

SUPPORTING STATEMENT
for the Paperwork Reduction Act Information Collection Submission for Rule 17a-4

A. JUSTIFICATION

1. Necessity of Information Collection

In the ordinary course of their business, all broker-dealers must maintain certain books and records reflecting, among other things, income and expenses, assets and liabilities, daily trading activity, and the status of customer and firm accounts. These books and records are, for the most part, standard and would be kept by any prudent individual engaging in a securities business.

The Commission is statutorily authorized by sections 17(a)¹ and 23(a)² of the Securities Exchange Act of 1934 (“Exchange Act”) to promulgate rules and regulations regarding the maintenance and preservation of books and records of exchange members and broker-dealers. Section 17(a)(1) provides in part that all members of a national securities exchange and registered broker-dealers “shall make and keep for prescribed periods such records...as the Commission, by rule, prescribes as necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of [the Exchange Act].”

In 1939, to standardize recordkeeping practices throughout the industry, the Commission adopted Rules 17a-3 and 17a-4 under the Exchange Act, which codified and specified minimum standards with respect to business records that a broker-dealer must create and maintain.³ Rule 17a-3 requires exchange members and broker-dealers to make and keep current certain records relating to a member’s or broker-dealer’s financial condition and operations. Rule 17a-4 requires broker-dealers to preserve, for prescribed periods of time, certain records required to be created under Rule 17a-3 and certain other Commission rules. In addition, Rule 17a-4 requires broker-dealers to preserve other records that may be created or received by the broker-dealer in the ordinary course of its business for prescribed periods of time.

On April 17, 2014, the Commission proposed amendments to its recordkeeping and reporting rules for broker-dealers as well as new recordkeeping and reporting rules (the “SBS Recordkeeping Release”)⁴ for security-based swap dealers (“SBSDs”) and major security-based swap participants (“MSBSPs”) pursuant to its authority in sections 17(a) and 15F(f) of the Exchange Act.⁵ More specifically, the proposed amendments to Rule 17a-4 (in conjunction with

¹ See 15 U.S.C. 78q(a).

² See 15 U.S.C. 78w(a).

³ See 17 CFR 240.17a-3; 17 CFR 240.17a-4.

⁴ See *Recordkeeping and Reporting Requirements for Security-Based Swap Dealers, Major Security-Based Swap Participants, and Broker-Dealers; Capital Rule for Certain Security-Based Swap Dealers; Proposed Rules*, Exchange Act Release No. 71958 (Apr. 17, 2014), 79 FR 25193 (May 2, 2014).

⁵ Section 764 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) added section 15F to the Exchange Act. See Public Law 111-203, § 764; 15 U.S.C. 78o-10. Section 15F(f) (2) provides that the Commission shall adopt rules governing reporting and recordkeeping for SBSDs and MSBSPs. See 15 U.S.C. 78o-10(f)(2).

the proposed amendments to Rule 17a-3) would establish additional recordkeeping requirements applicable to broker-dealers, including those that are dually registered as an SBSB or MSBSP, to the extent they engage in security-based swap or swap activities.⁶

The Commission is proposing certain amendments to Rule 17a-4 that would require broker-dealer SBSBs and broker-dealer MSBSPs to retain certain new records, but would no longer require them to retain other records required to be kept by non-SBSB/MSBSP broker-dealers. Specifically, broker-dealer SBSBs and broker-dealer MSBSPs would be required to preserve proposed Form SBS instead of Form X-17A-5,⁷ possession or control information for security-based swap customers under proposed Rule 18a-4 instead of under Rule 15c3-3,⁸ and Forms SBSE-BD and SBSE-W instead of Forms BD and BDW.⁹

The Commission is proposing to amend paragraph (b)(4) of Rule 17a-4 to require broker-dealer SBSBs and broker-dealer MSBSPs to retain telephone calls that have already been recorded and are related to the broker-dealer SBSB's and broker-dealer MSBSP's security-based swap business.¹⁰

The Commission is also proposing amendments to Rule 17a-4 that would add three types of records to be preserved by broker-dealers,¹¹ five types of records to be preserved by broker-dealer SBSBs and broker-dealer MSBSPs,¹² and three types of records to be preserved by broker-dealer SBSBs only.¹³ Additionally, paragraph (b)(1) of Rule 17a-4, as proposed to be amended, would require alternative net capital ("ANC") broker-dealers to preserve certain records relating to the firm's monthly liquidity stress test.¹⁴

⁶ See *Recordkeeping and Reporting Requirements for Security-Based Swap Dealers, Major Security-Based Swap Participants, and Broker-Dealers; Capital Rule for Certain Security-Based Swap Dealers; Proposed Rules*, Exchange Act Release No. 71958 (Apr. 17, 2014), 79 FR 25193 (May 2, 2014).

