

SUPPORTING STATEMENT
for the Paperwork Reduction Act Information Collection Submission for
Rule 15c3-1 – Net Capital Requirements for Brokers or Dealers

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

Rule 15c3-1¹ under the Securities Exchange Act of 1934 (“Exchange Act”)² is intended to ensure that broker-dealers registered with the Securities and Exchange Commission (“Commission”) at all times have sufficient liquid capital to protect the assets of customers and to meet their responsibilities to other broker-dealers.³ Rule 15c3-1 generally defines the term “net capital” as a broker-dealer’s net worth (assets minus liabilities), plus certain subordinated liabilities, less certain assets that are not readily convertible into cash (e.g., fixed assets), and less a percentage (haircut) of certain other liquid assets (e.g., securities).⁴

Rule 15c3-1 is an integral part of the Commission’s financial responsibility program for broker-dealers. In particular, Rule 15c3-1 facilitates the monitoring of the financial condition of broker-dealers by the Commission and the broker-dealer’s designated examining authority (“DEA”). If the information were not required to be collected, the Commission and the DEAs would not be able to monitor the financial condition of broker-dealers, exposing their customers and counterparties to increased risk.

In accordance with Section 764 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the “Dodd-Frank Act”), the Commission proposed to amend Rule 15c3-1 to set forth net capital requirements for broker-dealers that also register as nonbank security-based swap dealers (“broker-dealer SBSDs”), along with other changes that would apply to broker-dealers, including a special class of broker-dealer that uses internal models to compute net capital (“ANC broker-dealers”).⁵ This supporting statement describes the impact of the proposed amendments in the SBSB Proposing Release on the current PRA collection for Rule 15c3-1.

¹ 17 CFR 240.15c3-1.

² 15 U.S.C. § 78 et seq.

³ See Net Capital Rule, Exchange Act Release No. 39455 (Dec. 17, 1997), 62 FR 67996 (Dec. 30, 1997).

⁴ See 17 CFR 240.15c3-1(c)(2).

⁵ See Capital, Margin, and Segregation Requirements for Security-Based Swap Dealers and Major Security-Based Swap Participants and Capital Requirements for Broker-Dealers, Exchange Act Release No. 68071 (Oct. 18, 2012), 77 FR 70213 (Nov. 23, 2012) (“SBSB Proposing Release”).

2. Purpose and Use of the Information Collection

Rule 15c3-1 is intended to help ensure that broker-dealers maintain at all times sufficient liquid resources to meet all liabilities, particularly the claims of customers, by requiring that broker-dealers maintain a minimum amount of net capital. A broker-dealer's minimum net capital requirement is the greater of: (1) a fixed minimum amount set forth in Rule 15c3-1 based on the types of business that the broker-dealer conducts;⁶ or (2) a financial ratio.⁷ Exchange Act Section 15(c)(3) and Rule 15c3-1 promulgated thereunder prohibit a broker-dealer from effecting transactions in securities while not in compliance with its minimum net capital requirement.

Various provisions of Rule 15c3-1 require that broker-dealers provide written notification to the Commission and/or their DEA under certain circumstances. For example, a broker-dealer carrying the account of an options market maker must file a notice with the Commission and the DEA of both the carrying firm and the market maker prior to effecting transactions in the account.⁸ In addition, the carrying firm must notify the Commission and the appropriate DEA if a market maker fails to deposit the required equity with the carrying broker-dealer relating to the market maker's account within the prescribed time period or if certain deductions and other amounts relating to the carrying firm's market maker accounts computed in accordance with Rule 15c3-1 exceeds 1,000% of the carrying broker-dealer's net capital.⁹ In addition, a broker-dealer electing to compute its net capital using the alternative method under paragraph (a)(1)(ii) of Rule 15c3-1 must notify its DEA of the election in writing, and thereafter must continue to compute its net capital in this manner unless a change is approved upon application to the Commission.¹⁰

There are also certain recordkeeping requirements under Rule 15c3-1. For example, a broker-dealer must keep a record of who is acting as an agent in a securities loan transaction and records with respect to obtaining DEA approval prior to withdrawing capital within one year of a contribution.¹¹ These records help the Commission and its staff, as well as DEAs, facilitate the monitoring of the financial condition of broker-dealers.

