

SUPPORTING STATEMENT
for the Paperwork Reduction Act Information Collection Submission for
Rules 300-304 of Crowdfunding (Intermediaries)

This submission is being made pursuant to the Paperwork Reduction Act of 1995, 44 U.S.C. Section 3501 et seq.

A. JUSTIFICATION

1. Necessity of Information Collection

The Jumpstart our Business Startups Act (the “JOBS Act”)¹ enacted on April 5, 2012 establishes the foundation for a regulatory structure for startups and small businesses to conduct securities offerings using the Internet through crowdfunding under new Section 4(a)(6) of the Securities Act of 1933 (“Section 4(a)(6)”). The crowdfunding provisions of the JOBS Act require persons who act as intermediaries in a transaction involving the offer or sale of securities pursuant to Section 4(a)(6) to register with the Securities and Exchange Commission (the “Commission”) as a broker or a funding portal. On October 23, 2013, the Commission proposed Rules 300-304 under the Securities Act of 1933 (“Securities Act”), which will impose certain burdens and recordkeeping requirements on intermediaries.² The proposed rules are based on an intermediary developing an electronic platform to offer securities in reliance on Section 4(a)(6) to the public.

Proposed Rule 300 would require an intermediary to be registered with the Commission as a broker or as a funding portal and be a member of a registered national securities association.³ Registration for brokers requires the filing of Form BD and, if withdrawing from registration, the filing of Form BDW. Brokers must also promptly amend Form BD when information changes or becomes inaccurate. Registration of funding portals will be addressed in another submission.

Proposed Rule 301 would require intermediaries to have a reasonable basis for believing that an issuer seeking to offer and sell securities in reliance on Section 4(a)(6) through the intermediary’s platform complies with the requirements in Section 4A(b) of the Securities Act and the related requirements in Regulation Crowdfunding. Proposed Rule 301 further would require intermediaries to have a reasonable basis for believing that an issuer has established a means to keep accurate records of the holders of the securities it would offer and sell through the intermediary’s platform. Proposed Rule 301 also would require intermediaries to conduct a background and securities enforcement regulatory history check on each issuer and each officer, director or beneficial owner of 20 percent or more of the issuer’s outstanding voting equity securities to determine whether the issuer or specified person is subject to a disqualification.

¹ Pub. L. No. 112-106, 126 Stat. 306 (2012).

² See *Regulation Crowdfunding*, Exchange Act Release No. 70741, 78 Fed. Reg. 66428, 66559-62 (Nov. 5, 2013) (“Regulation Crowdfunding”).

³ Today, FINRA is the only registered national securities association.

Proposed Rule 302 would provide that no intermediary or associated person of an intermediary may accept an investment commitment in a transaction involving the offer or sale of securities made in reliance on Section 4(a)(6) until the investor has opened an account with the intermediary and consented to electronic delivery of materials. The rule would further require intermediaries to provide educational materials to investors. Additionally, an intermediary would be required to inform investors that any person who promotes an issuer's offering for compensation, whether past or prospective, or who is a founder or an employee of an issuer that engages in promotional activities on behalf of the issuer on the intermediary's platform, must clearly disclose in all communications on the intermediary's platform, respectively, the receipt of the compensation and that he or she is engaging in promotional activities on behalf of the issuer.

Proposed Rule 303 would require an intermediary to make publicly available on its platform the information that an issuer of crowdfunding securities is required to provide to potential investors, in a manner that reasonably permits a person accessing the platform to save, download or otherwise store the information, until the offer and sale of securities is completed or cancelled. Proposed Rule 303 would also require intermediaries to comply with the requirements related to the maintenance and transmission of funds. A registered broker would be required to comply with the requirements of Rule 15c2-4 of the Securities Exchange Act of 1934 ("Exchange Act") (Transmission or Maintenance of Payments Received in Connection with Underwritings).⁴ A registered funding portal would be required to enter into a written agreement with a qualified third party to hold its client funds, or to open a bank account for the exclusive benefit of the investors and issuer. A funding portal also would be required to send directions to the qualified third party depending on whether an investing target is met or an investment commitment or offering is cancelled.

The proposed rules would require intermediaries to implement and maintain systems to comply with the information disclosure, communication channels, and investor notification requirements. These requirements include providing disclosure about compensation at account opening (Proposed Rule 302), obtaining investor acknowledgements to confirm investor qualifications and review of educational materials (Proposed Rule 303), providing investor questionnaires (Proposed Rule 303), providing communication channels with third parties and among investors (Proposed Rule 303), notifying investors of investment commitments (Proposed Rule 303), confirming completed transactions (Proposed Rule 303) and confirming or reconfirming offering cancellations (Proposed Rule 304).

2. Purpose and Use of the Information Collection

The provisions of proposed Rule 301 would help ensure that intermediaries take measures to reduce the risk of fraud with respect to transactions made in reliance on Section 4(a)(6). Specifically, the duty placed on intermediaries to have a reasonable basis for believing that an issuer complies with applicable requirements would provide an additional layer of assurance that issuers had followed regulations. Likewise, the requirement that intermediaries have a reasonable basis for believing that an issuer has established a means to keep accurate records of security holders would aid in ensuring that records exist and could be accessed by regulators, if requested. The requirement that intermediaries conduct a background and securities enforcement regulatory history check on each issuer and specified persons to determine whether

⁴ 17 CFR 240.15c2-4.

the issuer or person is subject to a disqualification would help ensure that Section 4(a)(6) could be appropriately relied upon by the issuer.

The requirement under proposed Rule 302 that an investor open an account with the intermediary would provide the intermediary with basic information about the investor and could help ensure that the intermediary knows the identity of the person using its platform. An intermediary's obligation to provide information through electronic delivery of materials would help ensure the timely transmission of information necessary under the proposed rules. The provisions requiring intermediaries to provide educational materials to investors and to inform investors about disclosures relating to promoters would aid investors in understanding risks and making appropriate investment decisions. Likewise, the requirement that an intermediary disclose the manner in which it is compensated would further inform investors about the offering and any potential conflicts of interest.

Proposed Rule 303's provision requiring an intermediary to make publicly available on its platform the information that an issuer of crowdfunding securities is required to provide to potential investors would help ensure that investors have full and continuing access to this information. The requirements that an intermediary must have a reasonable basis for believing that the investor satisfies investment limitations, obtain certain representations from investors, and obtain a questionnaire demonstrating certain aspects of an investor's understanding of the investment would serve to protect investors. The obligation that intermediaries comply with the requirements related to the maintenance and transmission of funds would assist in safeguarding investor funds. Finally, the requirement that intermediaries send notices of investment commitments and confirmations would enable investors to track their investments.

The requirements under proposed Rules 302 through 304 mandating that intermediaries implement and maintain systems to comply with information disclosure requirements and communication channels would aid information flow to investors. Additionally, an intermediary's development of an electronic platform to offer securities in reliance on Section 4(a)(6) would help facilitate transactions expeditiously and in the manner contemplated by Congress in Title III of the JOBS Act.

