

**Prohibited Transaction Class Exemption 75-1**  
**Security Transactions with Broker-Dealers, Reporting Dealers and Banks**  
**OMB Number 1210-0092**  
April 2013

SUPPORTING STATEMENT FOR PAPERWORK REDUCTION ACT 1995 SUBMISSIONS

**A. Justification**

1. *Explain the circumstances that make the collection of information necessary. Identify any legal or administrative requirements that necessitate the collection. Attach a copy of the appropriate section of each statute and regulation mandating or authorizing the collection of information.*

Section 3(14) of the Employee Retirement Income Security Act (ERISA) of 1974, as amended, defines certain relationships to an employee benefit plan as party in interest relationships. Section 406(a) of ERISA prohibits specified transactions between plans and parties in interest, such as the sale or exchange of property or services, loans, leases, or extensions of credit, and section 406(b) further prohibits certain acts by plan fiduciaries that result in benefit to the fiduciary or a party adverse to the plan. Section 408(a) of ERISA gives the Secretary of Labor the right “to grant a conditional or unconditional exemption of any fiduciary or class of fiduciaries or transactions, from all or part of the restrictions imposed by section 406 and 407(a).” In order to grant such exemptions under 408(a), however, the Department must determine that the exemption is administratively feasible, in the interest of the plan and its participants and beneficiaries, and protective of the rights of participants and beneficiaries. This exemption also provides relief from the prohibited transaction provisions of section 4975 of the Internal Revenue Code (the Code).

Prohibited Transaction Exemption (PTE) 75-1 was granted on October 24, 1975. It consists of five parts covering, among other things, securities transactions between plans and broker-dealers, reporting dealers and banks as well as other parties. PTE 75-1 Part I covers brokerage commissions and related services as well as advice by persons that are not fiduciaries. Part II allows broker-dealers to engage in principal purchases or sales of securities with plans and permits reporting dealers and banks to do the same with respect to Government securities. Part III allows a plan to purchase certain securities from underwriting syndicates of which a plan fiduciary is a member. Part IV allows a plan to purchase from or sell securities to a market maker even if the market maker is a fiduciary. Part V allows a broker-dealer to extend credit to a plan in connection with the purchase or sale of securities. Each of the five parts of the exemption contains its own conditions and limitations.

In order to ensure that the exemption is not abused, that the rights of participants and beneficiaries are protected, and that parties comply with the exemption’s conditions, the Department requires limited information collection pertaining to the affected transactions. The information collection requirements that are conditions to reliance on the class exemption consist only of recordkeeping. Parties relying on the exemption must keep records describing

**Prohibited Transaction Class Exemption 75-1**  
**Security Transactions with Broker-Dealers, Reporting Dealers and Banks**  
**OMB Number 1210-0092**  
April 2013

transactions covered by the exemption and make the records available unconditionally during normal business hours to duly authorized employees of the Department of Labor, the Internal Revenue Service, plan participants and beneficiaries, any employer of plan participants and beneficiaries, and any employee organization any of whose members are covered by plan participating in covered transactions.

The records must generally be maintained to enable plan fiduciaries and certain other persons specified in the exemption (e.g., Department representatives and employers of participants and beneficiaries) to determine whether the conditions of the exemptions have been met. The records must demonstrate that the transactions are fair to the plan. For certain transactions covered by the exemption, the records must show that qualitative standards (e.g., that the securities involved are of a certain type) and quantitative standards (e.g., that the amount of securities acquired by the plan does not exceed three percent of the total amount of such securities being offered) were met. Consistent with the other prohibited transaction exemptions granted by the Department, the exemptions require that records of transactions entered into in reliance on the exemptions be maintained for a period of 6 years from the date of each transaction.

2. *Indicate how, by whom, and for what purpose the information is to be used. Except for a new collection, indicate the actual use the agency has made of the information received from the current collection.*

The class exemption allows broker-dealers, reporting dealers and banks and others to engage in securities and other transactions with employee benefit plans. These transactions would otherwise be prohibited under ERISA's prohibited transaction provisions. Thus, without the relief provided by the class exemption, standard financial/business transactions between financial service providers and employee benefit plans, that are generally beneficial to the plans, would be barred. Such a result would not be in the best interest of plans, their participants and beneficiaries, or the financial services industry.