Appendix C to Rule 15c3-1 requires broker-dealers that consolidate their financial statements with a subsidiary or affiliate, under certain circumstances, to submit to their DEA an opinion of counsel.¹² The opinion of counsel must state, among other things, that the broker-dealer may cause that portion of the net assets of a subsidiary or affiliate related to its ownership interest in the entity to be distributed to the broker-dealer within 30 calendar days.¹³

⁶ See 17 CFR 240.15c3-1(a)(2)–(9).

⁷ See 17 CFR 240.15c3-1(a)(1)(i)–(iii).

⁸ See 17 CFR 240.15c3-1(a)(6)(vi).

⁹ See 17 CFR 240.15c3-1(a)(6)(iv)(B); 17 CFR 240.15c3-1(a)(6)(v).

¹⁰ See 17 CFR 240.15c3-1(a)(1)(ii).

¹¹ See 17 CFR 240.15c3-1(c)(2)(iv)(B); 17 CFR 240.15c3-1(c)(2)(i)(G)(2).

¹² See 17 CFR 240.15c3-1c(b)(1).

¹³ See 17 CFR 240.15c3-1c(b)(2).

Appendix E to Rule 15c3-1 provides an alternative method for determining certain net capital charges for certain broker-dealers (“alternative net capital firms” or “ANC firms”).¹⁴ Appendix G to Rule 15c3-1 requires the holding company of an ANC firm that has a principal regulator to file certain periodic reports with the Commission, preserve certain records, and notify the Commission of certain events. The notification provisions of Appendix G are designed to give the Commission advance warning of situations that may pose material financial and operational risks to the broker-dealer and its holding company. These provisions are integral to Commission supervision of broker-dealers that use Appendix E.

Under proposed amendments to Rule 15c3-1 in the SBSB Proposing Release, ANC broker-dealers would be required to perform a liquidity stress test at least monthly and, based on the results of that test, maintain liquidity reserves to address funding needs. In addition, if such ANC broker-dealer is part of a consolidated entity using liquidity stress tests, the ANC broker-dealer would need to justify and document any differences in the assumptions used in their liquidity stress tests from those used in the liquidity stress tests of the consolidated entity. ANC broker-dealers also would be required to establish a written contingency funding plan. Broker-dealer SBSBs that do not use models would be required to comply with certain requirements of Rule 15c3-4. Finally, under proposed paragraph (c)(2)(vi)(O)(1)(iii) of Rule 15c3-1, broker-dealer SBSBs would be required to use an industry sector classification system that is documented and reasonable in terms of grouping types of companies with similar business activities and risk characteristics, used for credit default swap reference names for purposes of calculating “haircuts” on security-based swaps. These proposed amendments would be integral parts of the Commission’s financial responsibility program.

3. Consideration Given to Information Technology

The method of computing net capital varies by size and complexity of a broker-dealer. Most large broker-dealers subject to Rule 15c3-1 utilize automated systems for computing their net capital and minimum requirements. Smaller broker-dealers with simple balance sheets may compute their net capital on a manual basis.

4. Duplication

The Commission is not aware of duplication of this information.

5. Effects on Small Entities

Small entities may be affected to the extent they are required to maintain a minimum amount of net capital under Rule 15c3-1. However, there are different requirements for small entities subject to Rule 15c3-1. Most of these entities are not affected by the information collection provisions of Rule 15c3-1.

¹⁴ See 17 CFR 240.15c3-1e.

6. Consequences of not Conducting Collection

If the required activities were not required to be collected, or were required to be conducted less frequently, the Commission and the DEAs would not be able to monitor the financial condition of broker-dealers, exposing their customers and counterparties to increased risk and lessening the protection afforded to the public.

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 described above and associated paperwork burdens.¹⁵ A copy of the SBSB Proposing 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. Comments received on the SBSB Proposing Release are 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 payments or gifts have been provided to respondents.

10. Confidentiality

The Commission regards information obtained pursuant to the filings and notices required by Rule 15c3-1 to be confidential. Such information is of a financial nature and generally is not disclosed to the public. The statutory basis for the Commission’s refusal to disclose such information to the public is the exemption contained in section (b)(4) of the Freedom of Information Act, 5 U.S.C. 552, which provides that the requirement of public dissemination does not apply to commercial or financial information which is privileged or confidential.

