

SUPPORTING STATEMENT
for the Paperwork Reduction Act Information Collection Submission for Rule 17a-5

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

Section 17(a)(1)¹ of the Securities Exchange Act of 1934 (“Exchange Act”) provides that broker-dealers must make and keep records, furnish copies of the records, and make and disseminate reports as the Securities and Exchange Commission (“Commission”), by rule, prescribes. Section 17(e)(1)(A)² of the Exchange Act requires every broker-dealer registered with the Commission to file annually with the Commission: (1) a balance sheet and income statement “certified by an independent public accounting firm, or by a registered public accounting firm if the firm is required to be registered under the Sarbanes-Oxley Act of 2002”; and (2) such other financial statements (which shall, as the Commission specifies, be certified) and information concerning its financial condition as the Commission, by rule, may prescribe. A registered public accounting firm means a public accounting firm registered with the Public Company Accounting Oversight Board (“PCAOB”).³ Section 17(e)(2)⁴ of the Exchange Act provides that the Commission, by rule, may prescribe the form and content of the financial statements and the accounting principles and standards used in their preparation.

Rule 17a-5⁵ under the Exchange Act is a reporting rule for broker-dealers.⁶ Paragraph (a) of Rule 17a-5 requires broker-dealers to file Form X-17A-5,⁷ the Financial and Operational Combined Uniform Single Report (“FOCUS Report”). The FOCUS Report was designed to eliminate the overlapping regulatory reports required by various self-regulatory organizations and the Commission and to reduce reporting burdens. The FOCUS Report consists of: (1) Part I which is a monthly report that must be filed by every broker-dealer that clears transactions or carries customer accounts;⁸ (2) one of three alternative quarterly reports: a comprehensive Part II which must be filed by every broker-dealer that clears transactions or carries customer accounts, a less detailed Part IIA which must be filed by broker-dealers that do not clear transactions or carry customer accounts, or a Part IIB that is filed only by specialized broker-dealers registered with the Commission as over-the counter (“OTC”) derivatives dealers;⁹ and (3) Part III, a Facing

¹ See 15 U.S.C. § 78q(a)(1).

² See 15 U.S.C. § 78q(e)(1)(A).

³ Section 2(a)(12) of the Sarbanes-Oxley Act of 2002 (Pub. L. No. 107-204).

⁴ See 15 U.S.C. § 78q(e)(2).

⁵ See 17 CFR 240.17a-5.

⁶ The Office of Management and Budget (“OMB”) Control Number for Rule 17a-5 is 3235-0123.

⁷ See 17 CFR 249.617.

⁸ In practice, broker-dealers are no longer required to file Part I of the FOCUS Report. See 17 CFR 240.17a-5(a)(4).

Page, which must be filed with the annual audited financial statements broker-dealers file with the Commission pursuant to paragraph (d) of Rule 17a-5.

Paragraph (c) of Rule 17a-5 requires broker-dealers to furnish certain financial information to customers.¹⁰ Paragraph (d) of Rule 17a-5 requires broker-dealers, subject to limited exception, to file annual reports, including financial statements and supporting schedules that generally must be audited by a PCAOB-registered independent public accountant in accordance with PCAOB standards.¹¹ Paragraph (h) of Rule 17a-5 contains notification requirements related to certain findings made during the course of the independent accountant's audit.¹² Paragraph (k) of Rule 17a-5 pertains to supplemental reports to be filed by broker-dealers that compute certain capital charges in accordance with Appendix E to Exchange Act Rule 15c3-1.¹³ Paragraph (p) of Rule 17a-5 provides that OTC derivatives dealers may comply with Rule 17a-5 by complying with Exchange Act Rule 17a-12.¹⁴

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")¹⁵ 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.¹⁶ More specifically, pursuant to sections 17(a) and 15F(f) of the Exchange Act, the Commission is proposing new FOCUS Report Form SBS ("Form SBS") that would be used by all types of SBSDs and MSBSPs to report financial and operational information and, in the case of broker-dealer SBSDs and broker-dealer MSBSPs, replace their use of Part II, Part IIA, Part IIB, or Part II CSE of Form X-17A-5 (the "FOCUS Report").¹⁷

⁹ These quarterly reports must be filed within 17 business days after the end of each calendar quarter and within 17 days after the end of the fiscal year of the broker-dealer if that date is not the end of a calendar quarter. However, if a broker-dealer ceases to be a member in good standing of a national securities exchange or registered national securities association, paragraph (b) of Rule 17a-5 requires the broker-dealer to file its final applicable report within two business days after the broker-dealer ceases to be a member in good standing of such exchange or association, subject to certain exceptions.

¹⁰ See 17 CFR 240.17a-5(c). Paragraph (c) of Rule 17a-5 is subject to a separate Paperwork Reduction Act filing (OMB Control Number 3235-0199).

¹¹ See 17 CFR 240.17a-5(d).

¹² See 17 CFR 240.17a-5(h).

¹³ See 17 CFR 240.17a-5(k); 17 CFR 240.15c3-1e.

¹⁴ See 17 CFR 240.17a-5(p); 17 CFR 240.17a-12.

¹⁵ 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 ("SBS Recordkeeping Release")* Exchange Act Release No. 71958 (Apr. 17, 2014), 79 FR 25193 (May 2, 2014).

¹⁶ 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).

¹⁷ See *SBS Recordkeeping Release*.