The Department is unable to estimate how frequently records supporting the exempt transactions are examined by either the Department or other parties. The Department has the authority to request such records and does so from time to time in connection with investigations. However, the primary purpose of the recordkeeping condition of the exemption is to ensure participant access to records enabling participants to verify that transactions are conducted properly. Under ERISA section 408(a)(3), protection of participant rights is a required condition of the Department's grant of an exemption from the prohibited transaction provisions of ERISA.

3. *Describe whether, and to what extent, the collection of information involves the use of*

**Prohibited Transaction Class Exemption 75-1**  
**Security Transactions with Broker-Dealers, Reporting Dealers and Banks**  
**OMB Number 1210-0092**  
April 2013

*automated, electronic, mechanical, or other technological collection techniques or other forms of information technology, e.g., permitting electronic submission of responses, and the basis for the decision for adopting this means of collection. Also describe any consideration for using information technology to reduce burden.*

The use of electronic technology to satisfy the information collection provisions of the exemption is neither prescribed nor precluded by the terms of the exemption. Inasmuch as the financial entities that rely on the exemption are generally sophisticated and conduct their business routinely through electronic means of communication, the Department has assumed that the required recordkeeping will be maintained through electronic databases that reduce the burden of the information collection.

4. *Describe efforts to identify duplication. Show specifically why any similar information already available cannot be used or modified for use for the purposes described in Item 2 above.*

It is likely that duplication of recordkeeping requirements exist with some State and federal banking and securities laws. However, no duplicate recordkeeping is required because entities are able to satisfy the requirements of both the exemption and of the other applicable laws through one recordkeeping arrangement.

5. *If the collection of information impacts small businesses or other small entities (Item 5 of OMB Form 83-I), describe any methods used to minimize burden.*

This exemption is relied upon primarily by large institutional financial service providers, which are the entities most likely to engage in the covered transactions. However, even if small plans or fiduciaries are involved in these transactions, the burden is expected to be minimal because most entities maintain the subject records a part of their ordinary and customary business practices or for other reasons, including other state and Federal securities regulatory requirements.

6. *Describe the consequence to Federal program or policy activities if the collection is not conducted or is conducted less frequently, as well as any technical or legal obstacles to reducing burden.*

The recordkeeping requirements come into effect only with respect to transactions for which the exemptive relief is desired; thus the frequency of collection is dependent upon voluntary transactions, rather than the passage of time. In the absence of the recordkeeping requirement, fiduciaries, participants and beneficiaries, and the Department would not have access to sufficient information to verify compliance with the terms of the exemption.

**Prohibited Transaction Class Exemption 75-1**  
**Security Transactions with Broker-Dealers, Reporting Dealers and Banks**  
**OMB Number 1210-0092**  
April 2013

7. *Explain any special circumstances that would cause an information collection to be conducted in a manner:*
- *requiring respondents to report information to the agency more often than quarterly;*
  - *requiring respondents to prepare a written response to a collection of information in fewer than 30 days after receipt of it;*
  - *requiring respondents to submit more than an original and two copies of any document;*
  - *requiring respondents to retain records, other than health, medical, government contract, grant-in-aid, or tax records for more than three years;*
  - *in connection with a statistical survey, that is not designed to produce valid and reliable results that can be generalized to the universe of study;*
  - *requiring the use of a statistical data classification that has not been reviewed and approved by OMB;*
  - *that includes a pledge of confidentiality that is not supported by authority established in statute or regulation, that is not supported by disclosure and data security policies that are consistent with the pledge, or which unnecessarily impedes sharing of data with other agencies for compatible confidential use; or*
  - *requiring respondents to submit proprietary trade secret, or other confidential information unless the agency can demonstrate that it has instituted procedures to protect the information's confidentiality to the extent permitted by law.*

Because this exemption is granted under section 408(a) of ERISA and section 4975(c)(2) of the Code, the exclusion from the three year guideline for record retention set forth in 5 CFR 1320.5 is applicable. Furthermore, as a result of statutory recordkeeping requirements in ERISA, the Code, and other federal laws the respondents affected by this exemption (financial institutions that deal with employee benefit plans), for the most part, have adopted six-year recordkeeping as standard business practice in order to satisfy those separate recordkeeping requirements.

