

SUPPORTING STATEMENT
for the Paperwork Reduction Act
Information Collection
“Rule 15c1-7”

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 and Use of 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. Consideration Given to Information Technology

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. 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 Not Conducting Collection

Failure to collect the information may limit the Commission's ability to prevent fraudulent, manipulative, and deceptive acts and practices by broker-dealers.

7. Inconsistencies with Guidelines in 5 CFR 1320.8(d)

There are no special circumstances. This collection is consistent with the guidelines in 5 CFR 1320.8(d).

8. Consultations Outside the Agency

The required Federal Register notice with a 60-day comment period soliciting comments on this collection of information was published. No public comments were received.

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 4,810 registered broker-dealers, approximately 10% (or 481 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 (831.6 transactions per respondent (400,000 transactions divided by 481 respondents)) are effected in discretionary accounts annually. Thus, it is estimated that respondents incur an aggregate annual total of 33,333 hours (approximately 69 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. This a recordkeeping rule.

13. Cost to Respondents

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 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

There are no changes in the overall annual time burden.

16. Information Collection Planned for Statistical Purposes

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

17. Display of OMB Approval date

The Commission is not seeking approval to not display the expiration date for OMB approval.

18. Exceptions to Certification for Paperwork Reduction Act Submissions

This collection complies with the requirements in 5 CFR 1320.9.

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.