In the SBS Recordkeeping Release, the Commission proposed to amend paragraph (a)(1)(iv) of Rule 17a-5 to require broker-dealer SBSDs, including alternative net capital (“ANC”) broker-dealer SBSDs, and broker-dealer MSBSPs to file proposed Form SBS on a monthly basis instead of filing the applicable part of Form X-17A-5 on a monthly or quarterly basis.¹⁸ Additionally, the Commission proposed to add paragraph (a)(5)(vii) to Rule 17a-5, which would require ANC broker-dealers to file the results of the firm’s monthly liquidity stress test with the Commission.¹⁹ The Commission also proposed to amend paragraph (e)(2) of Rule 17a-5 to simplify the description of a broker-dealer’s obligations in connection with filing the annual reports with the Commission, the firm’s designated examining authority, and, in most cases with the Securities Investor Protection Corporation.²⁰ In addition, the Commission proposed several technical amendments to Rule 17a-5 to account for proposed Form SBS and to account for proposed Rule 18a-4 under the Exchange Act, which would establish requirements relating to an SBSD’s segregation of collateral given to an SBSD to secure a security-based swap (“SBS”) transaction.²¹

2. Purpose and Use of the Information Collection

Reports required to be made under Rule 17a-5 are used, among other things, to monitor the financial and operational condition of a broker-dealer by Commission staff and by the broker-dealer’s designated examining authority (“DEA”). The reports required under Rule 17a-5 are one of the primary means of ensuring compliance with the financial responsibility rules. A firm’s failure to comply with these rules would severely impair the ability of the Commission and the firm’s DEA to protect customers.

FOCUS Report data is used in preparation for broker-dealer examinations and inspections. The completed forms also are used to determine which firms are engaged in various securities-related activities, the extent to which they are engaged in those activities, and how economic events and government policies might affect various segments of the securities industry. The proposed Form SBS would fulfill the same purpose of the FOCUS Report while also accounting for the SBS activities of the SBSDs and MSBSPs.

3. Consideration Given to Information Technology

The data required in the FOCUS Report is tailored to the complexity of the broker-dealer’s business. The burden is therefore commensurate with the type of business in which the firm engages. Approximately 90% of FOCUS Reports are filed electronically. The Commission expects that most, if not all, Form SBSs will be filed electronically. Annual reports, however, are filed with the Commission in paper form.

¹⁸ See paragraph (a)(1)(iv) of Rule 17a-5, as proposed to be amended.

¹⁹ See paragraph (a)(5)(vii) of Rule 17a-5, as proposed to be amended.

²⁰ See paragraph (e)(2) of Rule 17a-5, as proposed to be amended.

²¹ See *e.g.*, paragraphs (a)(1)(iv), (a)(1)(v), (a)(3), (b)(1), (d)(1)(i)(B), (d)(2), (d)(3), and (h) of Rule 17a-5, as proposed to be amended.

4. Duplication

Rule 17a-5 was designed to eliminate duplicative reporting requirements among the various securities self-regulatory organizations. Therefore, any duplication of the information requested is minimal. The amendments to Rule 17a-5 described in the SBS Recordkeeping Release require either the filing of a FOCUS Report or Form SBS, but never both, in order to prevent duplicative reporting requirements.

5. Effect on Small Entities

As discussed above, a broker-dealer typically must file one of three alternative quarterly reports on Form X-17A-5: (1) a comprehensive Part II of Form X-17A-5, which must be filed by every broker-dealer that clears transactions or carries customer accounts; (2) a less detailed Part IIA, which must be filed by a broker-dealer that does not clear transactions or carry customer accounts; or (3) a Part IIB, which is filed only by a specialized broker-dealer registered with the Commission as an OTC derivatives dealer. The majority of small broker-dealers file Part IIA of Form X-17A-5 because they do not clear transactions or carry customer accounts. Part IIA is shorter and requires less time to complete than Part II. Out of 513 firms that must file Part II, only 19 are small firms. It would be inappropriate to provide these small firms with an exemption from Rule 17a-5 because the FOCUS Report provides Commission and DEA staff with critical financial information from the firms responsible for the safekeeping and disposition of customer funds and securities.

The Commission does not anticipate that many, if any, small broker-dealers will be affected by the SBS Recordkeeping Release's proposed amendments to Rule 17a-5 because the Commission expects only broker-dealers with relatively complex business models to register as SBSDs.

6. Consequences of Not Conducting Collection

The required reports are used by securities regulators to monitor the financial and operational condition of broker-dealers. If the required reports were not made, the ability of the Commission and the DEAs to monitor the financial and operational condition of broker-dealers would be impaired potentially affecting regulators' capability to protect customers. Further, if the required collections were conducted less frequently, the information in the reports would become outdated.

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

There are no special circumstances. This collection is consistent with the guidelines in 5 CFR 1320.5(d)(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 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

Reports filed pursuant to paragraph (a) of Rule 17a-5 (FOCUS Reports and proposed Form SBS) are deemed to be confidential pursuant to paragraph (a)(2) of Rule 17a-5.²² Annual reports filed by broker-dealers under paragraph (d) of Rule 17a-5 are not confidential, except that if the Statement of Financial Condition is bound separately from the balance of the annual reports, and each page of the balance of the annual reports is stamped "confidential," then the balance of the annual reports shall be deemed confidential to the extent permitted by law.²³ Broker-dealers are also required to furnish customers with their audited statement of financial condition and certain information about their annual reports on an annual basis.²⁴ In addition, broker-dealers are required to furnish customers with unaudited financial statements dated six months from the date of the audited statements.²⁵ With respect to the other information collected under the amendments, a broker-dealer can request the confidential treatment of the information.²⁶ If such a confidential treatment request is made, the information will be treated as confidential to the extent permitted by law.²⁷

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.²⁸ No information of a sensitive nature is required.

