

**SUPPORTING STATEMENT**  
**for the Paperwork Reduction Act Information Collection Submission for**  
**Rule 17a-5(c)**

**A. JUSTIFICATION**

**1. Information Collection Necessity**

Under Section 17(e)(1)(B) of the Securities Exchange Act of 1934 (“Exchange Act”) every registered broker-dealer must send its customers annually its certified balance sheet and such other financial statements and information concerning its financial condition as the Securities and Exchange Commission (“Commission”) prescribes.

The Commission’s Rule 17a-5(c) (“Rule”) requires that each broker-dealer that carries customer accounts furnish the Commission, each national securities exchange and registered national securities organization of which it is a member, and its customers with:

- (a) annual audited financial statements within 105 days after the end of the fiscal year of the broker-dealer. The statements may be furnished 30 days after that time limit has expired if the broker or dealer sends them with the next mailing of quarterly customer account statements; and
- (b) semiannual unaudited financial statements not later than 65 days after the date as of which the statements are prepared. The statements may be furnished 70 days after that time limit has expired if the broker or dealer sends them with the next mailing of quarterly customer account statements.

Under the Rule, the audited statements must contain:

- (i) a Statement of Financial Condition with appropriate notes prepared in accordance with generally accepted accounting principles (“GAAP”);
- (ii) a footnote containing, among other things, a statement of the amount of the broker-dealer’s net capital and its required net capital, computed in accordance with Rule 15c3-1;
- (iii) a statement that the Statement of Financial Condition of the broker-dealer’s most recent financial report is available for examination at the principal office of the broker-dealer and at the Commission; and
- (iv) if the broker-dealer’s independent accountant commented on any material weaknesses, a statement that a copy of such report and comments is on file with the Commission; and

The unaudited statements must contain the information specified in (i) and (ii) above.

Under the exemption of paragraph (c)(5) of Rule 17a-5, a broker-dealer is not required to send the statements to its customers if the broker-dealer sends the net capital footnote described in item (ii) above and information on how to obtain the annual and semiannual statements via a toll-free number or on the broker-dealer's website to its customers when it otherwise would have had to send the statements. A broker-dealer that elects to take advantage of the exemption must publish its statements on its website in a prescribed manner, and must maintain a toll-free number that customers can call to request a copy of the statements. If a customer requests a copy of the statements, the broker-dealer must send them promptly at no cost to the customer.

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

The purpose of the Rule is to ensure that customers of broker-dealers are provided with information concerning the financial condition of the firm that may be holding the customers' cash and securities. The Commission, when adopting the Rule in 1972, stated that the goal was to "directly" send a customer essential information so that the customer could "judge whether his broker or dealer is financially sound." The Commission adopted the Rule in response to the failure of several broker-dealers holding customer funds and securities in the period between 1968 and 1971.

Information regarding the broker-dealer's financial condition, which includes information regarding the broker-dealer's net capital and its required net capital, is "essential information" customers need in order to gauge whether the broker-dealer is sufficiently financially sound to be entrusted with their securities and cash. The purpose of the net capital requirements is to ensure that broker-dealers have sufficient liquid assets (those assets that can be readily converted into cash) in excess of liabilities to promptly satisfy the firm's liabilities, including those to customers.

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

On May 9, 1996, the Commission issued an interpretive release (Securities Exchange Act Release No. 37182, 61 FR 24644) regarding, among other things, the use of electronic media by broker-dealers in satisfying their requirements under the Rule. This interpretive release reduces the printing and mailing burden on broker-dealers by allowing them to deliver the financial statements to their customers through electronic media.

Under the exemption of paragraph (c)(5) of Rule 17a-5, a broker-dealer can take advantage of the Internet as an alternative method of delivery to its customers of its full balance sheet.

## **4. Duplication**

Not applicable. No other rule requires brokers or dealers to send such information to their customers.

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

Firms that carry customer accounts are required to comply with this Rule. There are approximately 213 such firms.<sup>1</sup> Of these firms, approximately 36 are small businesses.<sup>2</sup> The complexity and length of financial statements generally varies proportionately with the volume and complexity of the broker-dealer's business. Additionally, the number of financial statements that a broker-dealer must send to its customers is directly proportional to the number of customers of the broker-dealer. Therefore, small businesses should not experience additional or disproportionate burden as a result of complying with the Rule.

It would not be appropriate to provide small firms with an exemption from the Rule because customers must have financial information to evaluate the financial soundness of a broker-dealer that may be holding their cash and securities.