3. Consideration Given to Information Technology

The proposed rules would require that all crowdfunding transactions under Section 4(a)(6) be conducted through a registered intermediary on an Internet website or other similar electronic medium to help ensure that the offering is accessible to the public and that members of the crowd can share information and opinions. The proposed rules do not permit offerings to be conducted through means other than the Internet or similar electronic medium because allowing other non-electronic means would be inconsistent with the underlying principles of crowdfunding and the statute.

Under the proposed rules, all information to be provided by intermediaries must be provided electronically, and investors would be permitted to participate only if they agree to accept electronic delivery of all documents in connection with the offering. Requiring investors to consent to electronic delivery of documents relating to the offering, and requiring that intermediaries provide information electronically, would facilitate the ability of the investor, intermediary, and issuer to comply with, and act in a timely manner, with respect to certain proposed requirements of Regulation Crowdfunding.

4. Duplication

Intermediaries would be involved in a new market sector. Intermediaries that are brokers would be subject to existing broker-dealer requirements; however, the proposed regulation was drafted taking into account existing regulation so as to avoid any duplication. Funding portals, in particular, are new entities for which no rules are yet adopted or in effect. As detailed below, the regulatory scheme for intermediaries has been crafted from existing broker rules which are either expressly applied to intermediaries or tailored to fit the new market.

Proposed Rule 302 would require intermediaries to open an account for investors, to provide educational materials, and to disclose information about promoters' and the intermediary's compensation. The requirement to open an account is standard practice by brokers in the securities industry. The additional requirements under proposed Rule 302 were proposed to provide a regulatory framework for the new, Internet-based market and would not be duplicative of rules currently in effect.

Proposed Rule 303 would require intermediaries to make certain issuer information available, make determinations as to investor qualifications, provide communication channels, give investor notifications concerning commitments, maintain and transmit funds in accordance with the rule, and send confirmations. To avoid duplication, the Commission did not propose obligations on brokers regarding the maintenance and transmission of investor funds beyond those currently required by existing Rule 15c2-4, to which they are already subject. To tailor the regulatory scheme to the new market, however, proposed Rule 303(f)(2) allows a broker to be exempt from the confirmation requirements of Exchange Act Rule 10b-10⁵ (Confirmation of Transactions) if the broker adheres to certain requirements. All other requirements under proposed Rule 303 would be new requirements and not duplicative.

Proposed Rule 301 (requiring an intermediary to take measures to reduce the risk of fraud) and proposed Rule 304 (requiring intermediaries to give notices regarding certain events related to an offering) were tailored to the new crowdfunding market for which rules are not yet in place.

5. Effect on Small Entities

The Commission's rules do not define "small business" or "small organization" for purposes of intermediaries involved in the offer or sale of securities in reliance on Section 4(a)(6). Paragraph (c) of Rule 0-10 under the Exchange Act provides that, for purposes of the Regulatory Flexibility Act, "[w]hen used with reference to a broker or dealer, the Commission has defined the term "small entity" to mean a broker or dealer that: (1) had total capital (net worth plus subordinated liabilities) of less than \$500,000 on the date in the prior fiscal year as of which its audited financial statements were prepared pursuant to Rule 17a-5(d) or, if not required to file such statements, a broker or dealer that had total capital (net worth plus subordinated liabilities) of less than \$500,000 on the last business day of the preceding fiscal year (or in the time that it has been in business, if shorter); and (2) is not affiliated with any person (other than a natural person) that is not a small business or small organization as defined in this section."⁶

⁵ 17 CFR 240.10b-10.

⁶ 17 CFR 240.0-10(c).

Currently, based on FOCUS Report data, there are 871 broker-dealers that are classified as “small” entities under this definition.⁷ We apply comparable criteria to funding portals that would register under the proposed regulation. Based on discussions with industry participants, we estimate that, of the anticipated 50 funding portals we expect to register each year under the proposed regulation, 30 would be classified as “small” entities for purposes of the Regulatory Flexibility Act.⁸

Intermediaries are required by statute to register with the Commission. As such, the final rules and forms would affect intermediaries, which could be small entities. The Commission does not believe differing compliance or reporting requirements or an exemption from coverage of the final rules and forms, or any part thereof, for small entities would be appropriate or consistent with investor protection or with the Commission’s understanding of Congress’s intent to have the Commission register intermediaries and oversee their activities. Thus, the final rules and forms are designed to impose only those burdens necessary to accomplish the objectives of the JOBS Act and minimize any significant adverse impact on small entities.

6. Consequences of Not Conducting Collection

The collection of information under the final rules and forms is designed to establish a regulatory framework for intermediaries. The registration regime will allow the Commission to retrieve and analyze the data it needs more efficiently, which should enhance the Commission’s ability to carry out its mission with respect to intermediaries involved in the offer and sale of securities in reliance on Section 4(a)(6) effectively. Absent this registration regime, funding portals would not have a permanent mechanism through which to satisfy the requirement in the JOBS Act that they register with the Commission. Additionally, the consequence of not imposing other obligations on intermediaries would be contrary to the purposes of the JOBS Act.

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 has issued a release soliciting comment on the new “collection of information” requirements and associated paperwork burdens. A copy of the release is attached. Comments on Commission releases are generally received from registrants, investors, and other market participants. In addition, the Commission and staff participate in ongoing dialogue with representatives of various market participants through public conferences, meetings and informal

⁷ FOCUS Reports, or “Financial and Operational Combined Uniform Single” Reports, are monthly, quarterly, and annual reports that broker-dealers generally are required to file with the Commission and/or self-regulatory organizations pursuant to Exchange Act Rule 17a-5 (17 CFR 240.17a-5).

⁸ For PRA purposes, the number of small business entities is calculated by multiplying the number of respondents by the 30/50 percentage or 60%. However, only those newly registered intermediaries as well as the new funding portals will be included in the calculation. The brokers already registered with the Commission would be excluded from the calculation.

exchanges. Any comments received on this proposed rulemaking will be posted on the Commission's public website, and made available through <http://www.sec.gov/rules/proposed.shtml>. The Commission will consider all comments received prior to publishing the final rule, and will explain in any adopting release how the final rule responds to such comments, in accordance with 5 CFR 1320.11(f).

9. Payment or Gift

Not applicable.

10. Confidentiality

The records required by proposed Rules 301 through 304 are available only for the examination of the SEC staff, state securities authorities, and self-regulatory organizations. Subject to the provisions of the Freedom of Information Act, 5 U.S.C. § 552 (2012), and the SEC's rules thereunder (17 CFR 200.80(b)(4)(iii)), the SEC does not generally publish or make available information contained in any reports, summaries, analyses, letters, or memoranda arising out of, in anticipation of, or in connection with an examination or inspection of the books and records of any person or any other investigation. This information is useful in connection with the Commission's enforcement and examination functions pursuant to Section 15B(c) of the Exchange Act. Nonetheless, as stated in the instructions to the Form BD, social security numbers ("SSNs") are not required to be given. Furthermore, SSNs are not included in publicly available versions of the form.

