SUPPORTING STATEMENT
for the Paperwork Reduction Act Information Collection Submission for
Rule 13h-1: Large Trader Reporting Rule

A. Justification

1. Information Collection Necessity

Rule 13h-1 and Form 13H under Section 13(h) of the Securities Exchange Act of 1934 ("Exchange Act") established a large trader reporting system. The system is intended to assist the Commission in identifying and obtaining certain baseline trading information about traders that conduct a substantial amount of trading activity, as measured by volume or market value, in the U.S. securities markets. In essence, a "large trader" is defined as a person whose transactions in national market system ("NMS") securities equal or exceed (i) two million shares or $20 million during any calendar day, or (ii) 20 million shares or $200 million during any calendar month. The large trader reporting system is designed to facilitate the Commission's ability to assess the impact of large trader activity on the securities markets, to reconstruct trading activity following periods of unusual market volatility, and to analyze significant market events for regulatory purposes. It also enhances the Commission's ability to detect and deter fraudulent and manipulative activity and other trading abuses, and provides the Commission with a valuable source of useful data to study markets and market activity.

The identification, recordkeeping, and reporting system provides the Commission with a mechanism to identify large traders and their affiliates, accounts, and transactions. Specifically, Rule 13h-1 requires large traders to identify themselves to the Commission and make certain disclosures to the Commission on Form 13H. Upon receipt of Form 13H, the Commission issues a unique identification number to the large trader,[1] which the large trader then provides to its registered broker-dealers. Registered broker-dealers are required to maintain transaction records for each large trader, and are required to report that information to the Commission upon request. In addition, registered broker-dealers are required to adopt procedures to monitor their customers for activity that would trigger the identification requirements of the rule.

2. Information Collection Purpose and Use

In light of the dramatic changes to the securities markets, including increased volumes, volatility, and the growing prominence of large traders, the Commission has established a large trader reporting system. The information collection is necessary to enhance the Commission's ability to identify large market participants, collect information on their trading, and analyze their trading activity. This information allows

---

1 The unique identification number is called a Large Trader Identification Number or "LTID."

the Commission to more effectively and efficiently monitor the impact of large trader activity on the securities markets.

3. Consideration Given to Information Technology

Rule 13h-1 requires large traders to self-identify to the Commission and inform their broker-dealers and others with whom they exercise investment discretion of their unique identification number and all accounts to which it applies. In addition, the rule imposes recordkeeping, reporting, and monitoring requirements on registered broker-dealers. The Commission believes that Rule 13h-1 enhances the Commission's ability to obtain electronic data concerning the trading activity of large traders in an efficient manner utilizing existing electronic reporting systems. Moreover, the Commission believes that improvements in telecommunications and data processing technology reduce any burdens associated with Rule 13h-1.

4. Duplication

The Commission, pursuant to Rule 17a-25,[2] collects transaction data from registered broker-dealers through the Electronic Blue Sheets ("EBS") system to support its regulatory and enforcement activities. The Commission uses the EBS system to obtain securities transaction information to: (1) assist in the investigation of possible federal securities law violations, primarily involving insider trading or market manipulation; and (2) conduct market reconstructions. Rule 13h-1 supplements the existing EBS system by adding two fields to the system: the time of the trade and the identity of the person exercising investment discretion over the trade. These two fields make investigations and market reconstructions easier to conduct.

5. Effect on Small Entities

The rule requirements have minimal, if any, effect on small entities. Among other things, the rule applies to "large traders," which is a term that implicates persons and entities with the resources and capital necessary to transact securities in substantial volumes relative to overall market volume in publicly traded securities. The Commission does not believe that any small entities are engaged in the business of trading in a volume that approaches the threshold levels. Additionally, for purposes of determining whether a person effects the requisite amount of transactions in NMS securities to meet the definition of "large trader," paragraph (a)(6) of the rule excludes a limited set of transactions from the term "transaction" and the requirements of the rule to exempt certain small or infrequent traders who might trigger identification based on a single transaction.[3] In addition, the rule applies to registered broker-dealers that serve large

---

[2] See 17 CFR 240.17a-25.

[3] Further, the Commission has exempted by order certain additional transactions from the rule's definition of "transaction" for the purpose of determining whether a person is a large trader. See Securities Exchange Act Release No. 66839 (April 20, 2012), 77 FR 25007 (April 26, 2012). In effect, this exemptive relief also may exclude as large traders

trader customers. Given the considerable volume in which a large trader effects transactions, registered broker-dealers servicing large trader customers or broker-dealers that are large traders themselves are larger entities that have systems and capacities capable of handling the trading associated with such accounts. Accordingly, the Commission estimates that no small entities are affected by the rule.