**Prohibited Transaction Class Exemption 75-1**  
**Security Transactions with Broker-Dealers, Reporting Dealers and Banks**  
**OMB Number 1210-0092**  
April 2013

8. *If applicable, provide a copy and identify the date and page number of publication in the Federal Register of the agency's notice, required by 5 CFR 1320.8(d), soliciting comments on the information collection prior to submission to OMB. Summarize public comments received in response to that notice and describe actions taken by the agency in response to these comments. Specifically address comments received on cost and hour burden.*

*Describe efforts to consult with persons outside the agency to obtain their views on the availability of data, frequency of collection, the clarity of instructions and recordkeeping, disclosure, or reporting format (if any), and on the data elements to be recorded, disclosed, or reported.*

*Consultation with representatives of those from whom information is to be obtained or those who must compile records should occur at least once every 3 years -- even if the collection of information activity is the same as in prior periods. There may be circumstances that may preclude consultation in a specific situation. These circumstances should be explained.*

The Department published a notice in the Federal Register, as required by 5 CFR 1320.8 (d), on November 27, 2013 (77 FR 70828), soliciting public comments on the Department's request for an extension of the approval of this information collection and providing the public with 60 days to comment on the submission. No comments were received from the public in response to the notice.

9. *Explain any decision to provide any payment or gift to respondents, other than remuneration of contractors or grantees.*

Not applicable.

10. *Describe any assurance of confidentiality provided to respondents and the basis for the assurance in statute, regulation, or agency policy.*

None.

11. *Provide additional justification for any questions of a sensitive nature, such as sexual behavior and attitudes, religious beliefs, and other matters that are commonly considered private. This justification should include the reasons why the agency considers the questions necessary, the specific uses to be made of the information, the explanation to be given to persons from whom the information is requested, and any steps to be taken to obtain their consent.*

**Prohibited Transaction Class Exemption 75-1**  
**Security Transactions with Broker-Dealers, Reporting Dealers and Banks**  
**OMB Number 1210-0092**  
April 2013

None.

12. *Provide estimates of the hour burden of the collection of information. The statement should:*

- *Indicate the number of respondents, frequency of response, annual hour burden, and an explanation of how the burden was estimated. Unless directed to do so, agencies should not conduct special surveys to obtain information on which to base hour burden estimates. Consultation with a sample (fewer than 10) of potential respondents is desirable. If the hour burden on respondents is expected to vary widely because of differences in activity, size, or complexity, show the range of estimated hour burden, and explain the reasons for the variance. Generally, estimates should not include burden hours for customary and usual business practices.*
- *If this request for approval covers more than one form, provide separate hour burden estimates for each form and aggregate the hour burdens in Item 13 of OMB Form 83-I.*
- *Provide estimates of annualized cost to respondents for the hour burdens for collections of information, identifying and using appropriate wage rate categories. The cost of contracting out or paying outside parties for information collection activities should not be included here. Instead, this cost should be included in Item 14.*

The class exemption requires as a condition to relief that entities entering into the types of transactions covered by the exemption retain or cause to be maintained all records pertaining to such transactions for six years and provide access to the records upon request to the specified parties. The Department has assumed that financial service providers that transact with employee benefit plans will maintain these records on behalf of their client plans. Because of the sophisticated nature of financial service providers and the strict regulation of the securities industry by State and federal government, and by self-regulatory organizations, the Department has assumed that the records required by this class exemption are the same records kept in the normal course of business. Therefore, the Department has estimated that the additional time needed to maintain records consistent with the exemption for the plans will be very small, requiring only 5 minutes of financial professionals' time per entity annually. The Department has further assumed that making the records available for inspection during normal business hours will require an additional 5 minutes of financial professional time. Thus, the Department estimates that a total of 10 minutes of professional time per entity would be required.

**Prohibited Transaction Class Exemption 75-1**  
**Security Transactions with Broker-Dealers, Reporting Dealers and Banks**  
**OMB Number 1210-0092**  
April 2013

Broker-dealers registered under the Security Exchange Act of 1934 (Act) (15 USC 78a et seq.), reporting dealers, banks as well as other parties are eligible to take advantage of the provisions of the exemption. However, persons who use the exemption will typically be broker-dealers, reporting dealers, and banks regulated by the Federal Reserve. According to the Security Exchange Commission, approximately 4,612 broker-dealers were registered as of December 31, 2012.<sup>1</sup> The Financial Industry Regulatory Authority (FINRA) reports approximately 4,275 members as of March, 2013. Not all broker-dealers perform services for employee benefit plans, and not all broker-dealers that perform services for employee benefit plans would need to rely on the exemption in order to conduct their business. The number of broker-dealers that would use the exemption is therefore estimated to be about half of the total number of broker-dealers, or approximately 4,444 respondents<sup>2</sup>