11. Sensitive Questions

As discussed above in Item 10, the collection of information includes Personally Identifiable Information ("PII").⁹ In particular, the collection of information includes SSNs of sole proprietors on Form BD and Form BDW only if the sole proprietor does not provide an IRS Employer Identification Number.¹⁰ Likewise, the collection of information on Form BD includes SSNs of direct and indirect owners and executive officers of the broker-dealer if such persons did not have a CRD number.

The Commission has also published a System of Records Notice for the collection of information relating to Form BD and Form BDW.¹¹ In addition, a Privacy Impact Assessment ("PIA") has been completed for the EDGAR system.¹²

12. Burden of Information Collection

⁹ The term "Personally Identifiable Information" refers to information which can be used to distinguish or trace an individual's identity, such as their name, social security number, biometric records, etc. alone, or when combined with other personal or identifying information which is linked or linkable to a specific individual, such as date and place of birth, mother's maiden name, etc.

¹⁰ In addition, the forms also request data on private residential addresses.

¹¹ See *System of Records Notices* SEC-55, SEC-49 and SEC-1 available at <http://www.sec.gov/about/privacy/secprivacyoffice.htm>.

¹² The PIA will be included in the PRA submission to OMB.

The proposed rules would require intermediaries to register with us as either a broker or funding portal. We estimate that the proposed collections of information would apply to approximately 10 intermediaries per year that are not currently registered with the Commission and would choose to register as brokers to act as intermediaries for transactions made in reliance on Section 4(a)(6). However, we believe that, given the high cost that an unregistered entity would incur to register as a broker with us, compared with the lower cost of becoming a funding portal, unregistered entities generally would have less incentive to register as brokers than as funding portals.

We further estimate that approximately 50 intermediaries per year that are already registered as brokers with the Commission would choose to add to their current service offerings by also becoming crowdfunding intermediaries. These entities would not have to register anew with us, and if doing business with the public, would already be members of FINRA (the applicable national securities association registered under Exchange Act Section 15A). Because we do not have any data indicating the number of currently-registered brokers that would be interested in becoming crowdfunding intermediaries, we cannot estimate how many would choose to enter the crowdfunding market.¹³ We also believe that 50 intermediaries would register as funding portals.

a. Development of Intermediary Platform

The proposed rules are based on an intermediary developing an electronic platform to offer securities in reliance on Section 4(a)(6) to the public. A broker or funding portal that creates its initial platform in-house would incur an initial one-time burden associated with setting up systems functionality to comply with our proposed rules and developing other platform capabilities and operations. Based on our discussions with potential intermediaries, we initially estimate that intermediaries would typically hire a team of approximately 4 to 6 developers that would work on all aspects of platform development, including, but not limited to, front-end programming, data management, systems analysis, communication channels, document delivery, and Internet security. To develop a platform, we estimate, based on our discussions with potential intermediaries, that intermediaries would spend an average of 1,500 hours for planning, programming and implementation.

As discussed above, we anticipate that each year 10 intermediaries would newly register as brokers, 50 intermediaries would be brokers that are already registered and 50 intermediaries would register as funding portals. It is difficult to estimate the number of intermediaries that would develop their platforms in-house, but if we assume that half of the 110 newly-registered intermediaries were to do so each year for the first three years, the total number of intermediary

¹³ Similarly, we cannot estimate with any degree of certainty how many unregistered “finders” would potentially choose to enter the securities-based crowdfunding market. See, e.g., Task Force on Private Placement Broker-Dealers, note 894 (stating that quantifying the number of “finders” that help small businesses to obtain sources of capital “is an impossibility, since there is no effective measuring device.”).

respondents would be 165¹⁴ with a total initial one-time burden of 247,500 hours over the three-year period.¹⁵

We estimate that annually updating the features and functionality of an intermediary's platform would require approximately 20% of the hours required to initially develop the platform, for an average burden of 300 hours per year. If we assume that half of the 110 newly-registered intermediaries updated their systems accordingly, the total ongoing burden would be 99,000 hours over the three-year period.¹⁶

In summary, the Commission estimates that, over a three-year period, the total burden for the development of an intermediary platform would be 346,500 hours, or 115,500 hours per year¹⁷ when annualized over three years. The burden per intermediary would be approximately 2,100 hours, or approximately 700 hours per year¹⁸ when annualized over three years. We estimate that approximately half of this burden is a recordkeeping burden, and half is a third-party disclosure burden.¹⁹

b. Measures to Reduce the Risk of Fraud

The proposed rules would require intermediaries to have a reasonable basis for believing that an issuer seeking to offer and sell securities in reliance on Section 4(a)(6) through the intermediary's platform complies with the requirements in Section 4A(b) and the related requirements in Regulation Crowdfunding.²⁰ The proposed rules would require intermediaries to have a reasonable basis for believing that an issuer has established means to keep accurate records of the holders of the securities it would offer and sell through the intermediary's

¹⁴ 55 (estimated number of intermediaries Y^1) + 55 (estimated number of intermediaries Y^2) + 55 (estimated number of intermediaries Y^3) = 165 .

¹⁵ Y^1 (1,500 hours \times 55 new intermediaries) + Y^2 (1,500 hours \times 55 new intermediaries) + Y^3 (1,500 hours \times 55 new intermediaries) = 247,500 hours.

¹⁶ Y^1 (300 hours \times 55 intermediaries) + Y^2 (300 hours \times 110 intermediaries) + Y^3 (300 hours \times 165 intermediaries) = 99,000 hours.

¹⁷ 247,500 hours (burden for developing an intermediary platform in-house, over three years) + 99,000 hours (burden to update system, over three years) = 346,500 hours \div 3 = 115,500 hours per year.

¹⁸ 346,500 hours (total burden to develop an intermediary platform, over three years) \div 165 (intermediaries which will develop an intermediary platform, over three years) = 2,100 hours \div 3 = 700 hours per respondent.

¹⁹ 173,250 of the 346,500 hours, or 57,750 of the 115,500 hours per year would be attributed to the recordkeeping burden and the other 173,250 of the 346,500 hours, or 57,750 of the 115,500 hours per year would be attributed to the third-party disclosure burden when annualized over three years. 1,050 of the 2,100 hours, or approximately 350 of the 700 hours per year would be attributed to the recordkeeping burden and the other 1,050 of the 2,100 hours, or approximately 350 of the 700 hours per year would be attributed to the third-party disclosure burden when annualized over three years.

²⁰ See proposed Rule 301(a) of Regulation Crowdfunding.

platform. For both requirements, an intermediary may reasonably rely on the representations of the issuer.