6. Consequences of Not Conducting Collection

Large trader self-identification on Form 13H is collected with mandatory annual updates and more frequent quarterly updates as necessary. Large trader trading data is collected by the Commission from broker-dealers on an as-needed basis. The collection of this information facilitates the Commission's ability to identify large traders, assess the impact of large trader activity on the securities markets, to reconstruct their trading activity, and analyze significant market events for regulatory purposes. Not collecting this information would undermine the purposes of the rule.

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 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

The respondents receive no payments or gifts.

10. Confidentiality

The information collection under Rule 13h-1 is considered confidential subject to the limited exceptions provided by the Freedom of Information Act.[4]

11. Sensitive Questions

No questions of a sensitive nature are asked. The information collection does not collect any Personally Identifiable Information (PII).

---

certain small or infrequent traders who might trigger identification based on a single transaction.

4 See 5 U.S.C. 552 and 15 U.S.C. 78m(h)(7).

12. Information Collection Burden

The "collection of information" contained in Rule 13h-1 applies to approximately 3,100 large traders[5] and 300 registered broker-dealers.

a. Large Traders

Under Rule 13h-1, large traders are required to identify themselves to the Commission by filing a Form 13H and submitting annual updates, as well as updates on a quarterly basis if necessary to correct information that becomes inaccurate. Additionally, each large trader is required to identify itself to each registered broker-dealer through which it effects transactions and to all others with whom it collectively exercises investment discretion.

i. Initial Filing of Form 13H and Identifying as a Large Trader

The initial burden for a respondent to comply with the requirements of Rule 13h-1 is 20 burden hours.[6] The initial internal cost of compliance is $5,177.[7] These figures include the time to calculate whether its trading activity qualifies it as a large trader, become an EDGAR filer (if necessary),[8] complete the initial Form 13H with all required information, obtain a LTID from the Commission, and inform its registered broker-dealers and other entities of its LTID and the accounts to which it applies. The Commission notes that the actual burden for a large trader may vary widely depending on the size of its organization, if any, and the number of broker-dealers with which it has an account.

Based on the Commission's experience collecting Forms 13H in previous years, the Commission estimates that approximately 660 large traders per year will be required to identify themselves for the first time under Rule 13h-1.

---

5 This estimate is based on the Commission's experience receiving Forms 13H since December 1, 2011.

6 This burden estimate is based on the Commission's experience administering the Rule, and is calculated as follows: (Compliance Manager at 3 hours) + (Compliance Attorney at 7 hours) + (Paralegal at 10 hours) = 20 burden hours.

7 The Commission calculated this cost estimate as follows: (Compliance Manager at $283 per hour for 3 hours) + (Compliance Attorney at $334 per hour for 7 hours) + (Paralegal at $199 per hour for 10 hours) = $5,177. All of the hourly rates used in all of the cost calculations for this renewal are from SIFMA's *Management & Professional Earnings in the Securities Industry 2013*.

8 All Forms 13H must be filed through the Commission's EDGAR system. Some persons already are EDGAR filers when they reach the large trader registration threshold, but those who are not must become EDGAR filers.

Accordingly, the Commission estimates that the one-time aggregate burden for large traders initially filing Form 13H is approximately 13,200 burden hours, and that the one-time aggregate internal cost of compliance of large traders initially filing Form 13H is approximately $3,416,820.[9]

ii. Annual and Quarterly Reporting

On an ongoing basis, a respondent may have to file interim updates, and has to update its Form 13H annually. The Commission estimates that the ongoing annualized burden for a respondent to fulfill its reporting obligations is approximately 6 burden hours.[10] The estimated annualized internal cost of compliance for a respondent to comply with the ongoing requirements of the rule is $1,632.[11] These estimates are based on the varied characteristics of large traders and the nature and scope of the items that are disclosed on Form 13H that would require updating.

Approximately 3,100 entities are registered as large traders. Based on its experience collecting initial Forms 13H in previous years, the Commission estimates that approximately 660 new large traders will register each year and thus be subject to quarterly and annual reporting requirements over the next three years.

---

[9] The Commission calculated the aggregate annual burden estimate as follows: 20 initial burden hours per year x 660 respondents = 13,200 total initial burden hours per year. The Commission calculated the aggregate annual cost estimate as follows: $5,177 (cost per initial filing) x 660 respondents per year = $3,416,820 total annual initial internal cost of compliance for initial filings.