⁷ See paragraph (b)(8) of Rule 17a-4, as proposed to be amended.

⁸ See paragraph (b)(8)(xiv) of Rule 17a-4, as proposed to be amended.

⁹ See paragraph (d) of Rule 17a-4, as proposed to be amended.

¹⁰ See paragraph (b)(4) of Rule 17a-4, as proposed to be amended.

¹¹ See Rule 17a-4, as proposed to be amended (paragraph (b)(8)(v) through (viii) (identifying information about swaps); paragraph (b)(8)(xvi) (risk margin calculation); and paragraph (b)(14) (Regulation SBSR information)).

¹² See Rule 17a-4, as proposed to be amended (paragraph (b)(1), cross-referencing paragraph (a)(25) of Rule 17a-3, as proposed to be amended (proposed Rule 18a-3 calculations); paragraph (b)(1), cross-referencing paragraph (a)(28) of Rule 17a-3, as proposed to be amended (unverified transactions); paragraph (b)(1), cross-referencing paragraph (a)(30) of Rule 17a-3, as proposed to be amended (compliance with external business conduct standards); paragraph (b)(15) (documents and notices related to the external business conduct standards); and paragraph (b)(16) (special entity documents)).

¹³ See paragraph (b)(1) of Rule 17a-4, as proposed to be amended (cross-referencing paragraph (a)(26) of Rule 17a-3, as proposed to be amended (compliance with proposed Rule 18a-4 possession or control requirements); paragraph (a)(27) of Rule 17a-3, as proposed to be amended (proposed Rule 18a-4 reserve account computations); and paragraph (a)(29) of Rule 17a-3, as proposed to be amended (political contributions)).

¹⁴ See paragraph (b)(1) of Rule 17a-4, as proposed to be amended (cross-referencing paragraph (a)(24) of Rule 17a-3, as proposed to be amended).

Finally, to aggregate the entire burden of Rule 17a-4 into one information collection (and OMB control number), the Commission is moving the annual burden hours for paragraph (b)(11) of Rule 17a-4 into this information collection.¹⁵

2. Purpose and Use of the Information Collection

The purpose of requiring broker-dealers to maintain the records specified in Rule 17a-4 is to help ensure that examiners and other representatives of the Commission, state securities regulatory authorities, and the self-regulatory organizations (“SROs”) have access to the information and documents necessary to determine whether broker-dealers are in compliance with the Commission’s anti-fraud and anti-manipulation rules, financial responsibility program, and other Commission, SRO, and state laws, rules, and regulations. Without Rule 17a-4, it would be extremely difficult, if not impossible, for the Commission to determine whether a broker-dealer that chose not to preserve records was in compliance with these rules. Such a situation would not be in the public interest and would be detrimental to investors and the financial community as a whole.

3. Consideration Given to Improved Information Technology

Rule 17a-4 specifically allows broker-dealers to use electronic storage media to comply with the recordkeeping requirements under the Exchange Act. If such records are stored electronically, they must be preserved exclusively in a non-rewriteable, non-erasable format.¹⁶ Because it sets minimum standards for the electronic storage media employed, Rule 17a-4 does not limit broker-dealers to using forms of electronic storage which may become obsolete as new technology is developed. The Commission believes that improvements in telecommunications and data processing technology may reduce any burdens that result from Rule 17a-4.

4. Duplication

Not applicable. There is no duplication.

5. Effects on Small Entities

Because the number and complexity of records required to be preserved by Rule 17a-4 vary proportionately with the volume and complexity of the broker-dealer’s business, broker-dealers may choose which media (hard-copy, microfiche, electronic storage, etc.) that is most appropriate for their business. The books and records required under Rule 17a-4 are normally retained by small broker-dealers. Additionally, the Commission does not anticipate that many small broker-dealers will be affected by the SBS Recordkeeping Release’s proposed amendments to Rule 17a-4.

¹⁵ The burden estimate for paragraph (b)(11) of Rule 17a-4 was in a separate information collection (OMB control number 3235-0506) with paragraph (a)(16) of Rule 17a-3. Paragraph (a)(16) of Rule 17a-3 is being moved to the information collection for Rule 17a-3.

¹⁶ See 17 CFR 240.17a-4(f)(2)(ii)(A).