²² See paragraph (e)(2) of Rule 17a-5, a proposed to be amended.

²³ See paragraph (e)(3) of Rule 17a-5, as proposed to be amended.

²⁴ See paragraph (c)(2) of Rule 17a-5, as proposed to be amended.

²⁵ See paragraph (c)(3) of Rule 17a-5, as proposed to be amended.

²⁶ See 17 CFR 200.83. Information regarding requests for confidential treatment of information submitted to the Commission is available at <http://www.sec.gov/foia/howfo2.htm#privacy>.

²⁷ See, e.g., 15 U.S.C. 78x (governing the public availability of information obtained by the Commission); 5 U.S.C. 552 *et seq.*

12. Burden of Information Collection

All broker-dealers are subject to Rule 17a-5. Prior to the SBS Recordkeeping Release, the Commission estimated, based on its history and experience reviewing these filings and communicating with broker-dealers regarding the reports, that the ongoing burden for a registered broker-dealer to comply with the requirements of Rule 17a-5 totaled approximately 385,140 hours with a total annual cost of \$57,051,000.²⁹ Based on updated FOCUS Report data from 2013 there were approximately 487 broker-dealers that filed monthly and 4,058 broker-dealers that filed quarterly as of April 1, 2013. Of these 4,545 broker-dealers, 1,508 are estimated to be small business entities.

PREVIOUSLY ADOPTED

Requirement to Prepare and File FOCUS Reports – Paragraph (a) of Rule 17a-5: Commission staff estimates that each FOCUS Report and annual audited financial statement required to be filed under Rule 17a-5 takes approximately 12 hours to prepare and file. This estimate is based on Commission staff’s history and experience reviewing these filings and communicating with broker-dealers regarding the reports.

A. Monthly Reports

As of April 1, 2013, approximately 487 firms cleared transactions or carried customer accounts and therefore filed monthly reports. As a result, each firm would have an annual reporting burden of 144 hours³⁰ resulting in annual industry burden of 70,128 hours.³¹

B. Quarterly Reports

As of April 1, 2013, approximately 4,058 firms filed quarterly reports. As a result, each firm would have an annual reporting burden of 48 hours³² resulting in annual industry burden of 194,784 hours.³³

Requirement to File Supplemental Reports – Paragraph (k) of Rule 17a-5: As previously explained, paragraph (k) of Rule 17a-5 requires broker-dealers that compute certain capital charges in accordance with Appendix E to Exchange Act Rule 15c3-1³⁴ to file supplemental reports with the Commission regarding their internal risk management controls.

²⁸ 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.

²⁹ See Commission, *Supporting Statement for the Paperwork Reduction Act Information Collection Submission for Rule 17a-5* (Dec. 18, 2013), available at <http://www.reginfo.gov/public/do/DownloadDocument?objectID=47531201>.

³⁰ 12 hours x 12 responses per year = 144 hours per respondent.

³¹ 144 hours per respondent x 487 respondents = 70,128 hours per year.

³² 12 hours x 4 responses per year = 48 hours per respondent.

³³ 48 hours per respondent x 4,058 respondents = 194,784 hours per year.

The Commission currently estimates that approximately 10 broker-dealers will elect to use Appendix E to Rule 15c3-1 to compute certain of their capital charges.

A. Appendix E – Additional Monthly Reports

The average amount of time necessary to prepare and file the required additional monthly reports by each firm is approximately 4 hours per month. As a result, each firm would have an annual reporting burden of 48 hours³⁵ resulting in annual industry burden of 480 hours.³⁶ This estimate is based on Commission staff's history and experience reviewing these filings and communicating with broker-dealers regarding the reports.

B. Appendix E – Additional Quarterly Reports

The average amount of time necessary to prepare and file the required additional quarterly reports is about 8 hours per quarter. As a result, each firm would have an annual reporting burden of 32 hours³⁷ resulting in annual industry burden of 320 hours.³⁸ This estimate is based on Commission staff's history and experience reviewing these filings and communicating with broker-dealers regarding the reports.

C. Appendix E – Additional Annual Reports

The average amount of time necessary to prepare and file the additional supplemental reports with the annual audit required is approximately 40 hours per year. As a result, each firm would have an annual reporting burden of 40 hours³⁹ resulting in annual industry burden of 400 hours.⁴⁰ This estimate is based on Commission staff's history and experience reviewing these filings and communicating with broker-dealers regarding the reports.

Requirement to File Annual Audited Reports – Paragraph (d) of Rule 17a-5: As of fiscal year 2013, approximately 4,345 firms filed annual audited financial statements.⁴¹ As a

³⁴ Generally, a broker-dealer meeting certain conditions, including the existence of strong internal risk management practices, may apply to the Commission for authorization to use the alternative method for computing capital contained in Appendix E to Rule 15c3-1, thereby permitting the firm to utilize the mathematical modeling methods it uses to manage its own business risk, including value-at-risk models and scenario analysis, to compute deductions from net capital for market risks and for credit risks arising from OTC derivatives transactions.