11. Sensitive Questions

Not applicable. The collection of information will not include Personally Identifiable Information.¹⁶

¹⁵ See SBSB Proposing Release, *supra* note 5.

¹⁶ 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

12. Burden of Information Collection

Current Rule 15c3-1 Collection of Information

Based on experience with the industry, the Commission estimates that broker-dealers annually file approximately 902 notices under Rule 15c3-1 and that a broker-dealer will spend approximately 30 minutes preparing and filing these notices. Therefore, the Commission estimates a total annual reporting burden of 451 hours.¹⁷

Paragraph (c)(2)(iv)(B) of Rule 15c3-1 requires a broker-dealer to make disclosures to, and obtain certain agreements from, securities lending principals in situations where the firm participates in the settlement of a securities lending transaction but wants to be deemed an agent for purposes of Rule 15c3-1. The Commission, in recognition of standard stock loan agreements, designed the amendment to accommodate the continued use of these industry model agreements by incorporating their use into the rule's requirements. However, the Commission estimates that 5% of the 122 broker-dealers, or approximately 6 firms, engaged in securities lending will need to modify their standard agreements. The Commission estimates each of these firms will spend approximately 20 hours of employee resources updating their standard agreement template. Therefore, the Commission estimates that the total one-time recordkeeping burden will be approximately 120 hours.¹⁸

Paragraph (c)(2)(i)(G)(2) of Rule 15c3-1 requires that a broker-dealer treat as a liability any capital contribution that is intended to be withdrawn within one year of its contribution. The amendment also includes the presumption that capital withdrawn within one year of contribution is presumed to have been intended to be withdrawn within one year, unless the broker-dealer receives permission in writing for the withdrawal from its DEA. The Commission estimates that 90 broker-dealers will seek to obtain permission from their DEA in writing to withdraw capital within one year of its contribution, and that it will take a broker-dealer approximately one hour to prepare and submit the request to its DEA to withdraw capital. Therefore, the Commission estimates that the total annual reporting burden will be approximately 90 hours.¹⁹

With respect to Appendices E and G of Rule 15c3-1, the following estimates are based on the assumption that nine broker-dealers will ultimately compute deductions for market risk under Appendix E. Currently, there are six ANC firms, and the Commission expects that three additional firms will apply to compute deductions for market risk under Appendix E.²⁰ The

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.

¹⁷ 902 notices x (30 minutes / 60 minutes) = 451 hours.

¹⁸ 6 broker-dealers x 20 hours per firm = 120 hours. The three-year annualized number for this one time burden is 40 hours (120 hours / 3 years = 40), or 6.67 hours per firm.

¹⁹ 90 broker-dealers x 1 hour = 90 hours.

²⁰ The Commission expects that these three firms will register as ANC firms over the next three years. However, until their registrations are complete, these firms will not be subject to the annual burdens discussed throughout Item 12. Therefore, the Commission has taken this fact into consideration in its calculations.

Commission estimates that each broker-dealer that applies would incur a one-time recordkeeping burden of approximately 1,000 hours to create and compile the various documents to be included with the application and to work through the application process, with an aggregate one-time recordkeeping burden of 3,000 hours or an annualized burden of 1,000 per year.²¹

The Commission estimates that an ANC firm using Appendices E and G to Rule 15c3-1 spends approximately 5,600 hours per year to review and update the models it uses to assess market and credit risk and approximately 160 hours each quarter, or approximately 640 hours per year, to back test the models. Consequently, the Commission estimates that the total annual recordkeeping burden associated with reviewing and back testing mathematical models for the six ANC firms will be approximately 37,440 hours²² and approximately 12,480 hours²³ for the three broker-dealers expected to become ANC firms, resulting in an aggregate annual recordkeeping burden of 49,920 hours.²⁴