6. Consequences of Not Conducting Collection

Rule 17a-4 is a record preservation rule. Without Rule 17a-4, it would be extremely difficult, if not impossible, for the Commission to determine whether a broker-dealer that chose not to preserve records was in compliance with the Commission's antifraud and anti-manipulation rules, financial responsibility program, and other Commission, SRO, and state laws, rules, and regulations. Such a situation would not be in the public interest and would be detrimental to investors and the financial community as a whole.

7. Inconsistencies with Guidelines in 5 CFR 1320.5(d)(2)

Certain provisions of Rule 17a-4 require respondents to retain records for more than three years. Specifically, paragraph (a) of Rule 17a-4 requires broker-dealers to preserve for a period of not less than six years:

1. Purchase and sales blotters, securities and cash receipts, and disbursement blotters;
2. Ledgers of a broker-dealer's assets and liabilities, income and expense, and capital accounts;
3. Ledgers for customer and non-customer accounts;
4. Stock record;
5. A record of office employees able to explain records to examiners; and
6. A record of persons responsible for establishing policies and procedures designed to ensure that the broker-dealer is compliant with applicable rules and regulations.

After the closing of any customer's account, broker-dealers must preserve for at least six years any account cards or records which relate to the terms and conditions of opening and maintaining the account. Broker-dealers are required to maintain and preserve in an easily accessible place:

1. Employment records of associated persons until at least three years after the employment or other connection has terminated;
2. Processed fingerprint cards and other related information until at least three years after the termination of employment or association;
3. All records required pursuant to paragraph (a)(15) of Rule 17a-3 for the life of the enterprise;
4. All account record information required pursuant to paragraph (a)(17) of Rule 17a-3 until at least six years after the earlier of the date the account was closed or the date on which the information was replaced or updated; and
5. Each compliance, supervisory, and procedures manual, including any updates, modifications, and revisions to the manual, describing the policies and practices of the member, broker-dealer with respect to compliance with applicable laws and rules, and supervision of the activities of each natural person associated with the member, broker-dealer until three years after the termination of the use of the manual.

In addition, paragraph (d) of Rule 17a-4 requires that a broker-dealer maintain specified organizational documents for the life of the enterprise and any successor enterprise.

These extended retention periods are necessary in order to provide regulators with sufficient time to conduct comprehensive inspections and investigations. Due to budget constraints, regulators only examine broker-dealers and office locations periodically. Further, certain documents required to be retained under Rule 17a-4 do not become obsolete (*e.g.*, organizational documents).

None of the proposed amendments to Rule 17a-4 described in the SBS Recordkeeping Release would require respondents to retain any additional records for more than three years (although paragraph (d) would replace the requirement for certain respondents to retain Forms BD and BDW for the life of the enterprise with the requirement to retain Form SBSE-BD and SBSE-W for the life of the enterprise).

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 SBS Recordkeeping 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 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 C.F.R. 1320.11(f).

9. Payment or Gift

No payment or gift is provided to respondents.

10. Confidentiality

The records required by Rule 17a-4 are available only to the examination staffs of the Commission, state regulatory authorities, and SROs. Subject to the provisions of the Freedom of Information Act, 5 U.S.C. § 552, and the Commission’s rules thereunder (17 CFR 200.80(b)(4) (iii)), the Commission generally does not publish or make available information contained in 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.

11. Sensitive Questions

Not applicable. The collection of information will not include Personally Identifiable Information.¹⁷ No information of a sensitive nature is required.

¹⁷ 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.

12. Burden of Information Collection

All registered broker-dealers are subject to Rule 17a-4. Based on FOCUS Report data, there were 4,545 broker-dealers registered with the Commission as of April 1, 2013. Of these 4,545 broker-dealers, 1,508 are estimated to be small business entities. Prior to the SBS Recordkeeping Release, the Commission estimated that the ongoing burden for a registered broker-dealer to comply with the requirements of Rule 17a-4 averaged out to 254 hours per year,¹⁸ although actual recordkeeping requirements vary depending on the broker-dealer's size and complexity. Therefore, the total estimated ongoing hour burden for broker-dealers to comply with Rule 17a-4 before the SBS Recordkeeping Release would be 1,154,430 hours per year.¹⁹

To aggregate the entire burden of Rule 17a-4 into one information collection (and OMB control number), the Commission is moving the annual burden hours for paragraph (b)(11) of Rule 17a-4 into this information collection. Paragraph (b)(11) of Rule 17a-4 requires any broker-dealer that sponsors an internal broker-dealer system to maintain certain records relating to such system for at least three years, the first two years in an easily accessible place.²⁰ The Commission estimates that paragraph (b) (11) of Rule 17a-4 imposes an annual burden of 3 hours per year to maintain the requisite records. The Commission estimates that there are approximately 150 internal broker-dealer systems,²¹ resulting in an annual recordkeeping burden of 450 hours.²²

