

**SUPPORTING STATEMENT**  
**for the Paperwork Reduction Act New Information Collection Submission for**  
**Rule 15c3-3 – Customer Protection—Reserves and Custody of Securities**

**A. JUSTIFICATION**

**1. Necessity of Information Collection**

During the “Paperwork Crisis” of 1967–1970, many brokers-dealers mishandled and misused customer funds and securities because they had inadequate and inefficient record keeping and segregation systems. Furthermore, the 1969–1970 “bear market” caused many firms that lacked sufficient capital to utilize customer funds and securities to obtain financing for their continued operation. In order to rectify these problems, the Securities and Exchange Commission (“Commission”) adopted Rule 15c3-3 to provide increased protection for the funds and securities of customers.<sup>1</sup>

Rule 15c3-3 requires all broker-dealers that hold securities or cash belonging to customers to obtain and maintain possession or control of all the fully-paid and excess margin securities of their customers.<sup>2</sup> In addition, these broker-dealers must make a periodic computation (“reserve computation”) to ascertain the amount of money being held that constitutes customer funds or funds obtained from the use of customer securities. If this amount – known as “customer credits” – exceeds the amount of money customers owe the firm (“customer debits”), the broker-dealer must deposit the excess in a special reserve bank account for the exclusive benefit of the firm’s customers (“Special Reserve Bank Account”).<sup>3</sup> In this way, Rule 15c3-3 protects customer assets by requiring firms to maintain possession or control of customer securities, and by permitting firms to use customer money only to the extent necessary to finance customer-related business.

Rule 15c3-3 requires broker-dealers to make the reserve computation on either a weekly or monthly basis. Broker-dealers are also required to: (1) maintain a description of the procedures utilized to comply with the possession and control requirements of Rule 15c3-3; (2) maintain a written notification from the bank where the Special Reserve Bank Account is located that all assets in the account are for the exclusive benefit of the broker-dealer’s customers; and (3) give telegraphic notice to the Commission, and the appropriate designated examining authority (“DEA”), if they fail to make a required deposit in the Special Reserve Bank Account.

In addition, paragraph (o) of Rule 15c3-3 requires that a broker-dealer that effects transactions for customers in security futures products (“SFP”) must: (1) establish written policies and procedures for determining whether customer SFPs will be placed in a securities account or a futures account, and, if applicable, the process by which a customer may elect the type of account in which SFPs will be held; (2) provide each customer that plans to effect SFP

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<sup>1</sup> See Broker-dealers; Maintenance of Certain Basic Reserves, Exchange Act Release No. 9856 (Nov. 10, 1972), 37 FR 25224 (Nov. 29, 1972).

<sup>2</sup> 17 CFR 240.15c3-3.

<sup>3</sup> For purposes of this Paperwork Reduction Act (“PRA”) submission, the term “Special Reserve Bank Account” includes accounts set up in accordance with both paragraph (e)(1) and (k)(2)(i) of Rule 15c3-3.

transactions with a disclosure document containing certain information; (3) make a record of each change in account type; and (4) send each SFP customer notification of any change of account type.

On December 27, 2013, the Commission adopted amendments to Rule 15c3-3 as part of the amendments to remove references to credit ratings under the Securities Exchange Act of 1934 (“2013 amendments”).<sup>4</sup> This supporting statement describes the impact of these amendments on the current PRA collection for Rule 15c3-3.<sup>5</sup>

## **2. Purpose and Use of the Information Collection**

Rule 15c3-3 is an integral part of the Commission’s financial responsibility program for broker-dealers. Its purpose is to protect the rights of customers to promptly obtain their property from a broker-dealer. Rule 15c3-3’s reserve and notice requirements facilitate the process by which the Commission and the various DEAs monitor how broker-dealers are fulfilling their custodial responsibilities to investors. With the exception of the telegraphic notice requirement, governmental agencies do not regularly receive any of the information described above. Instead, the information is stored by the broker-dealer and made available to the various securities regulatory authorities as required to facilitate examinations and investigations. If broker-dealers were not required to create and maintain this information, the Commission’s ability to fulfill its statutory directive to protect investors would be diminished.