The Commission estimates that the average amount of time necessary to prepare and file the monthly reports required by Appendix G will be approximately eight hours per month, or 96 hours per year. The Commission estimates that the average amount of time necessary to prepare and file the quarterly reports will be approximately 16 hours per quarter, or 64 hours per year. The Commission estimates that the average amount of time necessary to prepare and file the annual audit reports will be approximately 200 hours per year. Consequently, the Commission estimates that the total annual reporting burden of Appendix G for the six ANC firms will be approximately 2,160 hours,²⁵ and the total annual reporting burden for the three broker-dealers expected to become ANC firms will be approximately 720 hours,²⁶ resulting in an aggregate annual reporting burden of 2,880 hours.²⁷

The Commission expects that any additional burden associated with the requirements of Appendix G relating to preserving records will be minimal because a prudent firm that manages risk on a group-wide basis will make and preserve these records in the ordinary course of its business. The Commission estimates that the average one-time burden of making and preserving these records will be approximately 40 hours and that the average annual burden will be approximately 290 hours. Consequently, the Commission estimates that the annual recordkeeping burden for the six ANC firms will be approximately 1,740 hours.²⁸ The Commission estimates that the total one-time and annual recordkeeping burden for the three

²¹ The three-year annualized number for this one-time burden is 1,000 (3,000 hours / 3 years = 1,000 hours), or 333.33 per firm.

²² (5,600 hours + 640 hours) x 6 broker-dealers = 37,440 hours.

²³ (Y1: 0 hours) + (Y2: 5,600 hours + 640 hours = 6,240 hours) + (Y3: 5,600 hours + 640 hours = 6,240 hours) = 12,480 hours / 3 years = 4,160 x 3 broker-dealers = 12,480 hours.

²⁴ 37,440 hours + 12,480 hours = 49,920 hours.

²⁵ (96 hours + 64 hours + 200 hours) x 6 broker-dealers = 2,160 hours.

²⁶ (Y1: 0 hours) + (Y2: 96 hours + 64 hours + 200 hours = 360 hours) + (Y3: 96 hours + 64 hours + 200 hours = 360 hours) = 720 hours / 3 years = 240 hours x 3 broker-dealers = 720 hours.

²⁷ 2,160 hours + 720 hours = 2,880 hours.

²⁸ 290 hours x 6 broker-dealers = 1,740 hours.

broker-dealers expected to become ANC firms will be approximately 120 hours²⁹ and 580 hours,³⁰ respectively. Therefore, Commission estimates an aggregate annualized recordkeeping burden of approximately 2,360 hours.³¹

The Commission estimates that ANC firms will spend a total of approximately one hour per year to comply with the notification provisions of Appendix G, resulting in a total annual reporting burden of 6 hours³² for the six ANC firms and 2 hours³³ for the three broker-dealers expected to become ANC firms, resulting in an aggregate reporting burden of 8 hours.³⁴

The Commission also estimates that each broker-dealer will spend approximately 250 hours per year reviewing and updating its risk management control system, resulting in an aggregate annual recordkeeping burden of 1,500 for the six ANC firms³⁵ and 500 for the three broker-dealers expected to become ANC firms³⁶ totaling 2,000 hours.³⁷

Therefore, the total annual hour burden for Appendix E and G to Rule 15c3-1 is 58,168 hours.³⁸

A broker-dealer is required to take a 15 percent haircut on its proprietary positions in commercial paper, nonconvertible debt, and preferred stock unless the broker-dealer establishes, documents, maintains, and enforces written policies and procedures for determining creditworthiness.³⁹ The staff estimates that approximately 434 broker-dealers would be affected by the requirement that a broker-dealer establish, document, maintain, and enforce policies and procedures that are reasonably designed to determine whether a security or a money market instrument has a minimal amount of credit risk.⁴⁰ If the security or money market instrument has

²⁹ 40 hours x 3 broker-dealers = 120 hours. The three-year annualized number for this one-time burden is 40 (120 hours / 3 years = 40 hours).

³⁰ (Y1: 0 hours) + (Y2: 290 hours) + (Y3: 290 hours) = 580 hours / 3 years = 193.33 hours x 3 broker-dealers = 580 hours.

³¹ 1,740 hours (six ANC firms) + 40 hours (3 broker-dealers expected to become ANC firms) + 580 hours (3 broker-dealers expected to become ANC firms) = 2,360 hours.