[10] The Commission calculated this burden estimate as follows: (Compliance Manager at 2 hours) + (Compliance Attorney at 2 hours) + (Paralegal at 2 hours) = 6 burden hours. The Commission's estimate is lower than its initial estimate of 17 burden hours for two reasons. First, the initial estimate was calculated using a projection that each large trader would file one annual and three quarterly updates to its Form 13H. That projection was its experience with and burden estimates for other existing reporting systems, including Rule 13f-1 and Rule 17a-25. The Commission is lowering its projection based on its experience since 2012 with collecting quarterly and annual updates to the Form 13H. Specifically, based on its actual experience, the Commission expects large traders to file one annual and one quarterly update per year. Second, the initial estimate did not reflect the design of the input method for the Form 13H updates, which was determined after the estimate was made. Specifically, Form 13H updates, which are filed electronically, auto-populate with the information last provided by the large trader. Consequently, when updating its Form 13H information, a large trader need manually input only the information that has changed since its last filing (instead of all the information required by the form). That time savings now is accounted for in the current burden hours estimate.

[11] The Commission calculated this cost estimate as follows: (Compliance Manager at $283 per hour for 2 hours) + (Compliance Attorney at $334 per hour for 2 hours) + (Paralegal at $199 per hour for 2 hours) = $1,632.

Accordingly, the Commission makes the following estimates of the annual ongoing aggregate compliance burden and the annual ongoing aggregate compliance cost for large traders:

PRA Renewal Year	Number of Respondents	Annual Burden Hours[12]	Annual Internal cost of compliance[13]
1	3,100	18,600	$5,059,200
2	3,760	22,560	$6,136,320
3	4,420	26,520	$7,213,440
3-Year Total		67,680	$18,408,960
Annual Average over 3 years		22,560	$6,136,320

b. Registered Broker-Dealers

Under Rule 13h-1, registered broker-dealers are required to comply with recordkeeping and monitoring and reporting requirements. The Commission estimated from broker dealer responses to FOCUS report filings with the Commission that there are approximately 300 registered broker-dealers subject to the requirements of Rule 13h-1.

i. Recordkeeping

The Commission believes that the burden of Rule 13h-1 for individual registered broker-dealers likely varies due to differences in their recordkeeping systems. The Commission estimates that all registered broker-dealers that either have a client base that includes large traders and Unidentified Large Traders[14] or that are themselves large traders, already have made modifications to their existing systems to capture and maintain the additional data elements that were not previously required under Rule 17a-25.

The Commission believes that all broker-dealers subject to Rule 13h-1 have already incurred the one-time, initial burden for a registered broker-dealer to conduct system development, including re-programming and testing of the systems to comply with the rule. Accordingly, there is no initial burden to comply with the rule.

Further, the Commission believes that registered broker-dealers will not incur any ongoing annual expense for the recordkeeping requirement because registered broker-dealers already are required to keep almost all of the information required by Rule 13h-1

12 The Commission calculated these aggregate annual burden hours estimates as follows: number of respondents x 6 annual burden hours.

13 The Commission calculated these aggregate annual cost estimates as follows: number of respondents x $1,632 (ongoing annual cost per respondent).

14 Rule 13h-1(a)(9) defines the term "Unidentified Large Trader" to means each person who has not complied with the identification requirements of paragraphs (b)(1) and (b)(2) of the rule that a registered broker-dealer knows or has reason to know is a large trader.

for all of their customers pursuant to Rule 17a-25 under the Exchange Act. The Commission believes that the two additional fields do not result in any ongoing annualized expense beyond what broker-dealers already incur under Rule 17a-25 and the existing EBS system.

ii. Monitoring

In addition to requiring registered broker-dealers to maintain records of account transactions, the rule also requires registered broker-dealers to monitor for such transactions. In particular, the rule requires registered broker-dealers to monitor large traders to help ensure compliance by large traders with the self-identification requirements of the rule. Paragraph (e) of the rule requires certain broker-dealers to maintain and report to the Commission certain information about all transactions effected by Unidentified Large Traders.

1. Initial

The Commission believes that all broker-dealers subject to Rule 13h-1 already incurred the one-time, initial burden to comply with the monitoring requirements by establishing a compliance system to detect Unidentified Large Traders and inform them of their potential responsibilities under the rule.

