

**SUPPORTING STATEMENT**  
**for the Paperwork Reduction Act Information Collection Submission for**  
**Rule 15c3-3 – Customer Protection—Reserves and Custody of Securities**

**A. Justification**

**1. Information Collection Necessity**

During the “Paperwork Crisis” of 1967–1970, many brokers-dealers mishandled and misused customer funds and securities because they had inadequate and inefficient record keeping and segregation systems. Furthermore, the 1969–1970 “bear market” caused many firms that lacked sufficient capital to utilize customer funds and securities to obtain financing for their continued operation. In order to rectify these problems, the Securities and Exchange Commission (“Commission”) adopted Rule 15c3-3 under the Securities Exchange Act of 1934 (“Exchange Act”) to provide increased protection for the funds and securities of customers.<sup>1</sup>

Rule 15c3-3 requires all broker-dealers that hold securities or cash belonging to customers to obtain and maintain possession or control of all the fully-paid and excess margin securities of their customers.<sup>2</sup> In addition, these broker-dealers must make a periodic computation (“reserve computation”) to ascertain the amount of money being held that constitutes customer funds or funds obtained from the use of customer securities. If this amount – known as “customer credits” – exceeds the amount of money customers owe the firm (“customer debits”), the broker-dealer must deposit the excess in a special reserve bank account for the exclusive benefit of the firm’s customers (“Special Reserve Bank Account”).<sup>3</sup> In this way, Rule 15c3-3 protects customer assets by requiring firms to maintain possession or control of customer securities, and by permitting firms to use customer money only to the extent necessary to finance customer-related business.

Rule 15c3-3 requires broker-dealers to make the reserve computation on either a weekly or monthly basis. Broker-dealers are also required to: (1) maintain a description of the procedures utilized to comply with the possession and control requirements of Rule 15c3-3; (2) maintain a written notification from the bank where the Special Reserve Bank Account is located that all assets in the account are for the exclusive benefit of the broker-dealer’s customers; and (3) give telegraphic notice to the Commission, and the appropriate designated examining authority (“DEA”), if they fail to make a required deposit in the Special Reserve Bank Account.

In addition, paragraph (o) of Rule 15c3-3 requires that a broker-dealer that effects transactions for customers in security futures products (“SFP”) must: (1) establish written policies and procedures for determining whether customer SFPs will be placed in a securities account or a futures account, and, if applicable, the process by which a customer may elect the type of account in which SFPs will be held; (2) provide each customer that plans to effect SFP

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<sup>1</sup> See *Broker-dealers; Maintenance of Certain Basic Reserves*, Exchange Act Release No. 9856 (Nov. 10, 1972), 37 FR 25224 (Nov. 29, 1972).

<sup>2</sup> 17 CFR 240.15c3-3.

<sup>3</sup> For purposes of this Paperwork Reduction Act (“PRA”) submission, the term “Special Reserve Bank Account” includes accounts set up in accordance with both paragraph (e)(1) and (k)(2)(i) of Rule 15c3-3.

transactions with a disclosure document containing certain information; (3) make a record of each change in account type; and (4) send each SFP customer notification of any change of account type.

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

Rule 15c3-3 is an integral part of the Commission's financial responsibility program for broker-dealers. Its purpose is to protect the rights of customers to promptly obtain their property from a broker-dealer. Rule 15c3-3's reserve and notice requirements facilitate the process by which the Commission and the various DEAs monitor how broker-dealers are fulfilling their custodial responsibilities to investors. With the exception of the telegraphic notice requirement, governmental agencies do not regularly receive any of the information described above. Instead, the information is stored by the broker-dealer and made available to the various securities regulatory authorities as required to facilitate examinations and investigations. If broker-dealers were not required to create and maintain this information, the Commission's ability to fulfill its statutory directive to protect investors will be diminished.

Rule 15c3-3 also requires that a broker-dealer provide each customer that wishes to engage in SFP activities with a disclosure document and notification of any change of account type. Without these disclosures and notifications, in the event of a liquidation, customers may be uncertain or confused as to which regulatory scheme is applicable to their account.

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

Rule 15c3-3 does not prevent a broker-dealer from using computers or other mechanical devices to generate, obtain, disclose, or maintain the records and information required under the rule. Currently, most firms utilize automated systems to comply with Rule 15c3-3. The Commission is not aware of any technical or legal obstacle to reducing the burden through the use of improved information technology.

## **4. Duplication**

There are no similar rules that are duplicative of Rule 15c3-3. Copies of notices required to be filed with the Commission under paragraph (i) of Rule 15c3-3 must also be filed with the regulatory authority that examines the broker-dealer for compliance with financial responsibility, helping to avoid duplication.