³² 1 hour x 6 broker-dealers = 6 hours.

³³ (Y1: 0 hours) + (Y2: 1 hour) + (Y3: 1 hour) = 2 hours / 3 years = .67 hours x 3 broker-dealers = 2 hours.

³⁴ 6 hours (six ANC firms) + 2 hours (3 broker-dealers expected to become ANC firms) = 8 hours.

³⁵ 250 hours x 6 broker-dealers = 1,500 hours.

³⁶ (Y1: 0 hours) + (Y2: 250 hours) + (Y3: 250 hours) = 500 hours / 3 years = 166.67 hours x 3 broker-dealers = 500 hours.

³⁷ 1,500 hours (six ANC firms) + 500 hours (3 broker-dealers expected to become ANC firms) = 2,000 hours.

³⁸ 1,000 + 49,920 + 2,880 + 2,360 + 8 + 2,000 = 58,168 hours.

³⁹ Removal of Certain References to Credit Ratings under the Securities Exchange Act of 1934, Exchange Act Release No. 71194 (Dec. 27, 2013), 79 FR 1522 (Jan. 8, 2014).

⁴⁰ The number of 434 broker-dealers was obtained by reviewing broker-dealer Financial and Operational Combined Single (or "FOCUS") Reports for 2012 year-end and then calculating how many firms reported holding proprietary debt positions. For FOCUS Part II filers, the balances examined were "Bankers Acceptances" and "Corporate Debt." For FOCUS CSE filers, the balances examined were: "Money

a minimal amount of credit risk, the broker-dealer can take haircuts on the security or money market instrument pursuant to paragraphs (c)(2)(vi)(E), (c)(2)(vi)(F)(1), (c)(2)(vi)(F)(2) and (c)(2)(vi)(H) of Rule 15c3-1. The staff estimates that, on average, broker-dealers will spend 25 hours developing policies and procedures or revising their current policies and procedures for evaluating creditworthiness for the purposes of Rule 15c3-1, resulting in an aggregate one-time recordkeeping burden of 10,850 hours.⁴¹ This estimate is based on the Commission's belief that many of these broker-dealers already have their own criteria in place for evaluating creditworthiness and, therefore, most broker-dealers will only be revising their current policies and procedures for evaluating creditworthiness.

The staff also estimates that, on average, each broker-dealer will spend an additional 10 hours a year reviewing and adjusting its own standards for evaluating creditworthiness. Therefore, the Commission estimates that the total annualized recordkeeping burden to the industry will be approximately 4,340 annual hours.⁴² Consequently, the Commission estimates that the total annual burden associated with evaluating creditworthiness under Rule 15c3-1 will be approximately 7,957 hours.⁴³

Therefore, the total annual hour burden for the current PRA collection under Rule 15c3-1, before the SBSB Proposing Release, is 66,706 hours.⁴⁴

SBSB Proposing Release

The proposed amendments to Rule 15c3-1 described in the SBSB Proposing Release would set forth net capital requirements for broker-dealer SBSBs, along with other changes that

Market Instruments," "Private Label Mortgage Backed Securities," "Other Asset Backed Securities," and "Corporate Debt." For Part IIA filers, the balance examined was "Debt Securities." Broker-dealers that hold preferred stock also may hold positions in debt securities. However, because preferred stock is not a separate line item on the FOCUS Report, broker-dealers that hold only preferred stock and no other debt securities are not included in this estimate.

⁴¹ 434 broker-dealers x 25 hours = 10,850 hours. For purposes of this supporting statement, this one-time burden annualized over the three-year approval period is 3,617 hours (10,850 / 3 = 3,616.67), with an average hour burden per broker-dealer of 8 hours (3,617 / 434 broker-dealers = 8.33).