2. Ongoing

Based on the Commission's understanding of broker-dealers' monitoring procedures, the Commission estimates that the ongoing annual burden on a broker-dealer for the monitoring requirements of the rule is approximately 15 burden hours per year. The Commission estimates that that the annual ongoing internal cost of monitoring is $5,010.[15] Accordingly, the Commission estimates that the aggregate ongoing annual burden and aggregate ongoing annual internal cost of compliance associated with the monitoring requirements are 4,500 burden hours and $1,503,000, respectively.[16]

iii. Reporting

Rule 13h-1 also requires registered broker-dealers to report large trader transactions to the Commission upon request. The Commission believes that this provision of information does not involve any substantive or material change in the burden that already exists as part of registered broker-dealers providing transaction information to the Commission in the normal course of business, particularly in

---

15 This estimate was calculated as follows: (Compliance Attorney at $334 per hour) x 15 hours burden hours per year = $5,010.

16 The Commission calculated these estimates as follows: 15 annual burden hours x 300 broker-dealers = 4,500 total ongoing burden hours; $5,010 (annual ongoing monitoring cost) x 300 broker-dealers = $1,503,000.

connection with the existing EBS system.[17] Although the information must be available to report on a next-day basis, (versus the 10 business day period that is generally associated with an EBS request for data[18]), the electronic recordkeeping and transmission system already is in place to report the information. Therefore, the Commission believes that the provision of such information to the Commission results in minimal additional burden.

Although it is difficult to predict with certainty the Commission's future needs to obtain large trader data, taking into account the Commission's need for data to be used in market reconstruction purposes and investigative matters, the Commission estimates that it may send 100 requests specifically seeking large trader data per year to each registered broker-dealer subject to the rule. The Commission estimates that it takes a registered broker-dealer 2 hours to comply with each request,[19] considering that a broker-dealer would need to run the database query of its records, download the data file, and transmit it to the Commission. Accordingly, the annual reporting hour burden for a broker-dealer is estimated to be 200 burden hours (100 requests x 2 burden hours/request = 200 burden hours). The Commission estimates that it costs each affected broker-dealer $398 to comply with each request.[20] The Commission estimates the annual reporting internal cost of compliance per broker-dealer is $39,800.[21] The annual aggregate annual reporting burden is estimated to be 60,000 hours.[22] The annual aggregate annual reporting internal cost of compliance is estimated to be ($39,800 annual reporting internal cost of compliance x 300 broker-dealers = $11,940,000).

13. Costs to Respondents

The Commission believes that compliance with the rule does not require any capital or start up costs, or any recurring annual external operating and maintenance costs separate from the wages, salaries, or fees represented in the estimated hourly burdens discussed above.

---

[17] See 17 CFR 240.17a-25.

[18] See Securities Exchange Act Release No. 44494 (June 29, 2001), 66 FR 35836 (July 9, 2001) (File No. S7-12-00) (17a-25 adopting release).

[19] The Commission estimates cost each affected broker-dealer $398 to comply with each request, calculated as follows: 2 hours (time to respond to each request) x $199 (of Paralegal hourly rate) = $398 per request.

[20] This estimate was calculated as follows: 2 hours (time to respond to each request) x $199 (of Paralegal hourly rate) = $398 per request.

[21] This estimate was calculated as follows: 100 requests per year x $398 per request = $39,800.

[22] This estimate was calculated as follows: 200 annual burden hours x 300 broker-dealers = 60,000 aggregate burden hours.

14. Costs to Federal Government

There are no costs to the Federal Government.

15. Changes in Burden

The estimated one-time aggregate burden for new large traders has increased from 8,000 burden hours to 13,200 burden hours. This increase is due to an increase (from 400 to 660) in the annual number of projected large traders filing an initial Form 13H. The Commission's estimate of the annual ongoing burden for large traders also has increased from 6,800 burden hours to 22,560 burden hours. This increase also is the result of an increase in the number of projected large traders, but was mitigated by a significant decrease in the ongoing annual burden per respondent estimate (from 17 burden hours to 2 burden hours).

The total burden estimate to broker-dealers has decreased. The Commission estimated that, during the first year of implementation, broker-dealers subject to the rule would collectively incur 214,500 burden hours (initial, one-time burdens) complying with the new rule. During the current measuring period, the Commission expects that broker-dealers will incur zero burden hours for initial, one-time burdens. There is no change in the estimated aggregate ongoing annual burden associated with broker-dealers' compliance with Rule 13h-1.

16. Information Collection Planned for Statistical Purposes

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

17. Approval to Omit OMB Expiration Date

The Commission is not seeking approval to omit the expiration date.

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

This collection does not involve statistical methods.

.