

**SUPPORTING STATEMENT**  
**for the Paperwork Reduction Act Information Collection Submission**  
**“Rule 17f-2(a)”**

A. Justification

(1) Necessity of Information Collection

On March 16, 1976, the Commission adopted Rule 17f-2, implementing Section 17(f)(2) of the Securities Exchange Act of 1934 (the "Act"). Paragraph (a) of that Section and Rule 17f-2(a) thereunder provide that every member of a national securities exchange, broker, dealer, registered transfer agent and registered clearing agency ("covered entities") must require each of its partners, directors, officers, and employees to be fingerprinted and must submit or cause to be submitted such fingerprints to the designee of the Attorney General of the United States (the FBI) for appropriate identification and processing.

Section 17(f)(2) of the Act was a response by Congress to the large number of securities thefts which occurred in the late 1960's. Testimony at the hearing conducted before the Senate permanent Subcommittee on Investigations between 1971 and 1974 indicated that the trafficking in stolen securities was a profitable area for organized crime and that the failure to have available to the financial community a means of easily identifying security-risk personnel was a contributing factor to that problem.

The purpose of Rule 17f-2(a) is to facilitate the identification of security-risk personnel (*i.e.*, persons with criminal history records for serious offenses, to provide criminal history record information so that employers can make fully informed employment decisions, and to deter such persons from seeking employment or association with covered entities.

(2) Purpose and Use of the Information Collection

Fingerprint cards are provided to covered entities by the appropriate self-regulatory organization ("SRO"). The SRO then forwards the cards to the FBI. The FBI processes the cards and returns those cards with any criminal history to the SRO. The SRO, in turn, returns the cards, together with any criminal history record information, to the covered entity that initially submitted the fingerprint cards. Processed fingerprint cards and criminal histories (if any) are reviewed by the covered entity to identify security-risk personnel, to allow for fully-informed decisions regarding employment or association of persons with a covered entity, and to deter persons with criminal histories from seeking employment or association with a covered entity. Without paragraph (a) of Rule 17f-2, benefits of the Rule to the securities industry would be lost, and the only nationwide, uniform fingerprinting program for the securities industry would be rendered inoperable.

(3) Consideration Given to Information Technology

Not applicable.

(4) Duplication

If, in connection with their present employment, a new hire in the securities industry has been fingerprinted pursuant to any other statute or regulation, those fingerprint cards may be submitted to the Attorney General for processing, and the processed cards may be maintained in accordance with this rule

(5) Effect on Small Entities

The reporting requirement only applies to newly hired personnel in the securities industry. A small entity, therefore, would be affected by the Rule only when it hires new personnel.

(6) Consequences of Not Conducting Collection

The reporting requirement is on "an event" basis only.

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

There are no special circumstances. This collection is consistent with the guidelines in 5 CFR 1320.5(d)(2).

(8) Consultations Outside the Agency

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

(9) Payment or Gift

No payment or gift is provided to respondents.

(10) Confidentiality

No assurance of confidentiality is provided.

(11) Sensitive Questions

Not applicable. No information of a sensitive nature is required.

(12) Information on Burden of Information Collection

Approximately 10,000 covered entities per year are required to fingerprint their partners, directors, officers, or employees, unless otherwise exempt. The NYSE and NASD, through their fingerprinting plans, handle the majority of fingerprint cards submitted to the FBI. On the basis of their estimates, we have concluded that approximately 550,000 fingerprint cards are prepared annually, or an average of approximately 55 cards per respondent. Also, we believe that one-half an hour is required to complete a fingerprint card. Thus, the total estimated annual burden for all respondents to comply with the requirements of Rule 17f-2(a) is 275,000 hours (550,000 times

one-half hour). We estimate that the average internal labor cost is \$50 per hour. Therefore, the internal labor cost of compliance for all respondents is approximately \$13,750,000 per year (275,000 times \$50).

(13) Costs to Respondents

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 costs.

(14) Costs to Federal Government

Costs to the Federal Government in administering Rule 17f-2(a) are minimal. The staff presently receives no more than 2 or 3 inquiries per week. Inquiries can be responded to within on-half hour. The staff estimates that approximately 65 hours of staff time per year will be devoted to answering oral inquiries at a cost of \$1,950 per year.

(15) Changes in Burden

The annual burden is unchanged. The previous submission had noted the internal labor cost incorrectly as a cost for the respondents.

(16) Information Collection Planned for Statistical Purposes

Not applicable. The information collection is not used for statistical purposes.

(17) Approval to Display OMB Expiration Date

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

(18) Exceptions to Certification

This collection complies with the requirements in 5 CFR 1320.9.

B. Collection of Information Employing Statistical Methods

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