⁴² 434 broker-dealers x 10 hours = 4,340 hours. The Commission estimates that broker-dealers will use a controller to do this work. The Commission estimates the per-firm costs of the controller to be \$10,475 initially and \$4,190 on an annual basis, for an aggregate industry cost of \$4,546,150 initially and \$1,818,460 on an annual basis. This is an internal labor cost. For purposes of this analysis, the Commission is using salary data from the SIFMA's Report on Management and Professional Earnings in the Securities Industry 2012, which provides base salary and bonus information for middle management and professional positions within the securities industry, as modified by Commission staff to account for an 1800-hour work-year and multiplied by 5.35 to account for bonuses, firm size, employee benefits and overhead. The Commission believes that the reviews required by the proposed amendments would be performed by the controller at an average rate \$419 per hour. \$419 x 25 = \$10,475 x 434 = \$4,546,150; \$419 x 10 = \$4,190 x 434 = \$1,818,460.

⁴³ See supra note 40. 3,617 hours + 4,340 hours = 7,957 hours.

⁴⁴ 451 + 40 + 90 + 58,168 = 58,749; 58,749 hours + 7,957 hours = 66,706 hours.

would apply to broker-dealers, including ANC broker-dealers.⁴⁵ These proposed amendments would impose additional one-time hour burdens or additional annual hour burdens to the industry and are discussed below.

Proposing Liquidity Stress Test. With respect to information collections relating to liquidity stress tests, the Commission staff estimates that the proposed requirements would result in a one-time burden to ANC broker-dealers as they would need to develop models for the liquidity stress test, document the results of the test to provide to senior management, document differences in the assumptions used in the liquidity stress test of the firm from those used in a consolidated entity of which the firm is a part, and develop a written contingency funding plan. Based on experience supervising ANC broker-dealers, the Commission staff estimates that the 9 ANC broker-dealers⁴⁶ would spend an average of approximately 200 hours⁴⁷ to comply with these requirements, resulting in an industry-wide one-time hour burden of approximately 1,800 recordkeeping hours.⁴⁸ The Commission staff believes that these hours would be evenly split between an in-house attorney and a risk management specialist, at a rate of \$378 and \$259 per hour, respectively.⁴⁹ This would result in a one-time startup cost across the industry of \$191,100, annualized over three years.⁵⁰

The Commission staff further estimates that the 9 ANC broker-dealers would each spend an average of approximately 50 hours per month testing and documenting the results of its liquidity stress test and reviewing its contingency funding plan, resulting in a total annual hour burden of approximately 5,400 recordkeeping hours.⁵¹ The staff estimates that these hours would be evenly split between a senior compliance examiner and a risk management specialist,

⁴⁵ See supra note 5. The collection of information for proposed new Rule 18a-1 is contained in a separate supporting statement.

⁴⁶ The following estimates are based on the assumption that nine broker-dealers will ultimately compute deductions for market risk under Appendix E to Rule 15c3-1. The SBSB Proposing Release (see note 5) contained an estimate of 10 ANC broker-dealers. SBSB Proposing Release, 77 FR at 70294. The most current estimate, however, is 9 ANC broker-dealers based on the current collection of information. Therefore, the hour burdens with respect to the ANC broker-dealers have been revised in this supporting statement to reflect the revised estimate.

⁴⁷ 200 hours represents the Commission staff's estimate of the average hour burden of all firms, including both non-broker dealer firms electing to use internal models for the first time. The Commission's experience with ANC broker-dealers is that they already have contingent funding plans in place at the parent level, and so they would have a smaller burden to adapt that plan to the broker-dealer entity under Rule 15c3-1. Therefore, as respondents to this Rule 15c3-1 information collection are limited to ANC broker-dealers, the hour burden estimate provided here is on the high end.

⁴⁸ 9 ANC broker-dealers x 200 hours = 1,800 hours. For purposes of this supporting statement, this one-time burden annualized over the three-year approval period is 600 hours (1,800 / 3 = 600), with an average hour burden per broker-dealer of 66.666 (600/9 = 66.67).

⁴⁹ The hourly rates for internal professionals used in the SBSB Proposing Release are taken from SIFMA's Management and Professional Earnings in the Securities Industry 2011.