³⁵ 4 hours x 12 responses per year = 48 hours per respondent.

³⁶ 48 hours per respondent x 10 respondents = 480 hours per year.

³⁷ 8 hours x 4 responses per year = 32 hours per respondent.

³⁸ 32 hours per respondent x 10 respondents = 320 hours per year.

³⁹ 40 hours x 1 response per year = 40 hours per respondent.

⁴⁰ 40 hours per respondent x 10 respondents = 400 hours per year.

⁴¹ This filing includes Form X-17A-5 Schedule I and Form X-17A-5 Part III. The burden estimate also includes related filing responsibilities under paragraph (c) of Rule 17a-5.

result, each firm would have an annual reporting burden of 12 hours⁴² resulting in annual industry burden of 52,140 hours.⁴³

Requirement to File Compliance Report or Exemption Report – Paragraphs (d)(3)–(4) of Rule 17a-5: As of April 1, 2013, 4,545 broker-dealers filed FOCUS Reports with the Commission. Of these, 4,342 broker-dealers claimed exemptions from Rule 15c3-3.

A. Compliance Report Requirement

As of April 1, 2013, there are approximately 203 carrying broker-dealers (4,545 – 4,342 = 203) that must comply with Rule 15c3-3 and therefore must file compliance reports. It will take a carrying broker-dealer approximately 60 hours to prepare the compliance report. As a result, each carrying broker-dealer would have an annual reporting burden of 60 hours⁴⁴ resulting in annual industry burden of 12,180 hours.⁴⁵

B. Exemption Report Requirement

As stated above, as of April 1, 2013, 4,545 broker-dealers filed FOCUS Reports with the Commission. Of these, 4,342 broker-dealers claimed exemptions from Rule 15c3-3. It will take a broker-dealer claiming an exemption from Rule 15c3-3 approximately 7 hours to complete the exemption report. As a result, each firm would have an annual reporting burden of 7 hours⁴⁶ resulting in annual industry burden of 30,394 hours.⁴⁷

Requirement to File Annual Audited Reports with SIPC – Paragraph (d)(6) of Rule 17a-5: According to SIPC, as of April 1, 2013, there were approximately 4,320 broker-dealers required to file annual reports with SIPC. It will take a broker-dealer approximately 30 minutes to file the annual reports with SIPC. As a result, each firm would have an annual third-party disclosure burden of .5 hours⁴⁸ resulting in annual industry burden of 2,160 hours.⁴⁹

Requirement to File Annual Reports – Paragraph (d)(1)(ii) of Rule 17a-5: Paragraph (d)(1)(ii) of Rule 17a-5 requires that a copy of a DEA’s written approval to change a broker-dealer’s fiscal year end be sent to the Commission’s principal office in Washington, DC, in addition to the regional office of the Commission for the region in which the broker-dealer has its principal place of business. Based on the number of copies of approvals received by the Commission and staff experience in the application of Rule 17a-5, an estimated 75 broker-dealers will receive approval each year to change their fiscal year end. It will take the broker-

⁴² 12 hours x 1 response per year = 12 hours per respondent.

⁴³ 12 hours per respondent x 4,345 respondents = 52,140 hours per year.

⁴⁴ 60 hours x 1 response per year = 60 hours per respondent.

⁴⁵ 60 hours per respondent x 203 respondents = 12,180 hours per year.

⁴⁶ 7 hours x 1 response per year = 7 hours per respondent.

⁴⁷ 7 hours per respondent x 4,342 respondents = 30,394 hours per year.

⁴⁸ .5 hours x 1 response per year = .5 hours per respondent.

⁴⁹ .5 hours per respondent x 4,320 respondents = 2,160 hours per year.

dealer approximately 10 minutes⁵⁰ to copy and send an additional copy of the approval to the Commission's principal office in Washington, DC. As a result, each firm would have an annual reporting burden of about .17 hours⁵¹ resulting in annual industry burden of about 12.5 hours.⁵²

Requirement to File SIPC Annual General Assessment Reconciliation Form or Exclusion from Membership Form – Paragraph (e)(4) of Rule 17a-5: Commission staff estimates that it would take a broker-dealer approximately 5 hours to file SIPC's annual assessment reconciliation form or certification of exclusion from membership form. As of fiscal year 2013, approximately 4,180 broker-dealers filed SIPC's annual assessment reconciliation form and approximately 213 broker-dealers filed SIPC's certification of exclusion from membership form, resulting in an annual industry burden of about 21,965 hours.⁵³

Requirement to File Statement Regarding Independent Public Accountant – Paragraph (f)(2) of Rule 17a-5: Paragraph (f)(2) of Rule 17a-5 requires broker-dealers to prepare a statement providing information regarding the broker-dealer's independent public accountant and to file it each year with the Commission and its DEA (except that if the engagement is of a continuing nature, no further filing is required).

A. Rule 17a-5(f)(2) - Carrying or Clearing Broker-Dealer

It will take a carrying or clearing broker-dealer approximately 10 hours on a one-time basis to amend its statement regarding its accountant, and file the new statement with the Commission. As a result, each carrying or clearing broker-dealer would have a one-time burden of 10 hours or about 3.33 hours on annualized basis⁵⁴ resulting in annual industry burden of 4,870 hours⁵⁵ or about 1,623.33 hours on an annualized basis.⁵⁶

B. Rule 17a-5(f)(2) – Broker-Dealers that Neither Carry nor Clear Transactions

It will take a broker-dealer that neither carries customer accounts nor clears transactions approximately 2 hours on a one-time basis to amend its statement regarding its accountant, and file the new statement with the Commission. As a result, each carrying or clearing broker-dealer

⁵⁰ 10 minutes / 60 minutes = .1667 hours.