Rule 15c3-3 also requires that a broker-dealer provide each customer that wishes to engage in SFP activities with a disclosure document and notification of any change of account type. Without these disclosures and notifications, in the event of a liquidation, customers may be uncertain or confused as to which regulatory scheme is applicable to their account.

## **3. Consideration Given to Information Technology**

Rule 15c3-3 does not prevent a broker-dealer from using computers or other mechanical devices to generate, obtain, disclose or maintain the records and information required under the rule. Currently, most firms utilize automated systems to comply with Rule 15c3-3. The Commission is not aware of any technical or legal obstacle to reducing the burden through the use of improved information technology.

## **4. Duplication**

There are no similar rules that are duplicative of Rule 15c3-3. Copies of notices required to be filed with the Commission under paragraph (i) of Rule 15c3-3 must also be filed with the

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<sup>4</sup> Removal of Certain References to Credit Ratings Under the Securities Exchange Act of 1934, Exchange Act Release No. 71194 (Dec. 27, 2013), 79 FR 1522 (Jan. 8, 2014).

<sup>5</sup> Due to an oversight, the Paperwork Reduction Action supporting statement and supplementary materials were not submitted to OMB in connection with the proposed rules that served as the basis for the 2013 amendments. The proposed rules were, however, published in the Federal Register on May 6, 2011 for public notice and comment. Copies of the Federal Register notices for both the proposed rules and the 2013 amendments have been submitted to OMB through ROCIS.

regulatory authority that examines the broker-dealer for compliance with financial responsibility, helping to avoid duplication.

## **5. Effects on Small Entities**

Paragraph (k) of Rule 15c3-3 has the effect of exempting most small broker-dealers from the rule's requirements. Small broker-dealers that are not exempt from Rule 15c3-3 can make the required computation monthly as long as they have aggregate indebtedness not exceeding 800% of net capital and carry aggregate customer funds not exceeding \$1,000,000. The Commission estimates that, as of 2011 year end, approximately 5 broker-dealers were small entities that performed a customer reserve computation pursuant to Rule 15c3-3.

## **6. Consequences of not Conducting Collection**

If the required information were not conducted or were conducted less frequently, the level of protection afforded to the public by Rule 15c3-3 would be reduced.

## **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 Commission requested comment in the proposing release on the included PRA analysis in April 2011.<sup>6</sup> The Commission received no comments addressing the PRA.

## **9. Payment or Gift**

No payments of gifts have been provided to respondents.

## **10. Assurance of Confidentiality**

The information collected under Rule 15c3-3 is kept confidential to the extent permitted by the Freedom of Information Act, 5 U.S.C. § 552 ("FOIA") and any other applicable law.

## **11. Sensitive Questions**

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

## **12. Burden of Information Collection**

The Commission estimates that, as of 2011 year end, there were approximately 292 broker-dealers fully subject to Rule 15c3-3 (i.e., broker-dealers that cannot claim any of the exemptions enumerated in paragraph (k)), of which approximately 17 made daily, 196 made weekly, and 54 made monthly, reserve computations. Paragraph (e)(3) of Rule 15c3-3 requires

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<sup>6</sup> See Removal of Certain References to Credit Ratings under the Securities Exchange Act of 1934, Exchange Act Release No. 64352 (Apr. 27, 2011), 76 FR 26550 (May 6, 2011).

each broker-dealer to make a record of each such computation.<sup>7</sup> Based on staff experience, the Commission estimates that it takes between one and five hours to make a record of each reserve computation, and that the average time spent across all the firms is 2.5 hours. Accordingly, the Commission estimated that the total annual recordkeeping burden was approximately 40,550 hours.<sup>8</sup>

Furthermore, paragraph (e) of Rule 15c3-3 requires a PAB reserve computation that will result in a one-time and annual burden. The Commission estimates that approximately 61 broker-dealers will perform a PAB reserve computation. These firms already perform a reserve computation for domestic broker-dealer customers under the PAIB Letter. Nonetheless, the Commission estimates these firms will spend, on average, approximately 30 hours of employee resources per firm updating their systems to implement changes that will be necessitated by the amendment. Therefore, the Commission estimates that the total one-time recordkeeping burden to broker-dealers arising from updating their systems to comply with this requirement will be approximately 1,830 hours.<sup>9</sup> The Commission also estimates that of the 61 broker-dealers estimated to perform a PAB reserve computation, approximately 56 of the current PAB filers will perform the PAB reserve computation on a weekly basis, two broker-dealers will perform it on a monthly basis, and three broker-dealers will perform the PAB reserve computation on a daily basis. The Commission estimates that a broker-dealer will spend, on average, approximately 2.5 hours to complete the PAB reserve computation in order to make a record of such computation pursuant to paragraph (e) of Rule 15c3-3. Therefore, the Commission estimates that the total annual recordkeeping burden to broker-dealers from this requirement will be approximately 9,215 hours.<sup>10</sup>