⁵⁰ $[(\$378 \times 900 \text{ hours}) + (\$259 \times 900 \text{ hours})] / 3 \text{ years} = \$340,200 + 233,100 = \$573,300 / 3 = \$191,100.$

⁵¹ 9 ANC broker-dealers x 50 hours/month x 12 months = 5,400 hours.

at a rate of \$230 and \$259 per hour, respectively. This would result in an annual cost across the industry of \$1,320,300.⁵²

Risk Management Control System. Proposed amendments to Rule 15c3-1 would require that all broker-dealer SBSBs comply with Rule 15c3-4.⁵³ Rule 15c3-4 requires OTC derivatives dealers and firms subject to its provisions, to establish, document, and maintain a system of internal risk management controls to assist the firm in managing the risks associated with business activities, including market, credit, leverage, liquidity, legal, and operational risks. Currently, there are 9 ANC broker-dealers expected to register as broker-dealer SBSBs, and 6 additional broker-dealers are expected to register as SBSBs that do not use models. Because ANC broker-dealers are currently subject to Rule 15c3-4, only those 6 broker-dealer SBSBs not expected to use internal models to compute net capital would have additional costs associated with complying with Rule 15c3-4. The Commission staff estimates that each of these firms would spend 2,000 hours to establish a risk management control system, and 250 hours per year to review and update that system.⁵⁴ This results in an estimated industry-wide one-time hour burden of approximately 12,000 recordkeeping hours,⁵⁵ and an estimated industry-wide annual hour burden of approximately 1,500 recordkeeping hours per year.⁵⁶

The staff believes that the one-time hour burden would be evenly split between an in-house attorney, a risk management specialist, and an operations specialist, at rates of \$378, \$259, and \$117 per hour, respectively. This would result in a one-time startup cost of \$1,005,333 across the industry, annualized over three years.⁵⁷ The staff further believes that the annual hour burden would be performed by a risk management specialist. This would result in an annual cost across the industry of \$388,500.⁵⁸

Industry Sector Classification. Finally, with respect to documenting an industry sector classification system with respect to credit default swap haircuts under proposed paragraph (c)(2)(vi)(O)(I)(iii) of Rule 15c3-1, the Commission staff expects that 6 broker-dealer SBSBs not using models would each spend 1 hour per year complying with this requirement,⁵⁹ for an industry-wide total annual hour burden of 6 hours.⁶⁰ These hours are recordkeeping hours.

⁵² $(\$230 \times 2,700 \text{ hours}) + (\$259 \times 2,700 \text{ hours}) = \$621,000 + \$699,300 = \$1,320,300.$

⁵³ See proposed paragraph (a)(10)(ii) of Rule 15c3-1.

⁵⁴ The one-time estimate of 2,000 hours and the annual estimate of 250 hours is based on the estimates for OTC derivatives dealer burdens to implement the same controls under Rule 15c3-1. See OTC Derivatives Dealers, 62 FR 67940.

⁵⁵ 6 non-model broker-dealer SBSBs x 2,000 hours = 12,000 hours. For purposes of this supporting statement, this one-time burden annualized over the three-year approval period is 4,000 hours (12,000 / 3 = 4,000), with an average hour burden per broker-dealer of 666.67 hours (4,000 / 6 broker-dealers = 666.67).

⁵⁶ 6 non-model broker-dealer SBSBs x 250 hours/year = 1,500 hours/year.

⁵⁷ $[(\$378 \times 4,000 \text{ hours}) + (\$259 \times 4,000 \text{ hours}) + (\$117 \times 4,000 \text{ hour})] / 3 \text{ years} = \$1,005,333.$

⁵⁸ $\$259 \times 1,500 \text{ hours} = \$388,500.$

⁵⁹ The Commission staff expects that these firms would utilize third party systems, resulting in reduced hours and costs.

⁶⁰ 6 non-model broker-dealer SBSBs x 1 hour/year = 6 hours/year.

The staff believes that the annual hour burden would be performed by an internal compliance attorney, at a rate of \$322 per hour. This would result in an annual cost across the industry of \$1,932.⁶¹

Total Industry Annual Hour Burden with SBSD Proposing Release

Thus, the total annual industry hour burden attributable to the SBSD Proposing Release would be 11,506 hours per year.⁶² Therefore, the resulting estimated total yearly ongoing hour burden to comply with Rule 15c3-1, as amended by the SBSD Proposing Release, would be approximately **78,212 hours**.⁶³