For the purposes of the PRA, we expect that 100% of intermediaries would rely on the representations of issuers. This would impose an estimated time burden in the first year of five hours per intermediary to establish standard representations it would request from issuers, and 6 minutes per intermediary per issuer to obtain the issuer representation. These estimates are consistent with estimates we have used for other regulated entities to obtain similar documentation, such as consents, from customers. Based on our estimate that there would be approximately 2,300 offerings per year, that each issuer would conduct one offering per year, and that there would be 110 intermediaries, we calculate that each intermediary would facilitate approximately 20 offerings per year.²¹ Therefore, we estimate that the total number of intermediary respondents would be 330²² with a total initial one-time burden of 2,310 hours over the three-year period.²³

We believe that the ongoing time burdens for this requirement would be approximately one hour per intermediary per year to review and check that the standard representations it requests from issuers remain appropriate, and 6 minutes per intermediary per issuer to obtain the representation. Therefore, we estimate that the ongoing total burden hours necessary for intermediaries to rely on the representations of the issuers would be approximately 1,980 hours over the three-year period.²⁴

In summary, the Commission estimates that, over a three-year period, the total recordkeeping burden associated with measures taken to reduce the risk of fraud would be 4,290 hours or 1,430 hours per year²⁵ when annualized over three years. The recordkeeping burden per intermediary would be approximately 13 hours, or approximately 4.33 hours per year²⁶ when annualized over three years.

²¹ $2,300 \text{ offerings} \div (10 \text{ newly registered broker-dealers} + 50 \text{ previously registered broker-dealers} + 50 \text{ funding portals}) = 20.9.$

²² $110 \text{ (estimated number of intermediaries } Y^1) + 110 \text{ (estimated number of intermediaries } Y^2) + 110 \text{ (estimated number of intermediaries } Y^3) = 330.$

²³ $Y^1 ((5 \text{ hours/intermediary} \times 110 \text{ new intermediaries}) + (6 \text{ minutes/issuer} \times 20 \text{ issuers/intermediary} \times (110 \text{ new intermediaries}))) + Y^2 ((5 \text{ hours/intermediary} \times 110 \text{ new intermediaries}) + (6 \text{ minutes/issuer} \times 20 \text{ issuers/intermediary} \times (110 \text{ new intermediaries}))) + Y^3 ((5 \text{ hours/intermediary} \times 110 \text{ new intermediaries}) + (6 \text{ minutes/issuer} \times 20 \text{ issuers/intermediary} \times (110 \text{ new intermediaries}))) = 2,310 \text{ hours.}$

²⁴ $Y^1 ((1 \text{ hour/intermediary} \times 110 \text{ intermediaries}) + (6 \text{ minutes/issuer} \times 20 \text{ issuers/intermediary} \times (110 \text{ intermediaries}))) + Y^2 ((1 \text{ hour/intermediary} \times 220 \text{ intermediaries}) + (6 \text{ minutes/issuer} \times 20 \text{ issuers/intermediary} \times (220 \text{ intermediaries}))) + Y^3 ((1 \text{ hour/intermediary} \times 330 \text{ intermediaries}) + (6 \text{ minutes/issuer} \times 20 \text{ issuers/intermediary} \times (330 \text{ intermediaries}))) = 1,980 \text{ hours.}$

²⁵ $2,310 \text{ hours (burden to develop and obtain standard issuer representations, over three years)} + 1,980 \text{ hours (burden associated with ongoing review of representations, over three years)} = 4,290 \text{ hours} \div 3 = 1,430 \text{ hours per year.}$

²⁶ $4,290 \text{ hours (total burden associated with measures taken to reduce the risk of fraud, over three years)} \div 330 \text{ (intermediaries required to take measures to reduce the risk of fraud,}$

c. Account Opening: Accounts and Electronic Delivery

The proposed rules would provide that no intermediary or associated person of an intermediary could accept an investment commitment in a transaction involving the offer or sale of securities made in reliance on Section 4(a)(6) until the investor has opened an account with the intermediary and consented to electronic delivery of materials.²⁷ For the purposes of the PRA, we expect that the functionality required for an investor to open an account with an intermediary and obtain consents would result in an initial time burden of approximately 10 hours per intermediary in the first year. Therefore, we estimate that the total number of intermediary respondents would be 330²⁸ with a total initial one-time burden of 3,300 hours over the three-year period.²⁹

We believe that the ongoing time burdens for this requirement would be significantly less than the initial time burden, and thus we are estimating approximately two hours per intermediary per year, to review and check the related processes. Therefore, we estimate that the ongoing total burden hours necessary for this functionality would be approximately 1,320 hours over the three-year period.³⁰

In summary, the Commission estimates that, over a three-year period, the total recordkeeping burden associated with account opening would be 4,620 hours, or 1,540 hours per year³¹ when annualized over three years. The recordkeeping burden per intermediary would be approximately 14 hours, or approximately 4.67 hours per year³² when annualized over three years.

d. Account Opening: Educational Materials

The proposed rules would require intermediaries to provide educational materials to investors,³³ to help ensure that investors have a baseline understanding of the risks and costs of

over three years) = 13 hours ÷ 3 = 4.33 hours per respondent.

²⁷ See proposed Rule 302(a) of Regulation Crowdfunding.

²⁸ 110 (estimated number of intermediaries Y¹) + 110 (estimated number of intermediaries Y²) + 110 (estimated number of intermediaries Y³) = 330.

²⁹ Y¹ (10 hours/intermediary x 110 new intermediaries) + Y² (10 hours/intermediary x 110 new intermediaries) + Y³ (10 hours/intermediary x 110 new intermediaries) = 3,300 hours.

³⁰ Y¹ (2 hours/intermediary x 110 intermediaries) + Y² (2 hours/intermediary x 220 intermediaries) + Y³ (2 hours/intermediary x 330 intermediaries) = 1,320 hours.

³¹ 3,300 hours (burden associated with opening accounts and obtaining consents to electronic delivery of materials, over three years) + 1,320 hours (burden associated with ongoing reviews, over three years) = 4,620 hours ÷ 3 = 1,540 hours per year.

³² 4,620 hours (total burden associated with accounts and electronic delivery, over three years) ÷ 330 (intermediaries with accounts and electronic delivery, over three years) = 14 hours ÷ 3 = 4.67 hours per respondent.

³³ See proposed Rule 302(b) of Regulation Crowdfunding.

investing in securities offered and sold in reliance on Section 4(a)(6). Given that the intermediary would determine what electronic format is effective in communicating the requisite contents of the educational material, the expected costs for intermediaries to develop the educational material is expected to vary widely and are difficult to estimate. For the purposes of the PRA, we are assuming that half of the intermediaries would develop their educational materials in-house, which would include online presentations and written documents, and that the other half would employ third-parties to produce professional-quality online video presentations. We estimate that, to develop their non-video educational materials in-house, each intermediary would incur an initial time burden of approximately 20 hours. Therefore, we estimate that the total number of intermediary respondents would be 165³⁴ with a total initial one-time burden of 3,300 hours over the three-year period.³⁵

Assuming that half of the intermediaries would develop their educational materials in-house, we expect that these intermediaries also would update their educational materials in-house, as needed. We estimate that to update their educational materials in-house, each intermediary would incur an ongoing time burden of approximately 10 hours per year. Therefore, we estimate that the ongoing total burden hours would be approximately 3,300 hours over the three-year period.³⁶

In summary, the Commission estimates that, over a three-year period, the total third-party disclosure burden associated with educational materials would be 6,600 hours, or 2,200 hours per year³⁷ when annualized over three years. The third-party disclosure burden per intermediary would be approximately 40 hours, or approximately 13.33 hours per year³⁸ when annualized over three years.

e. Account Opening: Promoters

The proposed rules would require an intermediary, at the account opening stage, to disclose to investors that any person who receives compensation to promote an issuer's offering, or who is a founder or employee of an issuer engaging in promotional activities on behalf of the issuer, must clearly disclose the receipt of compensation and his or her engagement in

³⁴ 55 (estimated number of intermediaries Y^1) + 55 (estimated number of intermediaries Y^2) + 55 (estimated number of intermediaries Y^3) = 165 .