⁵¹ .167 hours x 1 response per year = .167 hours per respondent.

⁵² .167 hours per respondent x 75 respondents = 12.525 hours.

⁵³ 5 hours x (4,180 broker-dealers filing SIPC's annual assessment reconciliation form + 213 broker-dealers filing SIPC's certification of exclusion from membership form) = 21,965 hours.

⁵⁴ (10 hours in the first year) + (0 hours in the second year) + (0 hours in the third year) = 10 hours / 3 years = 3.3333 hours per respondent.

⁵⁵ 10 hours per respondent x 487 respondents = 4,870 hours per year.

⁵⁶ 4,870 hours / 3 years = 1,623.33 hours per year.

would have a one-time burden of 2 hours or about .67 hours on an annualized basis⁵⁷ resulting in annual industry burden of 8,116 hours⁵⁸ or about 2,705.33 hours on an annualized basis.⁵⁹

Requirement to File Statement Regarding Change of Independent Public Accountant – Paragraph (f)(3) of Rule 17a-5:

Paragraph (f)(3) of Rule 17a-5 requires a broker-dealer to file a notice with the Commission if it replaces the independent public accountant engaged to prepare reports covering the annual reports. The estimated one-time burden associated with this requirement is approximately 2 hours, or about .67 hours on an annualized basis.⁶⁰ The Commission estimates that approximately 50 of these notices are filed per year resulting in annual industry burden of 100 hours⁶¹ or about 33.33 hours on an annualized basis.⁶²

PROPOSED AMENDMENTS TO RULE 17A-5

The proposed amendments to Rule 17a-5 described in the SBS Recordkeeping Release would establish additional reporting requirements applicable to broker-dealers that to the extent they engage in SBS or swap activities.⁶³ The Commission expects that many of the additional proposed amendments, which are largely technical in nature, would not impose an additional hour burden or costs. Those amendments that would impose an additional one-time initial burden or an additional ongoing burden to the industry are discussed below.

Form SBS for Broker-Dealer SBSDs and Broker-Dealer MSBSPs: The Commission proposes to amend paragraph (a)(1)(iv) of Rule 17a-5 to require broker-dealer SBSDs and broker-dealer MSBSPs to file proposed Form SBS monthly instead of filing the applicable part of Form X-17A-5 quarterly.⁶⁴

A. Form SBS for Broker-Dealer SBSDs: Amendment to Paragraph (a)(1)(iv)

Given that SBSDs are expected to be relatively large and sophisticated firms, the Commission assumes that all non-model broker-dealer SBSDs are carrying firms that file Part II of the FOCUS Report. Although sections of Part II are also found in proposed Form SBS, the burden on non-model broker-dealer SBSDs would increase, because non-model broker-dealer SBSDs would complete additional sections and line items in Form SBS that elicit more detail

⁵⁷ (2 hours in the first year) + (0 hours in the second year) + (0 hours in the third year) = 2 hours / 3 years = .6667 hours per respondent.

⁵⁸ 2 hours per respondent x 4,058 respondents = 8,116 hours per year.

⁵⁹ 8,116 hours / 3 years = 2,705.33 hours per year.

⁶⁰ (2 hours in the first year) + (0 hours in the second year) + (0 hours in the third year) = 2 hours / 3 years = .6667 hours per respondent.

⁶¹ 2 hours per respondent x 50 respondents = 100 hours per year.

⁶² 100 hours / 3 years = 33.33 hours per year.

⁶³ See *SBS Recordkeeping Release supra* note 15.

⁶⁴ Compare 17 CFR 240.17a-5(a)(1)(ii) and (iii), with paragraph (a)(1)(iv) of Rule 17a-5, as proposed to be amended.

about their SBS and swap activities.⁶⁵ In consideration of these additional requirements, the Commission estimates that the requirement for non-model broker-dealer SBSDs to file proposed Form SBS every month would impose an initial burden of an additional 50 hours per firm in the first year and an ongoing burden of 240 hours per firm in each year (including the first year). The Commission estimates that there will be six non-model broker-dealer SBSDs, resulting in an initial burden to the industry of an additional 300 hours⁶⁶ in the first year and an ongoing burden of 1,440 hours per year (including the first year).⁶⁷ Over a three year period, the total industry burden would be 4,620 hours,⁶⁸ or 1,540 hours per year when annualized.⁶⁹

B. *Form SBS for Broker-Dealer MSBSPs: Amendment to Paragraph (a)(1)(iv)*

Broker-dealer MSBSPs would be required to file proposed Form SBS instead of Part II or Part IIA of the FOCUS Report. Given that MSBSPs are expected to be relatively large and sophisticated firms, the Commission assumes that broker-dealer MSBSPs are carrying firms that currently file Part II of the FOCUS Report. Although sections of Part II are also found in proposed Form SBS, the burden on broker-dealer MSBSPs would increase because broker-dealer MSBSPs would complete additional sections and line items eliciting more detail about their SBS and swap activities.⁷⁰ In consideration of these additional requirements, the Commission