The proposed amendments to Rule 17a-4 described in the SBS Recordkeeping Release would establish additional recordkeeping requirements applicable to broker-dealers to the extent they engage in security-based swap or swap activities.²³ The Commission expects that many of the additional proposed amendments, which are largely technical in nature, should not impose an

¹⁸ See *Supporting Statement for the Paperwork Reduction Act New Information Collection Submission for Rule 17a-4* (Oct. 12, 2013), available at http://www.reginfo.gov/public/do/PRAViewDocument?ref_nbr=201311-3235-003 (1,196,086 hours / 4,709 broker-dealers as of December 31, 2011 = 254 hours per broker-dealer).

¹⁹ 4,545 broker-dealers as of April 1, 2013 x 254 hours per broker-dealer = 1,154,430 hours.

²⁰ An internal broker-dealer system is any facility that provides a mechanism for collecting, receiving, disseminating, or displaying system orders and facilitating agreement to the basic terms of a purchase or sale of a security between a customer and the sponsor, but excludes a national securities exchange, an exchange exempt from registration based on limited volume, and an alternative trading system. See 17 C.F.R. 240.17a-3(a)(16)(ii)(A). Because an internal broker-dealer system is not included in the definition of an exchange, it is regulated under the broker-dealer regulatory scheme.

²¹ The Commission believes that most over-the-counter ("OTC") market makers maintain an internal broker-dealer system. In 2010, the Commission estimated that there are approximately 150 OTC market makers responsible for more than 1% of the trading volume in an exchange-traded security. See Commission, *Supporting Statement for the Paperwork Reduction Act Information Collection Submission for Rule 602 of Regulation NMS* (Nov. 7, 2013), available at <http://www.reginfo.gov/public/do/DownloadDocument?documentID=431473&version=1>.

²² 3 hours x 150 internal broker-dealer systems = 450 hours.

²³ See *Recordkeeping and Reporting Requirements for Security-Based Swap Dealers, Major Security-Based Swap Participants, and Broker-Dealers; Capital Rule for Certain Security-Based Swap Dealers; Proposed Rules*, Exchange Act Release No. 71958 (Apr. 17, 2014), 79 FR 25193 (May 2, 2014).

hour burden or costs. Additionally, the Commission is proposing certain amendments to Rule 17a-4 that would require broker-dealer SBSDs and broker-dealer MSBSPs to retain certain new records, but would no longer require them to retain other records required to be kept by non-SBSD/MSBSP broker-dealers.²⁴ These proposed amendments are not expected to significantly change the number of documents that the broker-dealer must preserve, but simply the type of document that must be preserved, and therefore are not expected to affect the hour burden or cost of compliance with Rule 17a-4.

Those amendments that are expected to impose an additional one-time initial burden or an additional ongoing burden to the industry are discussed below.

Telephonic Communications: The Commission is proposing to amend paragraph (b)(4) of Rule 17a-4 to require broker-dealer SBSDs and broker-dealer MSBSPs to retain telephone calls that have already been recorded and are related to the broker-dealer SBSD's and broker-dealer MSBSP's security-based swap business.²⁵ Paragraph (b)(4) of Rule 17a-4, as proposed to be amended, only requires the retention of telephonic recordings the broker-dealer SBSD or broker-dealer MSBSP voluntarily chooses to record, so the Commission's burden estimate does not include the cost of recording phone calls. Therefore, the burden imposed by the proposed amendment would be to provide adequate physical space and computer hardware and software for storage. The Commission estimates that the proposed amendment to paragraph (b)(4) of Rule 17a-4 would impose an initial burden of 13 hours per firm in the first year and an ongoing burden of 6 hours per year (including the first year). The Commission estimates that there are 17 respondents,²⁶ resulting in an estimated industry-wide initial burden of 221 hours²⁷ in the first year and an ongoing burden of 102 hours per year (including the first year).²⁸ Over a three year period, the total industry burden would be 527 hours,²⁹ or 176 hours per year when annualized.³⁰

Security-Based Swap Activities: The Commission is proposing amendments to paragraphs (b)(8)(v)-(viii) and proposed paragraphs (b)(8)(xvi) and (b)(14) of Rule 17a-4 that would add three types of records to be preserved by broker-dealers.³¹ Because the burden to create these records is already accounted for in the Paperwork Reduction Act ("PRA") estimates

²⁴ Specifically, broker-dealer SBSDs and broker-dealer MSBSPs would be required to preserve proposed Form SBS instead of Form X-17A-5 (paragraph (b)(8) of Rule 17a-4, as proposed to be amended), possession or control information for security-based swap customers under proposed Rule 18a-4 instead of under Rule 15c3-3 (paragraph (b)(8)(xiv) of Rule 17a-4, as proposed to be amended), and Forms SBSE-BD and SBSE-W instead of Forms BD and BDW (paragraph (d) of Rule 17a-4, as proposed to be amended).