³⁵ Y^1 (20 hours/intermediary x 55 new intermediaries) + Y^2 (20 hours/intermediary x 55 new intermediaries) + Y^3 (20 hours/intermediary x 55 new intermediaries) = 3,300 hours.

³⁶ Y^1 (10 hours/intermediary x 55 intermediaries) + Y^2 (10 hours/intermediary x 110 intermediaries) + Y^3 (10 hours/intermediary x 165 intermediaries) = 3,300 hours.

³⁷ 3,300 hours (burden on intermediaries engaged in developing educational materials in-house, over three years) + 3,300 hours (burden on intermediaries engaged in updating educational materials in-house, over three years) = 6,600 hours ÷ 3 = 2,200 hours per year.

³⁸ 6,600 hours (total burden on intermediaries engaged in developing and updating educational materials in-house, over three years) ÷ 165 (intermediaries engaged in developing and updating educational materials in-house, over three years) = 40 hours ÷ 3 = 13.33 hours per respondent.

promotional activities on the platform.³⁹ For purposes of the PRA, we expect that this requirement would result in an estimated time burden of five hours per intermediary in the first year, to prepare this particular disclosure and incorporate it into the account opening process. Therefore, we estimate that the total number of intermediary respondents would be 330⁴⁰ with a total initial one-time burden of 1,650 hours over the three-year period.⁴¹

We believe that the ongoing time burdens for this requirement would be approximately one hour per intermediary per year to review and check that the disclosures remain appropriate. Therefore, we estimate that the ongoing total burden hours would be approximately 660 hours over the three-year period.⁴²

In summary, the Commission estimates that, over a three-year period, the total burden associated with preparing the initial disclosure and ongoing reviews of the disclosure would be 1,980 hours, or 660 hours⁴³ per year when annualized over three years. The third-party disclosure burden per intermediary would be approximately 7 hours, or approximately 2.33 hours per year⁴⁴ when annualized over three years.

f. Issuer Disclosures to be Made Available

The proposed rules would require an intermediary to make publicly available on its platform the information that an issuer of crowdfunding securities is required to provide to potential investors, in a manner that reasonably permits a person accessing the platform to save, download or otherwise store the information, until the offer and sale of securities is completed or cancelled.⁴⁵

For purposes of the PRA, our estimate of the hourly burdens related to the public availability of the issuer information is included as part of our estimate of the third-party disclosure hourly burdens associated with overall platform development, as discussed above. The platform functionality would include not only the ability to display, upload and download issuer information as required under the proposed rules, but also the ability to provide users with required online disclosures, as discussed below.

³⁹ See proposed Rule 302(c) of Regulation Crowdfunding.

⁴⁰ 110 (estimated number of intermediaries Y^1) + 110 (estimated number of intermediaries Y^2) + 110 (estimated number of intermediaries Y^3) = 330 .

⁴¹ Y^1 (5 hours/intermediary x 110 new intermediaries) + Y^2 (5 hours/intermediary x 110 new intermediaries) + Y^3 (5 hours/intermediary x 110 new intermediaries) = 1,650 hours.

⁴² Y^1 (1 hour/intermediary x 110 intermediaries) + Y^2 (1 hour/intermediary x 220 intermediaries) + Y^3 (1 hour/intermediary x 330 intermediaries) = 660 hours.

⁴³ 1,650 hours (burden on intermediaries associated with preparing the initial disclosure, over three years) + 660 hours (burden on intermediaries associated with ongoing reviews of disclosure, over three years) = 2,310 hours ÷ 3 = 770 hours per year.

⁴⁴ 2,310 hours (total burden associated with preparing the initial disclosure and ongoing reviews of the disclosure, over three years) ÷ 330 (intermediaries involved in the preparation and reviews of disclosure, over three years) = 7 hours ÷ 3 = 2.33 hours per respondent.

⁴⁵ See proposed Rule 303(a) of Regulation Crowdfunding.

We recognize that, over time, intermediaries may need to update their systems that allow issuer information to be uploaded to their platforms. We do not expect a significant ongoing burden for providing issuer disclosures, primarily because the functionality required for required issuer disclosure information to be uploaded is a standard feature offered on many websites and would not require frequent or significant updates.

g. Other Disclosures to Investors and Potential Investors

Intermediaries would be required to implement and maintain systems to comply with the information disclosure, communication channels, and investor notification requirements. These requirements include providing disclosure about compensation at account opening, obtaining investor acknowledgements to confirm investor qualifications and review of educational materials, providing investor questionnaires, providing communication channels with third parties and among investors, notifying investors of investment commitments, confirming completed transactions and confirming or reconfirming offering cancellations. Based on our discussions with industry participants, these functionalities would generally be part of the overall platform development process and costs. We discuss platform development costs above, which would include developing the functionality that would allow intermediaries to comply with disclosure and notification requirements.

We do not expect a significant ongoing burden for providing disclosures, as required by the proposed rules, because the functionality required to provide information and communication channels would likely not require frequent updates. We incorporate the total burden to update the required functionality for processing issuer disclosure and investor acknowledgment information in the total third-party disclosure burden estimates discussed above relating to platform development.

h. Maintenance and Transmission of Funds

Intermediaries would be required to comply with the requirements related to the maintenance and transmission of funds. An intermediary that is a registered broker would be required to comply with the requirements of Rule 15c2-4 of the Exchange Act.⁴⁶ An intermediary that is a registered funding portal would be required to enter into a written agreement with a qualified third party to hold its client funds, or to open a bank account for the exclusive benefit of the investors and issuer, and it also would be required to send directions to the qualified third party depending on whether an investing target is met or an investment commitment or offering is cancelled. For purposes of the PRA, we are providing an estimate for the time that a funding portal would need to enter into on an initial basis and review and update on an ongoing basis, a written agreement with the qualified third party. We expect that the burden associated with the website functionality required to send directions to third parties would be included as part of the platform development discussed above. Based on discussion

⁴⁶ For purposes of this PRA discussion, the burdens associated with this rule, as well as for any other rule to which brokers are subject regardless of whether they engage in transactions pursuant to Section 4(a)(6), are not addressed here; rather, they are included in any OMB approvals for the relevant rule. Rule 15c2-4, however, does not include any information collection requests for purposes of the PRA, and so there is no relevant approval or control number from OMB for this rule.