Paragraph (a)(16) of Rule 15c3-3 excludes from its definition of “PAB account,” an account that “has been subordinated to the claims of creditors of the carrying broker or dealer.”<sup>11</sup> The Commission understands that most

<sup>7</sup> 17 CFR 240.15c3-3(e)(3). 25 broker-dealers did not indicate the frequency with which they calculated their customer reserve requirement. The Commission assumes for this supporting statement that these firms make the calculation on a weekly basis.

<sup>8</sup>  $(2.5 \text{ hours} \times 240 \text{ computations} \times 17 \text{ respondents that calculate daily}) + (2.5 \text{ hours} \times 52 \text{ computations} \times 221 \text{ respondents that calculate weekly}) + (2.5 \text{ hours} \times 12 \text{ computations} \times 54 \text{ respondents that calculate monthly}) = 40,550 \text{ hours}$ . For purposes of this supporting statement, the average annual cost per respondent is 138.869 hours (40,550 hours/292 broker-dealers).

<sup>9</sup>  $61 \text{ broker-dealers} \times 30 \text{ hours per firm} = 1,830 \text{ hours}$ . For purposes of this supporting statement, this one-time burden annualized over the three-year approval period is 610 hours ( $1,830 / 3 = 610$ ), with an average hour burden of 10 hours ( $610 / 61 \text{ broker-dealers} = 10$ ) per broker-dealer.

<sup>10</sup>  $(56 \text{ weekly filers} \times 52 \text{ weeks} \times 2.5 \text{ hours per computation}) + (2 \text{ monthly filers} \times 12 \text{ months} \times 2.5 \text{ hours per computation}) + (3 \text{ daily filers} \times 250 \text{ business days per year} \times 2.5 \text{ hours per computation}) = 9,215 \text{ total hours}$ . For purposes of this supporting statement the average hours per respondent are 151.06 hours ( $9,215/61$ ).

<sup>11</sup> For purposes of this supporting statement, the term “PAB account” references accounts that held at carrying broker-dealers that hold the proprietary securities and cash of other broker-dealers.

PAB account holders that enter into a subordinated loan agreement with a broker-dealer that maintains custody of customer securities and cash (“carrying broker-dealer”) in order to not be treated as PAB accounts under paragraph (a)(16) likely will be affiliates of the broker-dealer. The Commission estimates that the 61 broker-dealers that carry PAB accounts will enter into an average of 11 subordination agreements as a result of paragraph (a)(16) and it will take a carrying broker-dealer approximately 20 hours to develop a subordination agreement. Therefore, the Commission estimates that the total one-time recordkeeping burden will be 13,420 hours.<sup>12</sup>

Paragraph (b)(5) of Rule 15c3-3 requires carrying broker-dealer to provide PAB account holders with written notice that the account holder’s non-margin securities may be used in the ordinary course of its business. As noted above, the Commission estimates that approximately 61 broker-dealers carry PAB accounts. The Commission further estimates that, on average, a firm will spend approximately 10 hours of employee resources drafting a standard notice template, for a total one-time recordkeeping burden of 610 hours.<sup>13</sup> The Commission also estimates that there are approximately 1,551 existing PAB customers and, therefore, broker-dealers will have to send approximately 1,551 written notices, spending approximately 10 minutes per account sending out the required written notice, for a total one-time disclosure burden of 259 hours.<sup>14</sup>

Further, the Commission estimates that based upon differences between the PAIB Letter<sup>15</sup> – which is largely being codified in the 2013 amendments – and the final rule, the 61 firms that carry PAB accounts will have to amend their standard PAB agreement template. The Commission estimates a firm will spend, on average, approximately 20 hours of employee resources on this task, for a total one-time recordkeeping burden of 1,220 hours.<sup>16</sup>

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<sup>12</sup> 61 broker-dealers x 11 accounts x 20 hours = 13,420 hours. For purposes of this supporting statement, the total annualized burden over the three year approval period would be 4,474 hours ( $13,420 / 3 = 4,473.33$ , rounded to 4,474), with an average of 73 hours per respondent ( $4,474 / 61$  broker-dealers = 73.34).