²⁵ See paragraph (b)(4) of Rule 17a-4, as proposed to be amended.

²⁶ 16 broker-dealer SBSDs + 1 broker-dealer MSBSP = 17 respondents.

²⁷ 13 hours x 17 broker-dealer SBSDs and broker-dealer MSBSPs = 221 hours.

²⁸ 6 hours x 17 broker-dealer SBSDs and broker-dealer MSBSPs = 102 hours.

²⁹ (221 hours in first year + 102 hours in first year) + 102 hours in second year + 102 hours in third year = 527 hours.

³⁰ 527 hours / 3 years = 175.67 hours per year or 10.33 hours per respondent per year.

³¹ See Rule 17a-4, as proposed to be amended (paragraph (b)(8)(v) through (viii) (identifying information about swaps); paragraph (b)(8)(xvi) (risk margin calculation); and paragraph (b)(14) (Regulation SBSR information)).

for Rule 17a-3,³² Rule 15c3-1,³³ or in proposed Regulation SBSR,³⁴ the burdens imposed by these new requirements are to ensure there is adequate physical space and computer hardware and software for storage, ensure these records are preserved for the requisite time period, and produce them when requested. The Commission estimates that these proposed amendments to Rule 17a-4 would impose an initial burden of 39 hours per firm in the first year and an ongoing burden of 18 hours per year (including the first year). The Commission estimates that there are 42 respondents,³⁵ resulting in an estimated industry-wide initial burden of 1,638 hours³⁶ in the first year and an ongoing burden of 756 hours per year (including the first year).³⁷ Over a three year period, the total industry burden would be 3,906 hours,³⁸ or 1,302 hours per year when annualized.³⁹

Broker-Dealer SBSDs and Broker-Dealer MSBSPs: The Commission is proposing amendments to paragraph (b)(1) and proposed new paragraphs (b)(15) and (b)(16) of Rule 17a-4 that would add five types of records to be preserved by broker-dealer SBSDs and broker-dealer MSBSPs.⁴⁰ Because the burden to create these records is accounted for in the PRA estimates for Rule 17a-3,⁴¹ or proposed Rules 15Fh-1 through 15Fh-5 and 15Fk-1,⁴² the burdens imposed by these proposed amendments are to ensure there is adequate physical space and computer hardware and software for storage, ensure these records are preserved for the requisite time period, and produce them when requested. The Commission estimates that these proposed

³² See *Supporting Statement for the Paperwork Reduction Act New Information Collection Submission for Rule 17a-3* (Nov. 4, 2013), available at http://www.reginfo.gov/public/do/PRAViewDocument?ref_nbr=201311-3235-002.

³³ See *Supporting Statement for the Paperwork Reduction Act Information Collection Submission for Rule 15c3-1* (Apr. 13, 2014), available at <http://www.reginfo.gov/public/do/DownloadDocument?documentID=475036&version=1>.

³⁴ See *Regulation SBSR – Reporting and Dissemination of Security-Based Swap Information*, Exchange Act Release No. 63346 (Nov. 19, 2010), 75 FR 75208, 75246–75250 (Dec. 2, 2010).

³⁵ 16 broker-dealer SBSDs + 1 broker-dealer MSBSP + 25 non-SBSD/MSBSP broker-dealers engaged in security-based swap activities = 42 respondents.

³⁶ 39 hours x 42 respondents = 1,638 hours.

³⁷ 18 hours x 42 respondents = 756 hours.

³⁸ (1,638 hours in first year + 756 hours in first year) + 756 hours in second year + 756 hours in third year = 3,906 hours.

³⁹ 3,906 hours / 3 years = 1,302 hours per year or 31 hours per respondent per year.

⁴⁰ See Rule 17a-4, as proposed to be amended (paragraph (b)(1), cross-referencing paragraph (a)(25) of Rule 17a-3, as proposed to be amended (proposed Rule 18a-3 calculations); paragraph (b)(1), cross-referencing paragraph (a)(28) of Rule 17a-3, as proposed to be amended (unverified transactions); paragraph (b)(1), cross-referencing paragraph (a)(30) of Rule 17a-3, as proposed to be amended (compliance with external business conduct standards); paragraph (b)(15) (documents and notices related to the external business conduct standards); and paragraph (b)(16) (special entity documents)).