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

Paragraph (k) of Rule 15c3-3 has the effect of exempting most small broker-dealers from the rule's requirements. Small broker-dealers that are not exempt from Rule 15c3-3 can make the required computation monthly as long as they have aggregate indebtedness not exceeding 800% of net capital and carry aggregate customer funds not exceeding \$1,000,000. The Commission estimates that, as of 2015 year end, 5 broker-dealers were small entities that performed a customer reserve computation pursuant to Rule 15c3-3.

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

If the required information were not conducted or were conducted less frequently, the level of protection afforded to the counterparties and the U.S. financial system by Rule 15c3-3 will be diminished.

## **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 required Federal Register notice with a 60-day comment period soliciting comments on this collection of information was published. The Commission received one comment requesting substantive changes to Rule 15c3-3. The Commission notes that this PRA renewal is not being submitted in connection with a rulemaking; therefore, the Commission cannot make substantive changes to its rules at this time.

## **9. Payment or Gift**

No payments of gifts have been provided to respondents.

## **10. Confidentiality**

The information collected by the Commission under Rule 15c3-3, as amended, is kept confidential to the extent permitted by the Freedom of Information Act (5 U.S.C. § 552 *et seq.*).

## **11. Sensitive Questions**

The collections of information do not expressly include Personally Identifiable Information (“PII”).<sup>4</sup> As such, we believe that the treatment of any PII with the collection of information associated with Rule 15c3-3 is not likely to implicate the Federal Information Security Management Act of 2002 or the Privacy Act of 1974.

## **12. Information Collection Burden**

The Commission estimates that, as of June 30, 2016, there were approximately 224 broker-dealers fully subject to Rule 15c3-3 (*i.e.*, broker-dealers that cannot claim any of the exemptions enumerated in paragraph (k)), of which approximately 12 made daily, 162 made weekly, and 50 made monthly, reserve computations.<sup>5</sup> Paragraph (e)(3) of Rule 15c3-3 requires each broker-dealer to make a record of each such computation.<sup>6</sup> Based on staff experience, the Commission estimates that it takes between one and five hours to make a record of each reserve

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<sup>4</sup> The term “Personally Identifiable Information” refers to information that 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 that is linked or linkable to a specific individual, such as date and place of birth, mother’s maiden name, etc.

computation, and that the average time spent across all the firms is 2.5 hours. Accordingly, the Commission estimates that the total annual recordkeeping burden is approximately 30,060 hours.<sup>7</sup>

Furthermore, paragraph (e) of Rule 15c3-3 requires a PAB reserve computation that will result in a one-time and annual burden. The Commission estimates that approximately 62 broker-dealers perform a PAB reserve computation.<sup>8</sup> The Commission estimates that, of these 62 firms, 31 firms will spend, on average, approximately 30 hours of employee resources per firm updating their systems to comply with the rule. Therefore, the Commission estimates that the total one-time recordkeeping burden to broker-dealers arising from updating their systems will be approximately 930 hours.<sup>9</sup> The Commission also estimates that of the 62 broker-dealers estimated to perform a PAB reserve computation, approximately 57 of the current PAB filers will perform the PAB reserve computation on a weekly basis, 2 broker-dealers will perform it on a monthly basis, and 3 broker-dealers will perform the PAB reserve computation on a daily basis. The Commission estimates that a broker-dealer will spend, on average, approximately 2.5 hours to complete the PAB reserve computation in order to make a record of such computation pursuant to paragraph (e) of Rule 15c3-3. Therefore, the Commission estimates that the total annual recordkeeping burden to broker-dealers from this requirement will be approximately 9,345 hours.<sup>10</sup>

Paragraph (a)(16) of Rule 15c3-3 excludes from its definition of “PAB account,” an account that “has been subordinated to the claims of creditors of the carrying broker or dealer.”<sup>11</sup> The Commission understands that most PAB account holders that enter into a subordinated loan agreement with a broker-dealer that maintains custody of customer securities and cash (“carrying broker-dealer”) in order to not be treated as PAB accounts under paragraph (a)(16) likely will be affiliates of the broker-dealer. The Commission estimates that the 62 broker-dealers that carry PAB accounts will enter into an average of 11 subordination agreements under paragraph (a)(16) and it will take a carrying broker-dealer approximately 20 hours to draft a subordination

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<sup>5</sup> This estimate is based on the number of firms that, as of June 30, 2016, indicated on either Part II or Part II CSE of their FOCUS reports (OMB Collection Number 3235-0123) that they make their 15c3-3 computations daily (line 4332), weekly (line 4333), or monthly (line 4334).