⁶⁵ Non-model broker-dealer SBSDs would be required to complete the following new sections: (1) Financial and Operational Data – Operational Deductions from Capital – Note A; (2) Financial and Operational Data – Potential Operational Charges Not Deducted from Capital – Note B; (3) Computation for Determination of the Amount to be Maintained in the Special Account for the Exclusive Benefit of Security-Based Swap Customers – Rule 18a-4, Appendix A; (4) Information for Possession or Control Requirements under Rule 18a-4; (5) Schedule 1 – Aggregate Securities, Commodities, and Swaps Positions; (6) Schedule 2 – Credit Concentration Report for Fifteen Largest Current Exposures in Derivatives; (7) Schedule 3 – Portfolio Summary of Derivatives Exposures by Internal Credit Rating; and (8) Schedule 4 – Geographic Distribution of Derivatives Exposures for Ten Largest Countries. In addition, non-model broker-dealer SBSDs also registered as FCMs would be required to file the following sections not included on Part II of the FOCUS Report, but which the CFTC already requires or has proposed to require FCMs to file as part of CFTC Form 1-FR-FCM: (1) Computation of CFTC Minimum Capital Requirement; (2) Statement of Segregation Requirements and Funds in Segregation for Customers Trading on U.S. Commodity Exchanges; (3) Statement of Cleared Swaps Customer Segregation Requirements and Funds in Cleared Swaps Customer Accounts under Section 4d(f) of the Commodity Exchange Act; (4) Statement of Segregation Requirements and Funds in Segregation for Customers’ Dealer Options Accounts; and (5) Statement of Secured Amounts and Funds Held in Separate Accounts for Foreign Futures and Foreign Options Customers Pursuant to CFTC Regulation 30.7. The Commission does not estimate a burden for these 5 sections from Form 1-FR-FCM, since the CFTC already requires FCMs to file these five sections on a monthly basis (17 CFR 1.10(b)(i)), and therefore, the hourly burden is already accounted for in the PRA estimate for the CFTC’s Rule 1.10 (17 CFR 1.10).

⁶⁶ 50 hours x 6 non-model broker-dealer SBSDs = 300 hours.

⁶⁷ 240 hours x 6 non-model broker-dealer SBSDs = 1,440 hours.

⁶⁸ (300 hours in first year + 1,440 hours in first year) + 1,440 hours in second year + 1,440 hours in third year = 4,620 hours.

⁶⁹ 4,620 hours / 3 years = 1,540 hours per year.

⁷⁰ Broker-dealer MSBSPs would be required to complete the following new sections: (1) Computation of Tangible Net Worth; (2) Financial and Operational Data – Operational Deductions from Capital – Note A; (3) Financial and Operational Data – Potential Operational Charges Not Deducted from Capital – Note B; (4) Schedule 1 – Aggregate Securities, Commodities, and Swaps Positions; (5) Schedule 2 – Credit Concentration Report for Fifteen Largest Exposures in Derivatives; (6) Schedule 3 – Portfolio Summary of

estimates that the requirement for broker-dealer MSBSPs to file proposed Form SBS every month would impose an initial burden of 40 hours per firm in the first year and an ongoing burden of 210 hours per firm in each year (including the first year). The estimated hourly burdens for broker-dealer MSBSPs are slightly less than the estimates for broker-dealer SBSBs because broker-dealer MSBSPs would not be required to complete the parts of Form SBS relating Rule 18a-4. The Commission estimates that there will be one broker-dealer MSBSP, resulting in an initial burden of an additional 40 hours⁷¹ in the first year and an additional ongoing burden of 210 hours per year (including the first year).⁷² Over a three year period, the total industry burden would be 670 hours,⁷³ or about 223.33 hours per year when annualized.⁷⁴

Form SBS for ANC Broker-Dealers: The Commission proposes to amend paragraph (a)(1)(iv) of 17a-5 to require ANC broker-dealer SBSBs to file proposed Form SBS instead of Part II CSE of Form X-17A-5.⁷⁵ Although proposed Form SBS is modeled on Part II CSE, the burden on ANC broker-dealer SBSBs would increase, because ANC broker-dealer SBSBs would file monthly instead of quarterly and would complete additional sections and line items eliciting more detail about their SBS and swap activities.⁷⁶ In consideration of these additional requirements, the Commission estimates that the requirement for ANC broker-dealer SBSBs to file proposed Form SBS every month would impose an initial burden of 25 hours per firm in the first year and an ongoing annual burden of 228 hours per firm in each year (including the first year). The Commission estimates that there will be 10 ANC broker-dealers that will register as SBSBs adding to the industry an initial burden of 250 hours⁷⁷ in the first year and an ongoing

Derivatives Exposures by Internal Credit Rating; and (7) Schedule 4 – Geographic Distribution of Derivatives Exposures for Ten Largest Countries. In addition, broker-dealer MSBSPs also registered as FCMs would be required to file the following sections not included on Part II, but which the CFTC already requires or has proposed to require FCMs to file as part of Form 1-FR-FCM: (1) Computation of CFTC Minimum Capital Requirement; (2) Statement of Segregation Requirements and Funds in Segregation for Customers Trading on U.S. Commodity Exchanges; (3) Statement of Cleared Swaps Customer Segregation Requirements and Funds in Cleared Swaps Customer Accounts under Section 4d(f) of the Commodity Exchange Act; (4) Statement of Segregation Requirements and Funds in Segregation for Customers' Dealer Options Accounts; and (5) Statement of Secured Amounts and Funds Held in Separate Accounts for Foreign Futures and Foreign Options Customers Pursuant to CFTC Regulation 30.7. The Commission does not estimate a burden for these five sections from Form 1-FR-FCM, since the CFTC already requires FCMs to file these five sections on a monthly basis (17 CFR 1.10(b)(i)), and therefore, the hourly burden is already accounted for in the PRA estimate for the CFTC's Rule 1.10 (17 CFR 1.10).