⁴¹ See *Supporting Statement for the Paperwork Reduction Act New Information Collection Submission for Rule 17a-3* (Nov. 4, 2013), available at http://www.reginfo.gov/public/do/PRAViewDocument?ref_nbr=201311-3235-002.

⁴² See *Business Conduct Standards for Security-Based Swap Dealers and Major Security-Based Swap Participants*, Exchange Act Release No. 64766 (June 29, 2011), 76 FR 42396, 42443–42448 (July 18, 2011).

amendments to Rule 17a-4 would impose an initial burden of 65 hours per firm in the first year and an ongoing burden of 30 hours per year (including the first year). The Commission estimates that there are 17 respondents,⁴³ resulting in an estimated industry-wide initial burden of 1,105 hours⁴⁴ in the first year and an ongoing burden of 510 hours per year (including the first year).⁴⁵ Over a three year period, the total industry burden would be 2,635 hours,⁴⁶ or 878 hours per year when annualized.⁴⁷

Broker-Dealer SBSBs Only: The Commission is proposing amendments to paragraph (b)(1) of Rule 17a-4 that would add three types of records to be preserved by broker-dealer SBSBs only.⁴⁸ Because the burden to create these records is accounted for in the PRA estimate for Rule 17a-3, as proposed to be amended, the burdens imposed by these new requirements are to ensure there is adequate physical space and computer hardware and software for storage, ensure these records are preserved for the requisite time period, and produce them when requested. The Commission estimates that these proposed amendments to Rule 17a-4 would impose an initial burden of 39 hours per firm in the first year and an ongoing burden of 18 hours per year (including the first year). The Commission estimates that there are 16 broker-dealer SBSBs, resulting in an estimated industry-wide initial burden of 624 hours⁴⁹ in the first year and an ongoing burden of 288 hours per year (including the first year).⁵⁰ Over a three year period, the total industry burden would be 1,488 hours,⁵¹ or 496 hours per year when annualized.⁵²

ANC Broker-Dealers: The Commission is proposing amendments to paragraph (b)(1) of Rule 17a-4 that would require ANC broker-dealers to preserve certain records relating to the firm's monthly liquidity stress test.⁵³ Because the burden to create this record is accounted for in the PRA estimate for Rule 17a-3, as proposed to be amended, the burdens this new requirement would impose on ANC broker-dealers are to ensure there is adequate physical space and computer hardware and software for storage, ensure these records are preserved for the requisite time period, and produce them when requested. The Commission estimates that the proposed

⁴³ 16 broker-dealer SBSBs + 1 broker-dealer MSBSP = 17 respondents.

⁴⁴ 65 hours x 17 broker-dealer SBSBs and broker-dealer MSBSPs = 1,105 hours.

⁴⁵ 30 hours x 17 broker-dealer SBSBs and broker-dealer MSBSPs = 510 hours.

⁴⁶ (1,105 hours in first year + 510 hours in first year) + 510 hours in second year + 510 hours in third year = 2,635 hours.

⁴⁷ 2,635 hours / 3 years = 878.33 hours per year or 51.67 hours per respondent per year.

⁴⁸ See paragraph (b)(1) of Rule 17a-4, as proposed to be amended (cross-referencing paragraph (a)(26) of Rule 17a-3, as proposed to be amended (compliance with proposed Rule 18a-4 possession or control requirements); paragraph (a)(27) of Rule 17a-3, as proposed to be amended (proposed Rule 18a-4 reserve account computations); and paragraph (a)(29) of Rule 17a-3, as proposed to be amended (political contributions)).

⁴⁹ 39 hours x 16 broker-dealer SBSBs = 624 hours.

⁵⁰ 18 hours x 16 broker-dealer SBSBs = 288 hours.

⁵¹ (624 hours in first year + 288 hours in first year) + 288 hours in second year + 288 hours in third year = 1,488 hours.

⁵² 1,488 hours / 3 years = 496 hours per year or 31 hours per respondent per year.

⁵³ See paragraph (b)(1) of Rule 17a-4, as proposed to be amended (cross-referencing paragraph (a)(24) of Rule 17a-3, as proposed to be amended).

amendment to paragraph (b)(1) of Rule 17a-4 would impose an initial burden of 13 hours per firm in the first year and an ongoing burden of 6 hours per year (including the first year). The Commission estimates that there are 10 ANC broker-dealers, resulting in an estimated industry-wide initial burden of 130 hours⁵⁴ in the first year and an ongoing burden of 60 hours per year (including the first year).⁵⁵ Over a three year period, the total industry burden would be 310 hours,⁵⁶ or 103 hours per year when annualized.⁵⁷

⁵⁴ 13 hours x 10 ANC broker-dealers = 130 hours.

