submission.

In the 2008 PRA Submission, the Commission's staff estimated that issuers would submit approximately 2,000 failure to file notices. In addition, the Commission's staff estimated that the total annual burden for issuers to provide these notices to the MSRB would be approximately 1,000 hours. This annual burden estimate is based on the Commission's estimate that an issuer would require approximately 30 minutes to submit an event notice to the MSRB. The proposed amendments to the Rule, would not affect the amount of time an issuer would require to submit an event notice to the MSRB. However, the Commission staff has estimated that the proposed amendments to the Rule modifying the Rule's exemption for demand securities would increase the number of event notices submitted by 20% or 400 notices (2,000 event notices x .20). Therefore, under the proposed amendments, the total burden on 12,000 issuers of municipal securities to submit 2,400 failure to file notices to the MSRB is estimated to be 1,200 hours (2,400 failure to file notices x .5 hours = 1,200 hours). This amount represents an increase of 200 hours from the 1,000 hours included in the 2008 PRA Submission.

Accordingly, under the proposed amendments to the Rule, the total burden on issuers to submit annual filings, material event notices and failure to file notices to the MSRB would be 73,768 hours (13,500 hours (for annual filings) + 59,068 hours (for event notices) + 1,200 hours (for failure to file notices) = 73,768 hours). This represents

an increase in the total number of burden hours for issuers of 16,518 hours from the 57,250 hours included in the 2008 PRA Submission.

c. MSRB

In the 2008 PRA Submission, the Commission estimated that the annual burden on the MSRB to collect, store, retrieve, and make available the disclosure documents would be 7,000 hours per year. However, the Commission staff has estimated that the proposed amendments to the Rule would increase this annual burden by 29% or 2,030 hours (7,000 hours x .29). Therefore, under the proposed amendments, the total annual burden on the MSRB to collect, store, retrieve, and make available the disclosure documents is estimated to be 9,030 hours (7,000 hours + 2,030 hours). This amount represents an increase of 2,030 hours from the 7,000 hours included in the 2008 PRA Submission.

d. Annual Aggregate Change

The ongoing annual aggregate information collection burden for the proposed amendments to the Rule would be 83,140 hours (300 hours (total estimated burden for broker-dealers) + 73,768 hours (total estimated burden for issuers) + 9,030 hours (total estimated burden for the MSRB) + 42 hours (one-time burden for broker-dealers amortized over three years) = 83,140 hours). The current annual aggregate information collection burden for the Rule indicated in the 2008 PRA Submission is 64,541 hours. Therefore, the Commission estimates that the ongoing annual aggregate information collection burden for Rule 15c2-12 would be increased by 18,599 hours (83,140 – 64,541 = 18,599) under the proposed amendments.

e. Annual Aggregate Cost Change

For the reasons described above, the Commission estimates the total additional annual cost for all respondents under the proposed amendment will be approximately $1,566,001.[11] The estimated annual cost for all respondents under the current Rule is $7,717,450. Under the proposed amendments to the Rule, the total annual cost for all respondents would be $9,283,451.[12]

(16) Information Collection Planned for Statistical Purposes

Not applicable.

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[11] The annual aggregate cost for the information collection is approximately $1,566,001: $1,562,667 (estimated additional annual cost for issuers) + $3,334 (estimated annual cost for MSRB) = $1,566,001.

[12] $1,566,001 (estimated additional annual cost for all respondents under proposed amendments) + $7,717,450 (estimated annual cost for all respondents under the current Rule) = $9,283,451.

(17) Explanation as to Why Expiration Date Will Not Be Displayed

Not applicable.

(18) Exceptions to Certification

Not applicable.

B. Collections of Information Using Statistical Methods

No statistical methods are employed in connection with the collections of information.