⁷¹ 40 hours x 1 broker-dealer MSBSP = 300 hours.

⁷² 210 hours x 1 broker-dealer MSBSP = 210 hours.

⁷³ (40 hours in first year + 210 hours in first year) + 210 hours in second year + 210 hours in third year = 670 hours.

⁷⁴ 670 hours / 3 years = 223.33 hours per year.

⁷⁵ See paragraph (a)(1)(iv) of Rule 17a-5, as proposed to be amended.

⁷⁶ ANC broker-dealer SBSBs would be required to complete the following new sections: (1) Computation for Determination of the Amount to be Maintained in the Special Account for the Exclusive Benefit of Security-Based Swap Customers – Rule 18a-4, Appendix A; (2) Information for Possession or Control Requirements under Rule 18a-4; (3) Schedule 1 – Aggregate Securities, Commodities, and Swaps Positions; and (4) Schedule 4 – Geographic Distribution of Derivatives Exposures for Ten Largest Countries.

⁷⁷ 25 hours x 10 ANC broker-dealer SBSBs = 250 hours.

burden of 2,280 hours per year (including the first year).⁷⁸ Over a three year period, the total industry burden would be 7,090 hours,⁷⁹ or about 2,363.33 hours per year when annualized.⁸⁰

Liquidity Stress Test for ANC Broker-Dealers: Additionally, the Commission proposes to add paragraph (a)(5)(vii) to Rule 17a-5, which would require ANC broker-dealers, including ANC broker-dealer SBSs, to file the results of the firm's monthly liquidity stress test with the Commission.⁸¹ Because the burden of actually performing the liquidity stress test and creating a liquidity funding plan is already accounted for in the PRA estimate for the proposed amendments to Rule 15c3-1, the burden imposed by proposed paragraph (a)(5)(vii) is the requirement to file a copy of the results with the Commission. The Commission estimates that paragraph (a)(5)(vii) to Rule 17a-5, as proposed to be amended, would impose no initial burden, and an annual burden of 12 hours per ANC broker-dealer (one liquidity stress test result per month). The Commission estimates that there will be 10 ANC broker-dealers following the adoption of the SBS Recordkeeping Release, resulting in an industry-wide ongoing annual burden of 120 hours per year.⁸²

Therefore, over a three year period, the resulting estimated total annual hour burden to comply with Rule 17a-5 as amended is approximately 371,607 hours.

⁷⁸ 228 hours x 10 ANC broker-dealer SBSs = 2,280 hours.

⁷⁹ (250 hours in first year + 2,280 hours in first year) + 2,280 hours in second year + 2,280 hours in third year = 7,090 hours.

⁸⁰ 7,090 hours / 3 years = 2,363.33 hours per year.

⁸¹ See paragraph (a)(5)(vii) of Rule 17a-5, as proposed to be amended.

⁸² 12 hours x 10 ANC broker-dealers = 120 hours.

Summary of Hourly Burdens										
Name of Information Collection	Type of Burden	A. Number of Entities Impacted	B. Annual Responses per Entity	C. Initial Burden per Entity per Response	D. Initial Burden Annualized per Entity per Response	E. Ongoing Burden per Entity per Response	F. Annual Burden Per Entity per Response	G. Total Annual Burden Per Entity	Total Industry Burden	Small Business Entities Affected
					[C ÷ 3 years]		[D + E]	[F * B]	[G * A]	[A * 0 %]
Rule 17a-5: FOCUS Reports - Monthly Reports	Reporting	487	12	0.00	0.00	12.00	12.00	144.00	70,128.00	19
Rule 17a-5: FOCUS Reports - Quarterly Reports	Reporting	4,058	4	0.00	0.00	12.00	12.00	48.00	194,784.00	1,489
Rule 17a-5(k): Supplemental Reports - Appendix E - Additional Monthly Reports	Reporting	10	12	0.00	0.00	4.00	4.00	48.00	480.00	0
Rule 17a-5(k): Supplemental Reports - Appendix E - Additional Quarterly Reports	Reporting	10	4	0.00	0.00	8.00	8.00	32.00	320.00	0
Rule 17a-5(k): Supplemental Reports - Appendix E - Additional Annual Reports	Reporting	10	1	0.00	0.00	40.00	40.00	40.00	400.00	0
Rule 17a-5: Annual Audited Reports	Reporting	4,345	1	0.00	0.00	12.00	12.00	12.00	52,140.00	1,508
Rule 17a-5(d)(3): Compliance Report	Reporting	203	1	0.00	0.00	60.00	60.00	60.00	12,180.00	0
Rule 17a-5(d)(4): Exemption Report	Reporting	4,342	1	0.00	0.00	7.00	7.00	7.00	30,394.00	1,508
Rule 17a-5(d)(6): Annual Audit Reports with SIPC	Third-Party Disclosure	4,320	1	0.00	0.00	0.50	0.50	0.50	2,160.00	1,440
Rule 17a-5(d)(1)(ii): Change of Fiscal Year End	Reporting	75	1	0.00	0.00	0.17	0.17	0.17	12.50	25
Rule 17a-5(e)(4): Annual General Assessment Reconciliation or Exclusion from Membership Form	Reporting	4,393	1	0.00	0.00	5.00	5.00	5.00	21,965.00	1,524
Rule 17a-5(f)(2): Statement Regarding Independent Public Accountant - Carrying or Clearing BD	Reporting	487	1	10.00	3.33	0.00	3.33	3.33	1,623.33	19
Rule 17a-5(f)(2): Statement Regarding Independent Public Accountant - Non-Carrying or Non-Clearing BD	Reporting	4,058	1	2.00	0.67	0.00	0.67	0.67	2,705.33	1,489
Rule 17a-5(f)(3): Statement Regarding Change in Independent Public Accountant	Reporting	50	1	2.00	0.67	0.00	0.67	0.67	33.33	17
Form SBS for Broker-Dealer SBSDs: Amendment to Paragraph (a)(1)(iv)	Reporting	6	1	50.00	16.67	240.00	256.67	256.67	1,540.00	0
Form SBS for Broker-Dealer MSBSPs: Amendment to Paragraph (a)(1)(iv)	Reporting	1	1	40.00	13.33	210.00	223.33	223.33	223.33	0
Form SBS for ANC Broker-Dealers	Reporting	10	1	25.00	8.33	228.00	236.33	236.33	2,363.33	0
Liquidity Stress Test for ANC Broker-Dealers	Reporting	10	1	0.00	0.00	12.00	12.00	12.00	120.00	0
TOTAL HOURLY BURDEN FOR ALL RESPONDENTS									393,572.17	