⁵⁵ 6 hours x 10 ANC broker-dealers = 60 hours.

⁵⁶ (130 hours in first year + 60 hours in first year) + 60 hours in second year + 60 hours in third year = 310 hours.

⁵⁷ 310 hours / 3 years = 103.33 hours per year or 10.33 hours per respondent per year.

Therefore, the total annual recordkeeping burden for Rule 17a-4, as proposed to be amended, is estimated to be 1,157,835 hours.⁵⁸

Nature of Information Collection Burden	Type of Burden	Total Number of Respondents	Total Number of Responses Per Year	Initial Burden Per Response Per Year Per Respondent	Ongoing Burden Per Response Per Year Per Respondent	Total Annualized Burden Per Year Per Respondent	Total Annualized Reporting Burden For All Respondents	Small Business Entities Affected
Rule 17a-4 before the SBS Recordkeeping Release	Recordkeeping	4,545	1	0	254	254	1,154,430	1,508
Paragraph (b)(11) of Rule 17a-4	Recordkeeping	150	1	0	3	3	450	0
Telephonic communications: Amendment to paragraph (b)(4)	Recordkeeping	17	1	4.33	6	10.33	175.67	0
Security-based swap activities: Amendments to paragraphs (b)(8)(v)-(viii) and new paragraphs (b)(8)(xvi) and (b)(14)	Recordkeeping	42	1	13	18	31	1,302	0
Broker-dealer SBSDs and broker-dealer MSBSPs: Amendment to paragraph (b)(1) and new paragraphs (b)(15) and (b)(16)	Recordkeeping	17	1	21.67	30	51.67	878.33	0
Broker-dealer SBSDs: Amendment to paragraph (b)(1)	Recordkeeping	16	1	13	18	31	496	0
ANC broker-dealers: Amendment to paragraph (b)(1)	Recordkeeping	10	1	4.33	6	10.33	103.33	0
Total							1,157,835.33	

13. Costs to Respondents

Based on conversations with members of the securities industry and the Commission's experience in the area, the Commission estimates that the average broker-dealer spends approximately \$5,000 each year to store documents required to be retained under Rule 17a-4, as currently written. Costs include the cost of physical space, computer hardware and software, etc., which vary widely depending on the size of the broker-dealer and the type of storage media

⁵⁸ 1,154,430 hours + 450 hours + 175.67 hours + 1,302 hours + 878.33 hours + 496 hours + 103.33 hours = 1,157,835.33 hours.

employed. As noted above in section 12, as of April 1, 2013, there were 4,545 broker-dealers registered with the Commission. Therefore, the Commission estimates that the annual recordkeeping cost burden of Rule 17a-4 as currently written is \$22,725,000.⁵⁹

The Commission expects that many of the proposed amendments to Rule 17a-4 described in the SBS Recordkeeping Release, which are largely technical in nature, should not impose an hour burden or costs. The Commission does not expect that any of the proposed amendments would impose any initial costs. Those amendments that are expected to impose an additional ongoing annual cost to the industry are discussed below.

Telephonic Communications: The Commission estimates that each firm would incur an ongoing annual cost of approximately \$2,000 per firm for server, equipment, and systems development costs. The Commission estimates that there are 17 respondents,⁶⁰ resulting in an estimated industry-wide ongoing annual cost of \$34,000.⁶¹

Security-Based Swap Activities: The Commission estimates that the proposed amendments to paragraphs (b)(8)(v)-(viii) and proposed paragraphs (b)(8)(xvi) and (b)(14) of Rule 17a-4 would impose an ongoing annual cost of approximately \$360 per firm. The Commission estimates that there are 42 respondents,⁶² resulting in an estimated industry-wide ongoing annual cost of \$15,120.⁶³

Broker-Dealer SBSBs and Broker-Dealer MSBSPs: The Commission estimates that the proposed amendments to paragraph (b)(1) and proposed new paragraphs (b)(15) and (b)(16) of Rule 17a-4 would impose ongoing annual cost of approximately \$600 per firm. The Commission estimates that there are 17 respondents,⁶⁴ resulting in an estimated industry-wide ongoing annual cost of \$10,200.⁶⁵

Broker-Dealer SBSBs Only: The Commission estimates that the proposed amendments to paragraph (b)(1) of Rule 17a-4 would impose an ongoing annual cost of approximately \$360 per firm. The Commission estimates that there are 16 broker-dealer SBSBs, resulting in an estimated industry-wide ongoing annual cost of \$5,760.⁶⁶

ANC Broker-Dealers: The Commission estimates that the proposed amendment to paragraph (b)(1) of Rule 17a-4 would impose an ongoing annual cost approximately \$120 per firm. The Commission estimates that there are 10 ANC broker-dealers (all of which are assumed

⁵⁹ 4,545 broker-dealers x \$5,000 per firm = \$22,725,000.