with industry participants, we estimate that 50 funding portals would incur an initial burden of approximately 20 hours each to comply with these requirements. Therefore, we estimate that the total number of intermediary respondents would be 150⁴⁷ with a total initial one-time burden of 3,000 hours over the three-year period.⁴⁸

We expect that, on an ongoing basis, a registered funding portal would have to periodically review and update its written agreement with a bank or other third party to hold its client funds. A registered funding portal also would be required to send directions on an ongoing basis to a third party depending on whether an investing target is met or an investment commitment or offering is cancelled. Based on discussion with industry participants, we estimate that funding portals would incur an ongoing annual burden of approximately 5 hours each to comply with these requirements. Therefore, we estimate that the ongoing total burden hours would be approximately 1,500 hours over the three-year period.⁴⁹

In summary, the Commission estimates that, over a three-year period, the total third-party disclosure burden associated with maintenance and transmission of funds would be 4,500 hours, or 1,500 hours per year⁵⁰ when annualized over three years. The third-party disclosure burden per intermediary would be approximately 30 hours, or approximately 10 hours per year⁵¹ when annualized over three years.

i. Summary of Hourly Burdens

The table below summarizes the Commission's estimates of the total hourly reporting burden for intermediaries under proposed Rules 300 to 304 except burdens associated with registration for funding portals, which are included in a separate submission.

Crowdfunding PRA - Intermediaries - Hourly Burden

⁴⁷ 50 (estimated number of funding portals Y^1) + 50 (estimated number of funding portals Y^2) + 50 (estimated number of funding portals Y^3) = 150 .

⁴⁸ Y^1 (20 hours/funding portal x 50 new funding portals) + Y^2 (20 hours/funding portal x 50 new funding portals) + Y^3 (20 hours/funding portal x 50 new funding portals) = 3,000 hours.

⁴⁹ Y^1 (5 hours/funding portal x 50 funding portals) + Y^2 (5 hours/funding portal x 100 funding portals) + Y^3 (5 hours/funding portal x 150 funding portals) = 1,500 hours.

⁵⁰ 3,000 hours (burden on funding portal intermediaries associated with initially entering into a written agreement with a qualified third party, over three years) + 1,500 hours (burden on funding portal intermediaries associated with periodic reviews of written agreements and the ongoing sending of directions, over three years) = 4,500 hours ÷ 3 = 1,500 hours per year.

⁵¹ 4,500 hours (total burden on funding portal intermediaries associated with entering into and reviewing written agreements with qualified third parties and sending directions, over three years) ÷ 150 (funding portal intermediaries engaged in entering into and reviewing written agreements with qualified third parties and sending directions, over three years) = 30 hours ÷ 3 = 10 hours per respondent.

	<u>Nature of Information Collection Burden</u>	<u>Type of Burden</u>	<u>Number of Respondents</u>	<u>Number of Responses Per Year</u>	<u>Initial Burden Per Response Per Year Per Respondent</u>	<u>Ongoing Burden Per Response Per Year Per Respondent</u>	<u>Annualized Burden Estimate Per Respondent</u>	<u>Annualized Hourly Burden Estimate Industry-Wide</u>	<u>Small Business Entities Affected</u>
a.	<u>Development of the Intermediary Platform</u>								
	i. Recordkeeping	Recordkeeping	165	1	250.00	100.00	350.00	57,750.00	54
	ii. Third-Party Disclosure	Third-Party Disclosure	165	1	250.00	100.00	350.00	57,750.00	54
b.	<u>Measures to Reduce the Risk of Fraud</u>	Recordkeeping	330	1	2.33	2.00	4.33	1,430.00	108
c.	<u>Account Opening: Accounts and Electronic Delivery</u>	Recordkeeping	330	1	3.33	1.33	4.67	1,540.00	108
d.	<u>Account Opening: Educational Materials</u>	Third-Party Disclosure	165	1	6.67	6.67	13.33	2,200.00	54
e.	<u>Account Opening: Promoters</u>	Third-Party Disclosure	330	1	1.67	0.67	2.33	770.00	108
f.	<u>Issuer Disclosures to be Made Available</u>	Third-Party Disclosure			Estimate included in a. <u>Development of the Intermediary Platform</u>				
g.	<u>Other Disclosures to Investors and Potential Investors</u>	Recordkeeping			Estimate included in a. <u>Development of the Intermediary Platform</u>				
h.	<u>Maintenance and Transmission of Funds</u>	Third-Party Disclosure	150	1	6.67	3.33	10.00	1,500.00	90
	TOTAL						734.67	122,940.00	

13. Costs to Intermediaries

a. Development of Intermediary Platform

There would be a cost to developing a platform. Based on our discussions with potential intermediaries, we initially estimate that it would cost an intermediary approximately \$250,000 to \$600,000 to build an Internet-based crowdfunding portal and all of its basic functionality. For purposes of this PRA, we will use an average of these two numbers or \$425,000.⁵² Assuming that half of the 110 intermediaries were to hire outside developers to build their platforms, the total number of intermediary respondents would be 165⁵³ with a total initial one-time cost of \$70,125,000 over the three-year period.⁵⁴

We estimate that it would typically cost an intermediary approximately one-fifth of the initial development cost per year to use a third-party developer to update an Internet-based crowdfunding portal and all of its basic functionality, or \$85,000 per year on average.⁵⁵ We assume that half of the 110 newly-registered intermediaries updated their systems accordingly.

⁵² Our estimate of the average initial external cost per intermediary to develop a crowdfunding platform is the average of the cited range of \$250,000 to \$600,000, or $((\$250,000 + \$600,000) \div 2) = \$425,000$.

⁵³ 55 (estimated number of intermediaries Y^1) + 55 (estimated number of intermediaries Y^2) + 55 (estimated number of intermediaries Y^3) = 165.

⁵⁴ Y^1 ($\$425,000 \times 55$ new intermediaries) + Y^2 ($\$425,000 \times 55$ new intermediaries) + Y^3 ($\$425,000 \times 55$ new intermediaries) = \$70,125,000.

⁵⁵ Our estimate of the average initial external cost per intermediary to develop a crowdfunding platform is the average of the cited range of \$250,000 to \$600,000, or $((\$250,000 + \$600,000) \div 2) = \$425,000$. One-fifth of the cost of \$425,000 is $(\$425,000 \div 5) = \$85,000$.

Therefore, we estimate that the ongoing total cost would be approximately \$28,050,000 over the three-year period.⁵⁶

In summary, the Commission estimates that, over a three-year period, the total cost for intermediaries to develop a platform would be approximately \$98,175,000, or \$32,725,000 per year⁵⁷ when annualized over three years. The total cost per intermediary would be approximately \$595,000, or approximately \$198,333.33⁵⁸ when annualized over three years. We estimate that approximately half of this burden is a recordkeeping burden, and half is a third-party disclosure burden.⁵⁹

b. Measures to Reduce the Risk of Fraud

The proposed rules would require intermediaries to conduct a background and securities enforcement regulatory history check on each issuer and each officer, director, or beneficial owner of 20 percent or more of the issuer's outstanding voting equity securities to determine whether the issuer or such person is subject to a disqualification. We anticipate that most intermediaries would employ third-parties that perform background checks, and for the purposes of this PRA discussion, we assume that 100% of intermediaries would use these third-party services rather than develop the capability to conduct background and securities enforcement regulatory history checks in-house. The cost to perform a background check is estimated to be between \$200 and \$500, depending on the nature and extent of the information provided.⁶⁰ We recognize that some issuers would require more than one background check (*e.g.*, for officers or directors of the issuer), and we estimate that intermediaries would perform four background checks per issuer, on average. We base this number on the assumption that most crowdfunding issuers will be startups and small businesses with small management teams and few owners.