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 15c3-1: Notices	Reporting	902	1	0	0.5	0.5	451	290
Paragraph (c)(2)(iv)(B): Disclosures and Agreements	Recordkeeping	6	1	6.67	0	6.67	40	0
Paragraph (c)(2)(i)(G)(2): Capital Withdrawal Liability	Reporting	90	1	0	1	1	90	29
Appendix E computations for ANC firms	Recordkeeping	3	1	333.33	0	333.33	1,000	0
Reviewing and back testing models for existing ANC firms	Recordkeeping	6	1	0	6,240	6,240	37,440	0
Reviewing and back testing models for new ANC firms	Recordkeeping	3	1	0	4,160	4,160	12,480	0
Appendix G monthly reports for existing ANC firms	Reporting	6	12	0	8	96	576	0
Appendix G quarterly reports for existing ANC firms	Reporting	6	4	0	16	64	384	0
Appendix G annual reports for existing ANC firms	Reporting	6	1	0	200	200	1,200	0
Appendix G monthly reports for new ANC firms	Reporting	3	12	0	5.33	64	192	0
Appendix G quarterly reports for new ANC firms	Reporting	3	4	0	10.67	42.67	128	0
Appendix G annual reports for new ANC firms	Reporting	3	1	0	133.33	133.33	400	0
Appendix G recordkeeping for existing ANC firms	Recordkeeping	6	1	0	290	290	1,740	0
Appendix G recordkeeping for new ANC firms	Recordkeeping	3	1	13.33	193.33	206.67	620	0
Appendix G notification provision for existing ANC firms	Reporting	6	1	0	1	1	6	0
Appendix G notification provision for new ANC firms	Reporting	3	1	0	0.67	0.67	2	0
Appendix G updating risk management profile for existing ANC firms	Recordkeeping	6	1	0	250	250	1,500	0
Appendix G updating risk management profile for existing ANC firms	Recordkeeping	3	1	0	166.67	166.67	500	0
Creating procedures to determine creditworthiness to avoid 15% haircut	Recordkeeping	434	1	8.33	10	18.33	7,956.67	139
NEW: Proposing liquidity stress test	Recordkeeping	9	12	5.56	50	666.67	6,000	0
NEW: Rule 15c3-4: Risk management control system	Recordkeeping	6	1	666.67	250	916.67	5,500	0
NEW: 15c3-1(c)(2)(vi)(O)(l)(iii): Industry sector classification	Recordkeeping	6	1	0	1	1	6	0

⁶¹ \$322 x 6 hours = \$1,932.

⁶² 600 + 5,400 + 4,000 + 1,500 + 6 = 11,506 hours.

⁶³ 66,706 + 11,506 = 78,212 hours.

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
Totals							78,212	

13. Costs to Respondents

Approximately 81 broker-dealers file consolidated financial reports, of which approximately 20 obtain an opinion of counsel under Appendix C of Rule 15c3-1. The Commission estimates that the approximate cost to broker-dealers to obtain an opinion of counsel to file the consolidated financial reports as required under Appendix C of Rule 15c3-1 would be \$8,000. This figure is based on an estimate of 20 hours per opinion for an outside counsel at \$400 per hour.⁶⁴ The total costs for all respondents would be \$160,000.⁶⁵

The staff does not anticipate that the proposed amendments to Rule 15c3-1 from the SBSB Proposing Release would impose external costs.

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
Opinion of counsel to file consolidated financial reports under Appendix C	Reporting	20	1	\$0.00	\$8,000.00	\$8,000.00	\$160,000.00	0
Totals							\$160,000.00	

14. Costs to Federal Government

Not applicable. Rule 15c3-1 would not result in any costs to the federal government beyond normal full-time employee labor costs, nor does Rule 15c3-1 require the Commission to hire any new employees or reallocate existing employees to ensure compliance with the rule.

15. Changes in Burden

The increase in the annual hour burden of 15,076 hours is attributable to the proposed amendments in the SBSB Proposing Release, described in paragraph 12 above. There is no change in the current cost estimate of \$160,000.

16. Information Collection Planned for Statistical Purposes

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

17. Approval to Omit OMB Expiration Date

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

⁶⁴ \$400 x 20 hours = \$8,000.

⁶⁵ 20 opinions x \$8,000 = \$160,000.

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.