<sup>6</sup> 17 CFR 240.15c3-3(e)(3). 25 broker-dealers did not indicate the frequency with which they calculated their customer reserve requirement. The Commission assumes for this supporting statement that these firms make the calculation on a weekly basis.

<sup>7</sup>  $(2.5 \text{ hours} \times 250 \text{ computations annually} \times 12 \text{ respondents that calculate daily}) + (2.5 \text{ hours} \times 52 \text{ computations annually} \times 162 \text{ respondents that calculate weekly}) + (2.5 \text{ hours} \times 12 \text{ computations annually} \times 50 \text{ respondents that calculate monthly}) = 30,060 \text{ hours.}$

<sup>8</sup> This estimate is based on the number of brokers-dealers that have, as of June 30, 2016, either aggregate credit items (line 2170) or debit items (line 2230) on either Part II or Part II CSE of their FOCUS Reports.

<sup>9</sup>  $31 \text{ broker-dealers} \times 30 \text{ hours per firm} = 930 \text{ hours.}$

<sup>10</sup>  $(57 \text{ weekly filers} \times 52 \text{ weeks} \times 2.5 \text{ hours per computation}) + (2 \text{ monthly filers} \times 12 \text{ months} \times 2.5 \text{ hours per computation}) + (3 \text{ daily filers} \times 250 \text{ business days per year} \times 2.5 \text{ hours per computation}) = 9,345 \text{ total hours.}$

<sup>11</sup> For purposes of this supporting statement, the term “PAB account” references accounts held at carrying broker-dealers that hold the proprietary securities and cash of other broker-dealers.

agreement. Therefore, the Commission estimates that the total one-time recordkeeping burden will be 13,640 hours.<sup>12</sup>

Paragraph (b)(5) of Rule 15c3-3 requires carrying broker-dealer to provide PAB account holders with written notice that the account holder's non-margin securities may be used in the ordinary course of its business. As noted above, the Commission estimates that approximately 62 broker-dealers carry PAB accounts. The Commission further estimates that, on average, a firm will spend approximately 10 hours of employee resources drafting or updating a standard notice template, for a total one-time recordkeeping burden of 620 hours.<sup>13</sup> The Commission also estimates that there are approximately 1,037 existing PAB customers<sup>14</sup> and approximately 5% of those customers will be affected by this requirement as they have not yet received the required written notice from their broker-dealer.<sup>15</sup> Therefore, broker-dealers will have to send approximately 52 written notices, spending approximately 10 minutes per account sending out the required written notice, for a total one-time disclosure burden of 8.67 hours.<sup>16</sup>

Further, the Commission estimates that the 62 firms that carry PAB accounts will have to amend or update their standard PAB agreement template. The Commission estimates a firm will spend, on average, approximately 20 hours of employee resources on this task, for a total one-time recordkeeping burden of 1,240 hours.<sup>17</sup>

Paragraph (f) of Rule 15c3-3 prescribes that a broker-dealer required to maintain a Special Reserve Bank Account must obtain and retain a written notification from each bank in which it has a Special Reserve Bank Account to evidence the bank's acknowledgement that assets deposited in the account are being held by the bank for the exclusive benefit of the broker-dealer's customers.<sup>18</sup> As stated above, 224 broker-dealers are estimated to be fully subject to Rule 15c3-3. In addition, 122 broker-dealers operate in accordance with the exemption provided in paragraph (k)(2)(i),<sup>19</sup> which also requires that a broker-dealer maintain a special reserve

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<sup>12</sup> 62 broker-dealers x 11 accounts x 20 hours = 13,640 hours. For purposes of this supporting statement, the total annualized burden over the three year approval period will be 4,547 hours (13,640 / 3 = 4,546.666, rounded to 4,546.67), with an average of 73 hours per respondent (4,546.67 / 62 broker-dealers = 73.333, rounded to 73.33).

<sup>13</sup> 62 firms x 10 hours = 620 hours. For purposes of this supporting statement, this one-time burden annualized over the three year approval period is 206.67 hours (620 / 3 = 206.666, rounded to 206.67 hours), with an average per 62 broker-dealers of 3 hours (206.67 / 62 = 3.333, rounded to 3.33).

<sup>14</sup> This estimate is based on the number of firms that, as of June 30, 2016, have account numbers on either lines 418, 419, 420, or 424 of Part IIA of the FOCUS report.

<sup>15</sup> 1,037 PAB account holders x 5% = 51.85 PAB account holders, rounded to 52 PAB account holders.

<sup>16</sup> 52 PAB account holders x 10 minutes = 520 minutes. 520 minutes / 60 minutes = 8.666, rounded to 8.67 hours.