<sup>13</sup> 61 firms x 10 hours = 610 hours. For purposes of this supporting statement, this one-time burden annualized over the three year approval period is 203 hours ( $610 / 3 = 203.33$ , rounded to 203 hours), with an average per 61 broker-dealers of 3 hours ( $204 / 61 = 3.34$ ).

<sup>14</sup> 1,551 PAB account holders x 10 minutes = 15,510 minutes.  $15,510$  minutes / 60 minutes = 258.5 hours. For purposes of this supporting statement, this one-time burden annualized over the three-year approval period is 87 hours ( $259 / 3 = 86.33$ , rounded to 87 hours), with an average hour burden of 1.42 hours per broker-dealer ( $86.33 / 61$  broker-dealers = 1.42).

<sup>15</sup> See Letter from Michael A. Macchiaroli, Associate Director, Division of Market Regulation, Commission, to Raymond J. Hennessy, Vice President, NYSE, and Thomas Cassella, Vice President, NASD Regulation, Inc. (Nov. 3, 1998) (“PAIB Letter”).

Paragraph (f) of Rule 15c3-3 prescribes that a broker-dealer required to maintain a Special Reserve Bank Account must obtain and retain a written notification from each bank in which it has a Special Reserve Bank Account to evidence the bank's acknowledgement that assets deposited in the account are being held by the bank for the exclusive benefit of the broker-dealer's customers.<sup>17</sup> As stated above, 292 broker-dealers are estimated to be fully subject to Rule 15c3-3. In addition, 116 broker-dealers operate in accordance with the exemption provided in paragraph (k)(2)(i), which also requires that a broker-dealer maintain a special reserve account. Broker-dealers generally maintain longstanding relationships with banks where they hold their Special Reserve Bank Accounts and thus do not need to obtain these letters frequently. The Commission estimates that of the total number of broker-dealers that must comply with Rule 15c3-3, only 25%, or approximately 102 broker-dealers,<sup>18</sup> must obtain one new letter each year.<sup>19</sup> The Commission estimates that it would take a broker-dealer approximately one hour to obtain this written notification from a bank regarding a Special Reserve Bank Account.<sup>20</sup> Therefore, the Commission estimates a total annual recordkeeping burden of approximately 102 hours to obtain these written notifications.<sup>21</sup>

Paragraph (f) of Rule 15c3-3 requires a broker-dealer to immediately notify the Commission and its DEA if it fails to make a required deposit in its Special Reserve Bank Account.<sup>22</sup> In 2011, broker-dealers filed approximately 30 such notices.<sup>23</sup> The Commission estimates that it will take a broker-dealer approximately 30 minutes to file the required notice, resulting in a total annual reporting burden of approximately 15 hours.<sup>24</sup>

Paragraph (j)(1) of Rule 15c3-3 includes a condition that a broker-dealer must establish adequate procedures that will impose a paperwork burden if a broker-dealer wishes to accept or use any free credit balance from the account of any customer of the broker-dealer. The requirement that broker-dealers establish adequate procedures with regard to free credit balances will result in one-time and annual hours burdens for broker-dealers subject to the requirements of paragraph (j)(1) to Rule 15c3-3. The Commission estimates that 189 broker-dealers carry free credit balances. Most firms may already have such procedures in place with regard to the

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<sup>16</sup> 61 firms x 20 hours = 1,220 hours. For purposes of this supporting statement, this one-time burden annualized over the three-year approval period is 407 hours (1,220 / 3 = 406.6), with an average hour burden of 6.67 hours per broker-dealer (407 / 61 = 6.67).

<sup>17</sup> 17 CFR 240.15c3-3(f).

<sup>18</sup> (292 + 116) x 25% = 102 broker-dealers.

