SUPPORTING STATEMENT
for the Paperwork Reduction Act Information Collection Submission for
"REPORTS OF EVIDENCE OF MATERIAL VIOLATIONS"

This submission is pursuant to the Paperwork Reduction Act of 1995, 44 U.S.C. Section 3501 et seq.

A. Justification

1, 2. Necessity of Information Collection, Purpose and Use

On February 6, 2003, the Commission published final rules, effective August 5, 2003, entitled "Standards of Professional Conduct for Attorneys Appearing and Practicing Before the Commission in the Representation of an Issuer" (17 CFR 205.1-205.7). The information collection embedded in the rules is necessary to implement the Standards of Professional Conduct for Attorneys prescribed by the rule and required by Section 307 of the Sarbanes-Oxley Act of 2002 (15 U.S.C. 7245). The rules impose an "up-the-ladder" reporting requirement when attorneys appearing and practicing before the Commission become aware of evidence of a material violation by the issuer or any officer, director, employee, or agent of the issuer. An issuer may choose to establish a qualified legal compliance committee ("QLCC") as an alternative procedure for reporting evidence of a material violation. In the rare cases in which a majority of a QLCC has concluded that an issuer did not act appropriately, the information may be communicated to the Commission. The collection of information is, therefore, an important component of the Commission's program to discourage violations of the federal securities laws and promote ethical behavior of attorneys appearing and practicing before the Commission.

The collection of information provides a means for issuers to make sure that they are apprised of necessary information concerning evidence of violations by officers, directors, employees or agents of the issuer. If the information collection were not required, issuers might not have access to as much of this information. Consequently, corporate fraud might not be discovered as rapidly. This could have negative effects on the issuer, as well as on the economy as a whole.

The rules were promulgated under the authority set forth in Section 19 of the Securities Act of 1933, Sections 3(b), 4C, 13, and 23(a) of the Securities Exchange Act of 1934, Sections 38 and 39 of the Investment Company Act of 1940, Section 211 of the Investment Advisers Act of 1940, and Sections 3(a), 307 and 404 of the Sarbanes-Oxley Act of 2002.

3. Consideration Given to Information Technology

The rule does not require or prohibit the use of any particular technology to fulfill the collection of information requirements.

4. Duplication

The collection of information will not duplicate existing information.

5. Effect on Small Entities

The information collection will affect small as well as larger entities. As described below, we believe that the burden of complying with the collection of information will be very low for all entities, regardless of size.

6. Consequences of Not Conducting Collection

The rules do not require periodic disclosures. Whether an issuer must comply with some aspect of the collection of information depends entirely upon the issuer as well as on external circumstances.

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

The collection of information required by Rule 15c2-7 is conducted in a manner consistent with the guidelines of 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. Confidentiality

Not applicable. No assurance of confidentiality is provided.

11. Sensitive Questions

Not applicable. No questions of a sensitive nature are asked.

12, 13. Reporting Time Burden and Total Annualized Cost Burden

The rules impose an "up-the-ladder" reporting requirement when attorneys appearing and practicing before the Commission become aware of evidence of a material violation by the issuer or any officer, director, employee, or agent of the issuer. An attorney must report such evidence to the issuer's chief legal officer ("CLO") or to both the chief legal officer and chief executive officer ("CEO").[1]

[1] A subordinate attorney complies with the proposed rules if he or she reports evidence of a material

The chief legal officer (or the equivalent thereof) shall cause such inquiry into the evidence of a material violation as he or she reasonably believes is appropriate to determine whether the material violation described in the report has occurred, is ongoing, or is about to occur. If the CLO, after investigation, reasonably believes that there is no violation, he or she must so advise the reporting attorney. If the CLO reasonably believes that there is a violation, he or she shall take all reasonable steps to cause the issuer to adopt an appropriate response, and shall advise the reporting attorney thereof. In lieu of causing an inquiry, a chief legal officer (or the equivalent thereof) may refer a report of evidence of a material violation to a QLCC if the issuer has established a QLCC prior to the report of evidence of a material violation. The rules also require attorneys to take certain steps if the CLO or CEO does not provide an appropriate response to a report of evidence of a violation, including reporting the evidence to the audit committee, another committee of independent directors, or the full board of directors.

The respondents to this collection of information are attorneys who appear and practice before the Commission and, in certain cases, the issuer, and/or officers, directors and committees of the issuer. We believe that, in providing quality representation to issuers, attorneys report evidence of violations to others within the issuer, including the CLO, the CEO, and, where necessary, the directors. In addition, officers and directors investigate evidence of violations and report within the issuer the results of the investigation and the remedial steps they have taken or sanctions they have imposed. Except as discussed below, we therefore believe that the reporting requirements imposed by the rules are "usual and customary" activities that do not add to the burden that would be imposed by the collection of information.

Certain aspects of the collection of information, however, may impose a burden. For an issuer to establish a QLCC, the QLCC must adopt written procedures for the confidential receipt, retention, and consideration of any report of evidence of a material violation. We estimate for purposes of the PRA that there are approximately 16,517 issuers that are subject to the rules.[2] Of these, we estimate that approximately 3.8% percent, or 637, have established or will establish a QLCC.[3] Establishing the written procedures required by the rule should not impose a significant burden. We assume that an issuer would incur a greater burden in the year that it first establishes the procedures than in subsequent years, in which the burden would be incurred in updating, reviewing, or modifying the procedures. For purposes of the PRA, we assume that an issuer would spend 6 hours every three-year period on the procedures. This would result in an average burden of 2 hours per year. Thus, we estimate for purposes of the PRA that the total annual

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violation to his or her supervisory attorney (who is then responsible to comply with the rules' requirements). A subordinate attorney may also take the other steps described in the rules if the supervisor fails to comply.

[2] This estimate is based, in part, on the total number of operating companies that filed annual reports on Form 10-K, Form 20-F, or Form 40-F, during the 2011 fiscal year and an estimate of the average number of issuers that may have a registration statement filed under the Securities Act pending with the Commission at any time (14,000). In addition, we estimate that approximately 2,517 investment companies currently file periodic reports on Form N-SAR.

[3] We base this estimate on the number of issuers who have reported in filings with the Commission that they have created QLCCs. Indications are that the 2005 estimate of the percentage of issuers that would establish QLCCs (10%) was high. Our adjusted estimate in the percentage of QLCCs (3.8%) results in a reduced burden estimate as compared to the previously-approved collection.

burden imposed by the collection of information would be 1,274 hours. Assuming half of the burden hours will be incurred by outside counsel at a rate of $500 per hour would result in a cost of $318,500.

14. Cost to the Federal Government

De minimis.

15. Changes in Burden

Indications are that the 2008 estimate of the percentage of issuers that would establish QLCCs (10%) was high. Our adjusted estimate in the percentage of QLCCs (3.8%) results in a reduced burden estimate as compared to the previously-approved collection.

16. Information Collections Planned for Statistical Purposes

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

17. Display of OMB Approval Date

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

B. Collection of Information Employing Statistical Methods

Not applicable.