⁵⁶ $Y^1 (\$85,000/\text{intermediary} \times 55 \text{ intermediaries}) + Y^2 (\$85,000/\text{intermediary} \times 110 \text{ intermediaries}) + Y^3 (\$85,000/\text{intermediary} \times 165 \text{ intermediaries}) = \$28,050,000.$

⁵⁷ $\$70,125,000$ (costs associated with developing an intermediary platform, over three years) + $\$28,050,000$ (costs associated with updating an intermediary platform, over three years) = $\$98,175,000 \div 3 = \$32,725,000$ per year.

⁵⁸ $\$98,175,000$ (total cost to develop and update an intermediary platform, over three years) $\div 165$ (estimated number intermediaries which will develop and update an intermediary platform, over three years) = $\$595,000 \div 3 = \$198,333.33$ per respondent.

⁵⁹ $\$49,087,500$ of the $\$98,175,000$, or $\$16,362,500$ of the $\$32,725,000$ per year would be attributed to the recordkeeping burden and the other $\$49,087,500$ of the $\$98,175,000$, or $\$16,362,500$ of the $\$32,725,000$ per year would be attributed to the third-party disclosure burden when annualized over three years. $\$297,500$ of the $\$595,000$, or approximately $\$99,166.67$ of the $\$198,333.33$ per year would be attributed to the recordkeeping burden and the other $\$297,500$ of the $\$595,000$, or approximately $\$99,166.67$ of the $\$198,333.33$ per year would be attributed to the third-party disclosure burden when annualized over three years.

⁶⁰ See, *e.g.*, A Matter of Fact, *Background Check FAQ: Frequently Asked Questions*, available at <http://www.amof.info/faq.htm>. (Matter of Fact is a background check provider accredited by the National Association of Professional Background Screeners and the Background Screening Credentialing Council and states that the cost for a comprehensive background check is \$200 to \$500).

For purposes of this PRA, we will use an average of these two numbers or \$350.⁶¹ Assuming that there is an average of approximately 2,300 offerings made in reliance on Section 4(a)(6) per year,⁶² the total estimated initial cost for all 110 intermediaries to fulfill the required background and securities enforcement regulatory history checks would be \$3,220,000 per year.⁶³ Therefore, we estimate that the total number of intermediary respondents would be 330⁶⁴ with a total initial cost of \$9,660,000 over the three-year period.⁶⁵

We believe that, on an ongoing basis, intermediaries would continue to use third-party services to conduct background and securities enforcement regulatory history checks. We also believe that the total estimated ongoing cost for all intermediaries to fulfill the required background and securities enforcement regulatory history checks would be the same as the estimated initial cost of \$3,220,000 per year.⁶⁶ Therefore, we estimate that the ongoing cost would be approximately \$9,660,000 over the three-year period.⁶⁷

In summary, the Commission estimates that, over a three-year period, the total cost for intermediaries to fulfill obligations regarding background and securities enforcement regulatory history checks would be approximately \$19,320,000, or \$6,440,000 per year⁶⁸ when annualized over three years. The total cost per intermediary would be approximately \$58,545.45, or \$19,515.15 per year⁶⁹ when annualized over three years.

c. Account Opening: Accounts and Electronic Delivery

⁶¹ Our estimated initial cost for all intermediaries to fulfill the required background and securities enforcement regulatory history checks is the average of the cited range of \$200 to \$500, or $((\$200 + \$500) \div 2) = \$350$.

⁶² Because crowdfunding transactions in reliance on Section 4(a)(6) are a new approach to capital formation, it is difficult for us to accurately estimate an average number of offerings per year. As stated above, we assume that there would be approximately 2,300 offerings made in reliance on Section 4(a)(6) per year.

⁶³ $2,300 \text{ offerings} \times \$350 \times 4 \text{ background checks} = \$3,220,000 \text{ per year.}$

⁶⁴ $110 \text{ (estimated number of intermediaries } Y^1) + 110 \text{ (estimated number of intermediaries } Y^2) + 110 \text{ (estimated number of intermediaries } Y^3) = 330.$

⁶⁵ $Y^1 (\$3,220,000) + Y^2 (\$3,220,000) + Y^3 (\$3,220,000) = \$9,660,000.$

⁶⁶ $2,300 \text{ offerings} \times \$350 \times 4 \text{ background checks} = \$3,220,000 \text{ per year.}$

⁶⁷ $Y^1 (\$3,220,000) + Y^2 (\$3,220,000) + Y^3 (\$3,220,000) = \$9,660,000.$

⁶⁸ $\$9,660,000 \text{ (estimated initial cost for all intermediaries to fulfill the required background and securities enforcement regulatory history checks, over three years)} + \$9,660,000 \text{ (estimated ongoing cost for all intermediaries to fulfill the required background and securities enforcement regulatory history checks, over three years)} = \$19,320,000 \div 3 = \$6,440,000 \text{ per year.}$

⁶⁹ $\$19,320,000 \text{ (total initial and ongoing cost for all intermediaries to fulfill the required background and securities enforcement regulatory history checks, over three years)} \div 330 \text{ (estimated number of intermediaries which fulfill the requirements regarding background and securities enforcement regulatory history checks, over three years)} = \$58,545.45 \div 3 = \$19,515.15 \text{ per respondent.}$

To the extent an intermediary uses a third party to establish account opening functionality, the initial costs relevant to this requirement would be incorporated into the cost of hiring a third party to develop the platform, discussed above. We do not believe that there are any ongoing costs relevant to this requirement.

d. Account Opening: Educational Materials

For the purposes of this PRA discussion, we assume that half of the intermediaries (55) would employ third-party companies to produce professional-quality video materials instead of developing materials in-house. Public sources indicate that the typical cost to produce a professional corporate training video ranges from approximately \$1,000 to \$3,000 per production minute.⁷⁰ For purposes of this PRA, we will use an average of these two numbers or \$2,000.⁷¹

Based on discussions with industry participants, we assume that, on average, half of the intermediaries would produce a series of short educational videos that would cover all of the requirements of the proposed rules, and the video material would be 10 minutes long in total. Based on this assumption, we estimate that the total number of intermediary respondents would be 165⁷² with a total initial one-time cost of \$3,300,000 over the three-year period.⁷³ We note that the estimated initial cost may be significantly lower, because not all intermediaries that outsource the development of educational materials may choose to produce educational videos, while others may produce videos of shorter length.