<sup>19</sup> The Commission notes that a broker-dealer will need to obtain a letter from its bank regarding its Special Reserve Bank Account because either the broker-dealer changed the type of business it does and became subject to paragraph (e)(3) or (k)(2)(i) of Rule 15c3-3 or the broker-dealer established a new Special Reserve Bank Account.

<sup>20</sup> The language in these letters is largely standardized.

<sup>21</sup> 102 broker-dealers x 1 hour = 102 hours.

<sup>22</sup> 17 CFR 15c3-3(i).

<sup>23</sup> Broker-dealers filed 30 such notices with the Commission in 2011.

<sup>24</sup> 30 notices x 30 minutes = 15 hours.

requirements of the rule, because these provisions are being imported from current Rule 15c3-2, which is being eliminated. Therefore, the Commission estimates that a broker-dealer will spend approximately 25 additional hours reviewing and updating its procedures to ensure it is in compliance with paragraph (j)(1) to Rule 15c3-3 and approximately 10 additional hours per year reviewing and updating its procedures, for a total one-time and annual hour recordkeeping burden of 4,725 hours<sup>25</sup> and 1,890 hours,<sup>26</sup> respectively.

Paragraph (j)(2) of Rule 15c3-3 requires a broker-dealer to obtain written affirmative consent from a new customer before including a customer's free credit balances in a Sweep Program, as defined in new paragraph (a)(17), as well as to provide certain disclosures and notices to all customers with regard to the broker-dealer's Sweep Program. These requirements will result in one-time and annual burdens to broker-dealers subject to its provisions. However, these requirements will apply only to firms that carry customer free credit balances and opt to have the ability to change how its customers' free credit balances are treated. The Commission is including all 189 broker-dealers that carry free credit balances in its estimate to reflect the fact that these firms may have to update their systems to comply with these new requirements. The Commission further estimates that these firms will spend, on average, approximately 200 hours of employee resources per firm updating their current systems (including processes for generating customer account statements) to incorporate changes that will be necessitated by the amendment. Therefore, the Commission estimates that the total one-time recordkeeping burden to broker-dealers arising from this requirement will be approximately 37,800 hours.<sup>27</sup>

With respect to the annual burden associated with paragraph (j)(2) of Rule 15c3-3, the Commission estimates that there are 110,493,215 customer accounts of which 5% will be impacted each year.<sup>28</sup> The Commission further estimates that a broker-dealer will spend, on average, four minutes of employee resources to process a written affirmative consent for new customers, as well as disclosures required under paragraph (j) to Rule 15c3-3. Therefore, the Commission estimates that the annual recordkeeping

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<sup>25</sup> 189 broker-dealers x 25 hours = 4,725 hours. For purposes of this supporting statement, this one-time burden annualized over the three-year approval period is 1,575 hours ( $4,725 / 3 = 1,575$ ), with an average hour burden per broker-dealer of 8.33 hours ( $1,575 / 189 \text{ broker-dealers} = 8.33$ ).

<sup>26</sup> 189 broker-dealers x 10 hours = 1,890 hours.

<sup>27</sup> 189 broker-dealers x 200 hours per firm = 37,800 hours. For purposes of this supporting statement, this one-time burden annualized over the three-year approval period is 12,600 hours ( $37,800 / 3 = 12,600$ ), with an average hour burden per broker-dealer of 66.666 hours ( $12,600 / 189 \text{ broker-dealers} = 66.666$ ).

<sup>28</sup> The Commission estimates approximately 5,524,661 accounts ( $110,493,215 \times 5\% = 5,524,661$ ) will be impacted annually.

burden to broker-dealers<sup>29</sup> arising from the requirement will be approximately 368,311 hours.<sup>30</sup>

Paragraph (o) of Rule 15c3-3 requires a broker-dealer that effects transactions in SFPs for customers to make a record of each change in account type and to provide certain customers with disclosure documents containing certain information SFP products.<sup>31</sup> The Commission estimates that broker-dealers that were also registered as futures commission merchants (“FCMs”) maintained approximately 30,140,879 customer accounts. The Commission estimates that 8% of these customers may engage in SFP transactions,<sup>32</sup> and that of that 8%, 20% per year may change account type, requiring a broker-dealer to promptly notify the customer in writing on the date that change became effective.<sup>33</sup> Thus, broker-dealers may be required to create these records for approximately 482,254 accounts.<sup>34</sup> The Commission estimates that it will take approximately 3 minutes to create each record.<sup>35</sup> Thus, the total annual recordkeeping and disclosure burden associated with the requirements of paragraph (o) will be approximately 24,113 hours.<sup>36</sup>