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

If the required collection were eliminated, the protections afforded to the public would be lessened. If the required collection were conducted less frequently, the financial information would become outdated.

## **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).

## **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**

Not applicable.

## **10. Confidentiality**

Not applicable. The information is not confidential.

## **11. Sensitive Questions**

Not applicable. Questions of a sensitive nature are not asked.

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<sup>1</sup> The Commission's Division of Economic and Risk Analysis calculated this estimate based upon information submitted by broker-dealers in 2013 in Form X-17A-5 Schedule I.

<sup>2</sup> The Commission's Division of Economic and Risk Analysis calculated this estimate based upon information submitted by broker-dealers in 2013 in Form X-17A-5 Schedule I.

## 12. Information Collection Burden

Since the time of the previous calculation of the PRA burden in 2011, the Commission's estimate of the number of broker-dealers that carry customer accounts has decreased from 244 to 213,<sup>3</sup> the Commission's estimate of the number of public customer accounts has increased from 101 million to 115 million,<sup>4</sup> and the Commission's estimate of the number of broker-dealers that take advantage of the exemption of paragraph (c)(5) of Rule 17a-5 has decreased from 195 to 170.<sup>5</sup>

Broker-dealers taking advantage of the exemption send the financial disclosure statement, instead of their full balance sheet, twice a year. Some broker-dealers print the financial disclosure statement, which is typically about one paragraph in length, on a separate page and include it with the quarterly account statement, and some broker-dealers print it directly on the quarterly account statement. The Commission believes that the time burden for sending the semi-annual financial disclosure statement with quarterly customer account statements for broker-dealers taking advantage of the exemption should be calculated on a per-broker-dealer basis. Sending the financial disclosure statement will likely involve drafting the statement and making programming adjustments to the computer system that generates the account statements. The cost of sending the statement should not, therefore, depend on the number of account statements sent.

The Commission previously estimated that each broker-dealer that takes advantage of the exemption would spend approximately 40 hours every six months to send the financial disclosure statement to its customers, for a total of 15,600 hours (195 broker-dealers \* 2 mailings \* 40 hours = 15,600 hours). To the best knowledge of the Commission, there have been no significant developments, innovations or changes in the practices of broker-dealers since the time of the last PRA burden estimate to alter the 40 hour estimate. The Commission now estimates that this ongoing third-party burden is approximately 13,600 hours (170 broker-dealers \* 2 mailings \* 40 hours = 13,600 hours). As in the previous Paperwork Reduction Act filing, the Commission does not expect that broker-dealers will incur additional costs for postage and printing to send the financial disclosure statement, as the statement will be sent with a quarterly mailing of customer account statements. This is an ongoing third party disclosure burden.

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<sup>3</sup> The Commission's Division of Economic and Risk Analysis calculated this estimate based upon information submitted by broker-dealers in 2013 in Form X-17A-5 Schedule 1.

<sup>4</sup> The Commission's Division of Economic and Risk Analysis calculated this estimate based upon information submitted by broker-dealers in 2013 in Form X-17A-5 Schedule 1.

<sup>5</sup> The Commission estimates that the number of broker-dealers that take advantage of the exemption of paragraph (c)(5) of Rule 17a-5 has decreased in roughly the same proportion as the number of broker-dealers that carry customer accounts has decreased. Since the number of carrying broker-dealers has dropped by approximately 13% since the previous PRA submission in 2011, the staff estimates that the number of carrying broker-dealers taking advantage of the exemption of paragraph (c)(5) of Rule 17a-5 similarly has fallen by 13%, resulting in a new estimate of 170 broker-dealers that take advantage of the paragraph (c)(5) exemption.

The Commission previously estimated that broker-dealers that take advantage of the exemption would spend a total of 186 hours per year sending balance sheets to customers who request them via a toll-free number. The burden was calculated by multiplying the estimated number of annual requests (1,114) by the estimated average amount of time required to process each request (10 minutes). The Commission now estimates that broker-dealers that take advantage of the exemption hold approximately 100 million customer accounts (170/195 times 115 million = 100 million) and the Commission estimates that the number of annual requests will be approximately 969<sup>6</sup> and that the burden is 162 hours (969 annual requests times 10 minutes<sup>7</sup>). This is an ongoing third party disclosure burden.