We estimate that, on an ongoing basis, when using a third-party company to update their video educational materials, each intermediary would spend approximately half of the initial average cost. We estimate, therefore, that the average ongoing annual cost for an intermediary to update its video educational materials would range from approximately \$5,000 to \$15,000. For purposes of this PRA, we will use an average of these two numbers or \$10,000.⁷⁴ Therefore, we estimate that the ongoing total cost would be approximately \$3,300,000 over the three-year period.⁷⁵

In summary, the Commission estimates that, over a three-year period, the total cost for intermediaries which use a third-party company to develop and update their video educational material would be approximately \$6,600,000, or \$2,200,000 per year⁷⁶ when

⁷⁰ See, e.g., Lee W. Frederiksen, *What Is the Cost of Video Production for the Web?*, Hinge Marketing, available at <http://www.hingemarketing.com/library/article/what-is-the-cost-of-video-production-for-the-web>.

⁷¹ Our estimate of the average initial cost for an intermediary to develop and produce educational materials is the average of the cited range of \$1,000 to \$3,000, or $((\$1,000 + \$3,000) \div 2) = \$2,000$.

⁷² 55 (estimated number of intermediaries Y^1) + 55 (estimated number of intermediaries Y^2) + 55 (estimated number of intermediaries Y^3) = 165 .

⁷³ Y^1 ($\$2,000 \times 10 \text{ min} \times 55$ new intermediaries) + Y^2 ($\$2,000 \times 10 \text{ min} \times 55$ new intermediaries) + Y^3 ($\$2,000 \times 10 \text{ min} \times 55$ new intermediaries) = $\$3,300,000$.

⁷⁴ Our estimate of the cost for an intermediary to update their educational materials is the average of the cited range of \$5,000 to \$15,000, or $((\$5,000 + \$15,000) \div 2) = \$10,000$.

⁷⁵ Y^1 ($\$10,000/\text{intermediary} \times 55$ intermediaries) + Y^2 ($\$10,000/\text{intermediary} \times 110$ intermediaries) + Y^3 ($\$10,000/\text{intermediary} \times 165$ intermediaries) = $\$3,300,000$.

⁷⁶ $\$3,300,000$ (estimated initial costs for intermediaries using third-party companies to produce professional-quality video materials, over three years) + $\$3,300,000$ (estimated ongoing costs for intermediaries using a third-party company to update their video educational materials, over three years) = $\$6,600,000 \div 3 = \$2,200,000$ per year.

annualized over three years. The total cost per intermediary would be approximately \$40,000, or approximately \$13,333.33 per year⁷⁷ when annualized over three years.

e. Account Opening: Promoters

To the extent an intermediary uses a third party to develop the functionality for this requirement, the initial costs relevant to this requirement would be incorporated into the cost of hiring a third party to develop the platform, discussed above. We do not believe that there are any ongoing costs relevant to this requirement.

f. Issuer Disclosures to be Made Available

We do not expect a significant ongoing cost for providing issuer disclosures, primarily because the functionality required to upload required issuer disclosure information is a standard feature offered on many websites and would not require frequent updates. Because we are including the burdens that are associated with providing issuer disclosures as part of our estimates for overall platform development, we discuss our cost estimates for ongoing platform development and updates in that section, above.

g. Other Disclosures to Investors and Potential Investors

We recognize that some intermediaries may add the required functionality for processing issuer disclosure and investor acknowledgments by using a third-party developer. We also do not expect there to be a significant ongoing cost for developing the functionality to process these disclosures and acknowledgments, primarily because this functionality would likely not require frequent updates by third-party developers. The total cost to add the required functionality for processing issuer disclosure and investor acknowledgments, as well as to update the required functionality for processing issuer disclosure and investor acknowledgments, is incorporated into the total cost estimates discussed above relating to platform development.

⁷⁷ \$6,600,000 (total costs of intermediaries using a third-party company to develop and update their video educational materials, over three years) ÷ 165 (estimated number of intermediaries using a third-party company to develop and update their video educational materials, over three years) = \$40,000 ÷ 3 = \$13,333.33 per respondent.

h. Maintenance and Transmission of Funds

For purposes of the PRA, we are not providing any cost estimate for this requirement, because we expect that the cost associated with developing the functionality to send instructions to third parties would be included as part of the platform development discussed above.

i. Summary of Cost Burdens

The table below summarizes the Commission’s estimate of the annual cost burdens for intermediaries under proposed Rules 300 to 304 except burdens associated with registration for funding portals, which are included in a separate submission.

Crowdfunding PRA - Intermediaries - Cost Burden									
	<u>Nature of Information Collection Burden</u>	<u>Type of Burden</u>	<u>Number of Respondents</u>	<u>Number of Responses Per Year</u>	<u>Initial Cost Per Response Per Year Per Respondent</u>	<u>Ongoing Cost Per Response Per Year Per Respondent</u>	<u>Annualized Cost Estimate Per Respondent</u>	<u>Annualized Hourly Cost Estimate Industry-Wide</u>	<u>Small Business Entities Affected</u>
a.	<u>Development of the Intermediary Platform</u>								
	i. Recordkeeping	Recordkeeping	165	1	\$70,833.33	\$28,333.33	\$99,166.67	\$16,362,500.00	54
	ii. Third-Party Disclosure	Third-Party Disclosure	165	1	\$70,833.33	\$28,333.33	\$99,166.67	\$16,362,500.00	54
b.	<u>Measures to Reduce the Risk of Fraud</u>	Recordkeeping	330	1	\$9,757.58	\$9,757.58	\$19,515.15	\$6,440,000.00	108
c.	<u>Account Opening: Accounts and Electronic Delivery</u>	Recordkeeping			Estimate included in a. <u>Development of the Intermediary Platform</u>				
d.	<u>Account Opening: Educational Materials</u>	Third-Party Disclosure	165	1	\$6,666.67	\$6,666.67	\$13,333.33	\$2,200,000.00	54
e.	<u>Account Opening: Promoters</u>	Third-Party Disclosure			Estimate included in a. <u>Development of the Intermediary Platform</u>				
f.	<u>Issuer Disclosures to be Made Available</u>	Third-Party Disclosure			Estimate included in a. <u>Development of the Intermediary Platform</u>				
g.	<u>Other Disclosures to Investors and Potential Investors</u>	Recordkeeping			Estimate included in a. <u>Development of the Intermediary Platform</u>				
h.	<u>Maintenance and Transmission of Funds</u>	Third-Party Disclosure			Estimate included in a. <u>Development of the Intermediary Platform</u>				
	TOTAL						\$231,181.82	\$41,365,000.00	

14. Costs to Federal Government

There would be no additional costs to the Federal Government.

15. Changes in Burden

Not applicable. Proposed Rules 300 to 304 would be new rules.

16. Information Collection Planned for Statistical Purposes

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

17. OMB Expiration Date Display Approval

We request authorization to omit the expiration date on the electronic version of the form, although the OMB control number will be displayed. Including the expiration date on the electronic version of this form will result in increased costs, because the need to make changes to the form may not follow the application's scheduled version release dates.

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.