Consequently, the Commission estimates that the total annual burden associated with Rule 15c3-3 prior to the 2013 amendments would be approximately 464,152 hours.<sup>37</sup>

Under the 2013 amendments a broker-dealer that is determining whether a registered clearing or derivatives organization meets the requirements of Note G to Exhibit A to Rule 15c3-3 may no longer rely on the credit rating of that organization to determine whether the broker-dealer can keep customer’s positions in security future products with the organization for purposes of the reserve computation. Thus, broker-dealers that previously relied on ratings for

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<sup>29</sup> This annual burden would affect the 189 broker-dealers that carry free credit balances.

<sup>30</sup>  $(5,524,661 \text{ accounts} \times 4 \text{ minutes per account}) / 60 \text{ minutes} = 368,311 \text{ hours}$ . For purposes of this supporting statement, the Commission divided the total annual hour burden by 189 respondents for average annual burden per firm of 1,948.74 hours  $(368,311 / 189 = 1,948.735)$ .

<sup>31</sup> 17 CFR 240.15c3-3(o)(2) and (o)(3). More specifically, a broker-dealer that changes the type of account in which a customer’s SFPs are held must create a record of each change in account type that includes the name of the customer, the account number, the date the broker-dealer received the customer’s request to change the account type, and the date the change in account type took place.

<sup>32</sup>  $30,140,879 \text{ accounts} \times 8\% = 2,411,270 \text{ accounts}$ . The Commission derived its estimate from the number of active options accounts and conversations with industry representatives.

<sup>33</sup> Broker-dealers that engage in an SFP business may choose not to allow customers to change account type because it may be costly to facilitate such conversions. In addition, once a customer has researched the issue and made a choice as to account type, it may be unlikely for the customer to change his or her account type.

<sup>34</sup>  $2,411,270 \text{ accounts} \times 20\% = 482,254 \text{ accounts}$ .

<sup>35</sup> The Commission estimates that most firms will have this process automated. To the extent that no person need be involved in the generation of this record, the burden will be very minimal.

<sup>36</sup>  $482,254 \text{ accounts} \times (3\text{min} / 60\text{min}) = 24,113 \text{ hours}$ . For purposes of this supporting statement, this annual hour burden has been divided evenly between the recordkeeping and disclosure burdens for a total hours of 12,056.5  $(24,113 / 2 = 12,056.5)$  each and average per firm of 41.289 hours per 292 respondents  $(12,056.5 / 292 = 41.289)$ .

<sup>37</sup>  $40,550 + 102 + 15 + 24,113 + 4,474 + 203 + 87 + 407 + 610 + 9,215 + 1,575 + 1,890 + 12,600 + 368,311 = 464,152 \text{ hours}$ .



the purposes of Note G will need to use another method for assessing the creditworthiness of registered clearing or derivatives organizations. The Commission believes that approximately 72 broker-dealers would be required to change how they assess the creditworthiness of registered clearing or derivatives organizations under Note G.<sup>38</sup> The Commission believes that broker-dealers will spend .25 hours determining whether a clearing or derivatives organization meets the requirements of Note G, resulting in an annual recordkeeping burden of 18 hours.<sup>39</sup> The Commission further believes that broker-dealers would spend one hour changing their methods for determining whether a clearing or derivatives clearing organization meets the requirements of Note G, resulting in a one-time recordkeeping burden of 72 hours.<sup>40</sup>

Consequently, the Commission estimates that the total annualized burden associated with the 2013 amendments to Rule 15c3-3 will be approximately 42 hours. Finally, the total annualized hour burden for the total collection under Rule 15c3-3, including the 2013 amendments, will be 464,194 hours.<sup>41</sup>

### 13. Costs to Respondents

Paragraph (b)(5) of Rule 15c3-3 will require a broker-dealer to incur postage costs when sending out the required written notice to customers. The Commission estimates that there are approximately 1,551 existing PAB customers and, therefore, broker-dealers will have to send approximately 1,551 written notices. These carrying broker-dealers will likely use the least expensive method to comply with this requirement and may include this notification with other mailings sent to PAB account holders. The

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<sup>38</sup> The number 72 comes from reviewing the members of the Options Clearing Corporation (“OCC”) listed in the member directory on the OCC’s website, available at <http://www.optionsclearing.com/membership/member-information/>. Of the list of 228 members, the Commission looked only at those who trade in single stock futures. Of the list of members that trade in single stock futures, the Commission deleted any members who had the exact same firm name but different firm numbers.