In addition to the burden of sending the financial disclosure statements and balance sheets to customers, the Commission estimates that the 170 broker-dealers that take advantage of the exemption will incur a total of approximately 57 hours per year in reporting burden sending the balance sheet to the Commission. The 57 hours burden was calculated by multiplying the number of exempt broker-dealers (170), the frequency of sending the balance sheets (twice per year), and the estimated average amount of time required to send each balance sheet (10 minutes). This is an ongoing reporting burden. The Commission also estimates that the 170 broker-dealers that take advantage of the exemption must spend a total of approximately 568 hours per year sending the balance sheet to each national securities exchange and registered national securities organization of which it is a member. This is a third party disclosure burden. The Commission estimates that out of a total of 18 national securities exchanges and organizations, each broker-dealer is a member of approximately 10 exchanges and organizations.<sup>8</sup> The 568 hours burden was calculated by multiplying the number of exempt broker-dealers (170), the number of estimated securities exchanges and organizations of which each broker-dealer is a member (10), the frequency of sending the balance sheets (twice per year), and the estimated average amount of time required to send each balance sheet (10 minutes). This is an ongoing third-party disclosure burden.

The Commission previously estimated that 49 broker-dealers carrying approximately 20 million customer accounts did not take advantage of the exemption and that it would take approximately 10 seconds to send each balance sheet. The total annual burden was therefore approximately 111,200 hours (20 million customer accounts \* two balance sheets sent per year \* 10 seconds). The Commission now estimates that 43 broker-dealers (213-170 = 43) carrying approximately 23 million customer accounts (43/213 \* 115 million = 23,215,962) will incur approximately 127,880 hours per year in third party reporting burden to send the balance sheets

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<sup>6</sup> The Commission estimates that the number of annual requests has decreased in roughly the same proportion as the number of broker-dealers that carry customer accounts has decreased. Since the number of carrying broker-dealers has dropped by approximately 13% since the previous PRA submission in 2011, the staff estimates that the number of annual requests has fallen by 13%, resulting in a new estimate of 969 requests annually.

<sup>7</sup> 10 minutes is approximately 16.7% of an hour.

<sup>8</sup> There are a total of 18 national securities exchanges and one national securities association registered with the Commission. The Commission estimates that the average broker-dealer taking advantage of the exemption is a member of approximately half of the registered national securities exchanges (9), and is a member of Financial Industry Regulatory Authority.

(23 million customer accounts \* two balance sheets per year \* ten seconds<sup>9</sup> = 127,880 hours). This is an on-going third-party disclosure burden.

In addition, each of the 43 broker-dealers will spend approximately 10 minutes sending its balance sheet to each national securities exchange and registered national securities organization of which it is a member. The Commission estimates that each broker-dealer is a member to approximately 10 national securities exchanges and organizations. The Commission estimates that the 43 broker-dealers will spend approximately 144 hours per year to send the balance sheets to these exchanges and organizations (43 \* 10 \* two balance sheets per year \* 10 minutes = 144 hours). This is a third party disclosure burden. Therefore, the total annual third party disclosure burden for the 43 broker-dealers is 128,024 hours (127,880 + 144 = 128,024 hours).

Each of the 43 broker-dealers not taking advantage of the exemption will also spend approximately 10 minutes sending its balance sheet to the Commission. The Commission estimates that the 43 broker-dealers will incur approximately 15 hours per year in reporting burden to send the balance sheets to the Commission (43 \* two balance sheets per year \* 10 minutes = 15 hours).

The total annual burden for Rule 17a-5(c) has therefore increased from approximately 128,000 hours to approximately 142,426 hours (13,600+162+57+568+128,024+15 = 142,426 hours) of which approximately 142,352 hours is a third-party disclosure (142,426-57-15 = 142,354 hours) and of which 72 hours (57+15 hours = 72 hours) is a reporting burden.

### **13. Costs to Respondents**

Not applicable. The Commission does not expect that respondents will have to incur capital or start-up costs to comply with the Rule.

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

There are no costs to the federal government associated with this rule.

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

Since the time of the last submission, there has been a decrease in the Commission's estimate of the number of broker-dealers that carry customer accounts, from 244 in 2011 to 213 in 2014, and an increase in the total number of public customer accounts, from 101 million in 2011 to 115 million in 2014. Further, the Commission previously estimated that 195 broker-dealers took advantage of the exemption of paragraph (c)(5) of Rule 17a-5 and that 49 broker-dealers carrying approximately 20 million customer accounts did not take advantage of the exemption. The Commission now estimates that 170 broker-dealers take advantage of the exemption and that 43 broker-dealers carrying 23 million customer accounts do not take advantage of the exemption. See

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<sup>9</sup> 10 seconds is approximately 0.278% of an hour.

item 12 for a discussion of the effect of these and other changes on the reporting burden, which has increased from 127,636 hours to 142,426 hours.

**16. Information Collections 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.