⁶⁰ 16 broker-dealer SBSBs + 1 broker-dealer MSBSP = 17 respondents.

⁶¹ \$2,000 per firm x 17 respondents = \$34,000.

⁶² 16 broker-dealer SBSBs + 1 broker-dealer MSBSP + 25 non-SBSD/MSBSP broker-dealers engaged in security-based swap activities = 42 respondents.

⁶³ \$360 per firm x 42 respondents = \$15,120.

⁶⁴ 16 broker-dealer SBSBs + 1 broker-dealer MSBSP = 17 respondents.

⁶⁵ \$600 per firm x 17 respondents = \$10,200.

⁶⁶ \$360 per firm x 16 broker-dealer SBSBs = \$5,760.

to be dually registered as SBSDs), resulting in an estimated industry-wide ongoing annual cost of \$1,200.⁶⁷

Therefore, the total annual recordkeeping cost of Rule 17a-4, as proposed to be amended, is estimated to be \$22,791,280.⁶⁸

Nature of Information Collection Burden	Type of Burden	Total Number of Respondents	Total Number of Responses Per Year	Initial Cost Per Response Per Year Per Respondent	Ongoing Cost Per Response Per Year Per Respondent	Total Annualized Cost Per Year Per Respondent	Total Annualized Reporting Cost For All Respondents	Small Business Entities Affected
Rule 17a-4 before the SBS Recordkeeping Release	Recordkeeping	4,545	1	\$0	\$5,000	\$5,000	\$22,725,000	1,508
Telephonic communications: Amendment to paragraph (b)(4)	Recordkeeping	17	1	\$0	\$2,000	\$2,000	\$34,000	0
Security-based swap activities: Amendments to paragraphs (b)(8)(v)-(viii) and new paragraphs (b)(8)(xvi) and (b)(14)	Recordkeeping	42	1	\$0	\$360	\$360	\$15,120	0
Broker-dealer SBSDs and broker-dealer MSBSPs: Amendment to paragraph (b)(1) and new paragraphs (b)(15) and (b)(16)	Recordkeeping	17	1	\$0	\$600	\$600	\$10,200	0
Broker-dealer SBSDs: Amendment to paragraph (b)(1)	Recordkeeping	16	1	\$0	\$360	\$360	\$5,760	0
ANC broker-dealers: Amendment to paragraph (b)(1)	Recordkeeping	10	1	\$0	\$120	\$120	\$1,200	0
Total							\$22,791,280	

14. Cost to Federal Government

The federal government does not incur a cost for this collection of information since it relates to a recordkeeping burden for the respondents.

⁶⁷ \$120 per firm x 10 ANC broker-dealers = \$1,200.

⁶⁸ \$22,725,000 + \$34,000 + \$15,120 + \$10,200 + \$5,760 + \$1,200 = \$22,791,280.

15. Changes in Burden

The annual ongoing hour burden of 1,157,835 hours reflects a 38,566 hour decrease over the current OMB inventory of 1,196,401 hours. This change incorporates a decrease of 269 in the number of respondents, from 4,814 to 4,545, an increase in the number of estimated internal broker-dealer systems from 130 to 150, and an additional 2,955 hours⁶⁹ attributable to the proposed amendments to Rule 17a-4 described in the SBS Recordkeeping Release.

The ongoing annual cost burden of \$22,791,280 is \$753,720 lower than the current OMB inventory of \$23,545,000. This decreased cost estimate reflects a decrease of 269 in the number of respondents, tempered by an additional \$66,280⁷⁰ attributable to the amendments to Rule 17a-4 described in the SBS Recordkeeping Release.

16. Information Collection Planned for Statistical Purposes

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

17. OMB Expiration Date Display Approval

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

18. Exceptions to Certification for Paperwork Reduction Act Submissions

This collection complies with the requirements in 5 CFR 1320.9.

B. COLLECTIONS OF INFORMATION EMPLOYING STATISTICAL METHODS

This collection does not involve statistical methods.

⁶⁹ 176 hours + 1,302 hours + 878 hours + 496 hours + 103 hours = 2,955 hours.

⁷⁰ \$34,000 + \$15,120 + \$10,200 + \$5,760 + \$1,200 = \$66,280.