<sup>39</sup> 72 broker-dealers x .25 hours = 18 hours.

<sup>40</sup> 72 broker-dealers x 1 hour = 72 hours. For purposes of this supporting statement, this one-time burden annualized over the three-year approval period is 24 hours (72 / 3 = 24), with an average hour burden per broker-dealer of .33 hours (24/72 broker-dealers = .33). The staff believes that broker-dealers would be subject to a one-time cost associated with reviewing the standards a broker-dealer uses to determine whether a registered clearing or derivatives organization meets the requirements of Note G. For purposes of this analysis, the Commission is using salary data from the Securities Industry and Financial Markets Association (“SIFMA”) Report on Management and Professional Earnings in the Securities Industry 2012, which provides base salary and bonus information for middle management and professional positions within the securities industry, as modified by Commission staff to account for an 1800-hour work-year and multiplied by 5.35 to account for bonuses, firm size, employee benefits and overhead. The staff believes that a broker-dealer would use a senior operations manager to review these standards and the Commission therefore estimates that the one-time costs of a senior operations manager to be \$341 per hour, resulting in an aggregate, one-time cost to the industry of \$24,552. 72 broker-dealers x \$341/hour x 1 hour = \$24,552.

<sup>41</sup> 464,152 + 18 + 24 = 464,194 hours.

Commission, however, conservatively estimates that the postage cost or each notification, using the current price of first class postage, will be approximately \$0.46 per document sent. Therefore, the Commission estimates that the total disclosure cost associated with sending the required written notification to PAB account holders will be approximately \$713.<sup>42</sup>

Additionally, the Commission estimates that the 61 broker-dealers carrying PAB accounts likely will engage outside counsel to review the required notice, as well as the standard PAB template agreement under the final rule amendments to Rule 15c3-3. As a result, the Commission estimates that these 61 broker-dealers will likely incur \$2,000 in legal costs,<sup>43</sup> for a total recordkeeping cost to the industry of \$122,000<sup>44</sup> to review and comment on these materials.

The Commission also estimates that broker-dealers will consult with outside counsel in making systems changes, particularly with respect to the language in the disclosures and notices under paragraph (j)(2) to Rule 15c3-3 related to the treatment of free credit balances. As a result, the Commission estimates that the average one-time recordkeeping cost to a broker-dealer will be approximately \$20,000<sup>45</sup> and the average one-time recordkeeping cost to broker-dealers will be approximately \$3,780,000.<sup>46</sup>

Rule 15c3-3(o)(2)(i) requires a broker-dealer that effects transactions for customers in SFPs to provide each customer that engages in SFP transactions with a disclosure document containing certain information. The costs of printing and sending the disclosure document to customers will be based on the number of customer accounts that will be opened by customers to effect transactions in SFPs. As stated in section 12 above, the Commission estimates that 8% of the accounts held by broker-dealers that are also registered as FCMs, or 2,411,270 accounts, may

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<sup>42</sup> 1,551 notices x \$0.46 = \$713.46. For purposes of this supporting statement, we are annualizing the cost over the three-year approval period, for a total annualized cost of \$237.66, rounded to \$238.00, with an average cost per firm of \$3.90.

<sup>43</sup> 5 hours x \$400 per hour = \$2,000. The Commission estimates the review of the notice and standard PAB template would require 5 hours of outside counsel time, which is the same estimate used for outside counsel review in another recent release. Based on Commission experience with the PAIB Letter and the application of Rule 15c3-3, the Commission estimates the outside counsel review related to the PAB amendments would take a comparable amount of time.