13. Costs to Respondents

Requirement to File Compliance Report or Exemption Report – Paragraphs (d)(3)–(4) of Rule 17a-5: As stated above, as of April 1, 2013, 4,545 broker-dealers filed FOCUS Reports with the Commission. Of these, 4,342 broker-dealers claimed exemptions from Rule 15c3-3.

A. Compliance Report Requirement

As stated above, as of April 1, 2013, there are approximately 203 carrying broker-dealers (4,545 – 4,342 = 203) that must comply with Rule 15c3-3 and therefore must file compliance reports. The estimated cost associated with the independent public accountant’s examination of the compliance report will be an average incremental cost of approximately \$150,000 per carrying broker-dealer per year. This result in an industry-wide annual ongoing reporting cost of approximately \$30,450,000 per year.⁸³

B. Exemption Report Requirement

As stated above, as of April 1, 2013, 4,342 broker-dealers claimed exemptions from Rule 15c3-3. The cost associated with the independent public accountant’s review of the exemption report is estimated to create an ongoing cost of \$3,000 per non-carrying broker-dealer per year, for a total industry-wide annual reporting cost of approximately \$13,026,000.⁸⁴

Therefore, the total ongoing cost burden associated with Rule 17a-5 is approximately \$43,476,000.⁸⁵

Summary of Dollar Costs										
Name of Information Collection	Type of Burden	A. Number of Entities Impacted	B. Annual Responses per Entity	C. Initial Cost per Entity per Response	D. Initial Cost Annualized per Entity per Response	E. Ongoing Cost per Entity per Response	F. Annual Cost Per Entity per Response	G. Total Annual Cost Per Entity	Total Industry Cost	Small Business Entities Affected
					[C ÷ 3 years]		[D + E]	[F * B]	[G * A]	[A * 0 %]
Rule 17a-5(d)(3): Compliance Report	Reporting	203	1	\$0	\$0	\$150,000	\$150,000	\$150,000	\$30,450,000	0
Rule 17a-5(d)(4): Exemption Report	Reporting	4,342	1	\$0	\$0	\$3,000	\$3,000	\$3,000	\$13,026,000	1,508
TOTAL COST FOR ALL RESPONDENTS									\$43,476,000.00	

14. Cost to Federal Government

Rule 17a-5 is not expected to result in costs to the federal government due to contracting, information technology, development, hiring one or more new employees, or reallocating existing employees.

⁸³ \$150,000 per year x 203 carrying broker-dealers = \$30,450,000.

⁸⁴ \$3,000 per year x 4,342 non-carrying broker-dealers = \$13,026,000.

⁸⁵ \$30,450,000 + \$13,026,000 = \$43,476,000.

15. Changes in Burden

The annual ongoing hour burden of 393,572 hours reflects a 8,432 hour increase from the current OMB inventory of 385,140 hours. This change incorporates a decrease in the number of respondents, and an increase in the number of hours attributable to the proposed amendments to Rule 17a-5 described in the SBS Recordkeeping Release.

The annual cost burden of \$43,476,000 is \$13,575,000 lower than the current OMB inventory of \$57,051,000. This decreased cost estimate reflects a decrease in the number of carrying broker-dealers, from 292 to 203 carrying broker-dealers, and a decrease in the number of non-carrying broker-dealers from 4,417 to 4,342.

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 forms, although the OMB control number will be displayed. Including the expiration date on the electronic version of the forms will result in increased costs, because the need to make changes to the forms 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. COLLECTIONS OF INFORMATION EMPLOYING STATISTICAL METHODS

This collection does not involve statistical methods.