The Federal Deposit Insurance Corporation insured 6,096 commercial banks as of December 31, 2012.<sup>3</sup> If one-half of these banks (about 3,048) and 4,444 broker-dealers relied on this exemption, there would be approximately 7,492 respondents.<sup>4</sup> Multiplying this number by ten minutes per year results in a total annual recordkeeping burden of 1,249 hours.

The equivalent cost for this annual hour burden for this collection of information is estimated to be \$84,632, determined as follows: 1,249 hours times \$67.76/hour (estimated per hour cost for financial professionals' time).<sup>5</sup>

13. *Provide an estimate of the total annual cost burden to respondents or recordkeepers resulting from the collection of information. (Do not include the cost of any hour burden shown in Items 12 or 14).*

It is assumed that required records are maintained by the relevant affected parties, the broker-dealers. Thus, there are no additional tasks performed outside of the brokerage firms/banks.

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<sup>1</sup>Email contact with the Securities and Exchange Committee Trading and Markets Office on January 10, 2013

<sup>2</sup>This estimate is very conservative since there is large overlap between the SEC registered firms and FINRA ones

<sup>3</sup>Federal Insurance Deposit Corporation, Quarterly Banking Profile.

<http://www.fdic.gov/bank/statistical/stats/2012dec/industry.pdf>

<sup>4</sup>Reporting dealers covered by the exemption are not accounted for separately because they are banks and security brokerages that trade in U.S. Government Securities; thus, reporting dealers are already accounted for in the number of broker-dealer firms and banks. The NY Federal Reserve Bank reported 21 primary dealers on March 21, 2013. ([http://www.newyorkfed.org/markets/pridealers\\_current.html](http://www.newyorkfed.org/markets/pridealers_current.html))

<sup>5</sup>The Department estimates 2013 hourly labor rates include wages, other benefits, and overhead based on data from the National Occupational Employment Survey (June 2012, Bureau of Labor Statistics) and the Employment Cost Index (September 2012, Bureau of Labor Statistics); the 2011 estimated labor rates are then inflated to 2013 labor rates.

**Prohibited Transaction Class Exemption 75-1**  
**Security Transactions with Broker-Dealers, Reporting Dealers and Banks**  
**OMB Number 1210-0092**  
April 2013

14. *Provide estimates of annualized cost to the Federal government. Also, provide a description of the method used to estimate cost, which should include quantification of hours, operational expenses (such as equipment, overhead, printing, and support staff), and any other expense that would not have been incurred without this collection of information. Agencies also may aggregate cost estimates from Items 12, 13, and 14 in a single table.*

Not applicable.

15. *Explain the reasons for any program changes or adjustments reporting in Items 13 or 14 of the OMB Form 83-I.*

There have been no program changes from the prior submission. The number of respondents has been updated from 8,376 to 7,492 based on updated information received from the SEC, FINRA, and the FDIC. The burden hour estimate correspondingly decreased from 1,396 to 1,249 hours. The hourly rate of compensation changes from \$62.81/hour to \$67.76 are a byproduct of industry wage changes, as well as changes in overhead and benefit costs.

16. *For collections of information whose results will be published, outline plans for tabulation, and publication. Address any complex analytical techniques that will be used. Provide the time schedule for the entire project, including beginning and ending dates of the collection of information, completion of report, publication dates, and other actions.*

The results of the collection of information will not be published.

17. *If seeking approval to not display the expiration date for OMB approval of the information collection, explain the reasons that display would be inappropriate.*

The collection of information will display a currently valid OMB control number.

18. *Explain each exception to the certification statement identified in Item 19, "Certification for Paperwork Reduction Act Submission," of OMB 83-I.*

Not applicable; no exceptions to the certification statement.



**Prohibited Transaction Class Exemption 75-1**  
**Security Transactions with Broker-Dealers, Reporting Dealers and Banks**  
**OMB Number 1210-0092**  
April 2013

**B. Collection of Information Employing Statistical Methods**

Not applicable. The use of statistical methods is not relevant to this collection of information.