<sup>44</sup> 61 firms x \$2,000 legal cost = \$122,000. The Commission is annualizing the one-time costs over the three year approval period to reflect an annualized cost of \$40,667 ( $\$122,000/3 = \$40,666.66$ , rounded to \$40,667), with an average per firm of \$666.67 ( $\$40,667/61$ ).

<sup>45</sup> \$400 per hour x 50 hours = \$20,000. The Commission estimates that the average hourly cost for an outside counsel will be approximately \$400 per hour. The Commission used the estimate of \$400 per hour for legal services provided by outside counsel, which is the same estimate used by the Commission in other recent releases.

<sup>46</sup> 189 broker-dealers x \$20,000 = \$3,780,000. The Commission is annualizing the one-time costs over the three year approval period to reflect an annualized cost of \$1,260,000 per year ( $\$3,780,000/3$ ), or \$6,666.666 per respondent ( $\$1,260,000/189$ ).

engage in SFP transactions.<sup>47</sup> The Commission also estimates that the cost of printing and sending each disclosure document will be approximately \$.46 per document sent, based on the price of first class postage. Therefore, the Commission estimates that the annual recordkeeping and disclosure cost burden associated with this rule requirement to be approximately \$1,109,184.<sup>48</sup>

Rule 15c3-3(o)(3)(ii) requires a broker-dealer that changes the type of account in which a customer's SFPs are held to promptly notify the customer in writing of the date that change became effective. The Commission estimates that 482,254 accounts<sup>49</sup> may change account type per year, thus broker-dealers would be required to send this notification to 482,254 customers. The Commission notes that firms will likely use the least expensive method to comply with these requirements, and may include this notification with other mailings, such as customer account statements, sent to the customer. Therefore, the Commission estimates that the cost of printing and posting each notification will be approximately \$.46 per document sent, resulting in an annual recordkeeping and disclosure burden of \$221,837.<sup>50</sup>

Consequently, the Commission estimates that the total annual cost associated with Rule 15c3-3 would be approximately \$2,631,926.<sup>51</sup>

#### **14. Costs to Federal Government**

The Federal Government would experience no additional costs relating to the records broker-dealers must create pursuant to 15c3-3, but are not required to file with the Commission. The Federal Government, however, would experience some costs associated with reviewing the notices broker-dealers are required to file pursuant to Rule 15c3-3. The Commission estimates that reviewing these filings requires, on average, approximately fifteen minutes of Regulation Specialist staff time per filing at approximately \$70 an hour.<sup>52</sup> Consequently, the Commission estimates that, the additional cost to the Federal Government associated with reviewing approximately 60 such notices per year would be \$1,050.<sup>53</sup>

#### **15. Changes in Burden**

Overall, the one-time and annualized reporting burdens have generally

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<sup>47</sup> The Commission derived its estimate from the number of active options accounts and conversations with industry representatives.

<sup>48</sup>  $2,411,270 \text{ accounts} \times \$0.46 = \$1,109,184.20$ .

<sup>49</sup>  $2,411,270 \text{ accounts} \times 20\% = 482,254 \text{ accounts}$ .

<sup>50</sup>  $482,254 \text{ accounts} \times \$0.46 = \$221,836.84$ , rounded to \$221,837.

<sup>51</sup>  $\$1,109,184 + \$221,837 = \$1,331,021$ . For purposes of this supporting statement, the average cost per 292 respondents is \$4,558.29 ( $\$1,331,021 / 292 = \$4,558.29$ ). We have also assumed that these costs are evenly divided between recordkeeping and disclosure, for an average burden per firm of \$2,279.145 each.

<sup>52</sup> This estimate is based on an annual salary of \$84,000, adding average fringe benefits of 26% and average overhead of 25%, and dividing by 1,800 hours in a year.

<sup>53</sup>  $15 \text{ hours} \times \$70 = \$1,050$ .

increased due to the adoption of the 2013 amendments as described in paragraphs 12 above. There was no change in the cost estimates.

**16. Information Collection Planned for Statistical Purposes**

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

**17. OMB Expiration Date Display Approval**

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

**18. Exceptions to Certification for Paperwork Reduction Act Submissions**

This collection complies with the requirements in 5 CFR 1320.9.

**B. COLLECTIONS OF INFORMATION EMPLOYING STATISTICAL METHODS**

This collection does not involve statistical methods.