<sup>17</sup> 62 firms x 20 hours = 1,240 hours. For purposes of this supporting statement, this one-time burden annualized over the three-year approval period is 413.33 hours (1,240 / 3 = 413.333, rounded to 413.33), with an average hour burden of 6.67 hours per broker-dealer (413.33 / 62 = 6.666, rounded to 6.67).

<sup>18</sup> 17 CFR 240.15c3-3(f).

<sup>19</sup> This estimate is based on the number of firms that, as of June 30, 2016, indicated on line 4560 of Part II or Part II CSE of their FOCUS reports that they are subject to the Rule 15c3-3(k)(2)(i) exemption.

account. Broker-dealers generally maintain longstanding relationships with banks where they hold their Special Reserve Bank Accounts and thus do not need to obtain these letters frequently. The Commission estimates that of the total number of broker-dealers that must comply with Rule 15c3-3, only 25%, or approximately 87 broker-dealers,<sup>20</sup> must obtain one new letter each year.<sup>21</sup> The Commission estimates that it will take a broker-dealer approximately one hour to obtain this written notification from a bank regarding a Special Reserve Bank Account.<sup>22</sup> Therefore, the Commission estimates a total annual recordkeeping burden of approximately 87 hours to obtain these written notifications.<sup>23</sup>

Paragraph (f) of Rule 15c3-3 requires a broker-dealer to immediately notify the Commission and its DEA if it fails to make a required deposit in its Special Reserve Bank Account.<sup>24</sup> We anticipate broker-dealers will file approximately 29 such notices each year.<sup>25</sup> The Commission estimates that it will take a broker-dealer approximately 30 minutes to file the required notice, resulting in a total annual reporting burden of approximately 14.5 hours.<sup>26</sup>

Paragraph (j)(1) of Rule 15c3-3 includes a condition that a broker-dealer must establish adequate procedures that will impose a paperwork burden if a broker-dealer wishes to accept or use any free credit balance from the account of any customer of the broker-dealer. The requirement that broker-dealers establish adequate procedures with regard to free credit balances will result in one-time and annual hours burdens for broker-dealers subject to the requirements of paragraph (j)(1) to Rule 15c3-3 for the 159 broker-dealers that carry free credit balances.<sup>27</sup> Most firms already have such procedures in place. Therefore, the Commission estimates that a broker-dealer will spend approximately 10 hours per year reviewing and updating its procedures, for an annual recordkeeping burden of hours.<sup>28</sup>

Paragraph (j)(2) of Rule 15c3-3 requires a broker-dealer to obtain written affirmative consent from a new customer before including a customer's free credit balances in a Sweep Program, as defined in paragraph (a)(17), as well as to provide certain disclosures and notices to all customers with regard to the broker-dealer's Sweep Program. These requirements will result in one-time and annual burdens to broker-dealers subject to its provisions. However, these requirements apply only to firms that carry customer free credit balances and opt to have the

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<sup>20</sup>  $(224 + 122) \times 25\% = 86.5$ , rounded to 87 broker-dealers.

<sup>21</sup> The Commission notes that a broker-dealer will need to obtain a letter from its bank regarding its Special Reserve Bank Account because either the broker-dealer changed the type of business it does and became subject to paragraph (e)(3) or (k)(2)(i) of Rule 15c3-3 or the broker-dealer established a new Special Reserve Bank Account.

<sup>22</sup> The language in these letters is largely standardized.

<sup>23</sup>  $87 \text{ broker-dealers} \times 1 \text{ hour} = 87 \text{ hours}$ .

<sup>24</sup> 17 CFR 240.15c3-3(i).

<sup>25</sup> Broker-dealers filed 29 such notices with the Commission in 2015.

<sup>26</sup>  $29 \text{ notices} \times 0.5 \text{ hours} = 14.5 \text{ hours}$ .

<sup>27</sup> This estimate is based on the number of firms that, as of June 30, 2016, had free credit balances on line 4340 of Part II or Part II CSE of their FOCUS reports.

<sup>28</sup>  $159 \text{ broker-dealers} \times 10 \text{ hours} = 1,590 \text{ hours}$ .

ability to change how their customers' free credit balances are treated. The Commission is including all 159 broker-dealers that carry free credit balances in its estimate to reflect the fact that these firms may have to update their systems to comply with these requirements. The Commission further estimates that these firms will spend, on average, approximately 200 hours of employee resources per firm updating their current systems (including processes for generating customer account statements) to comply with the rule. Therefore, the Commission estimates that the total one-time recordkeeping burden to broker-dealers arising from this requirement will be approximately 31,800 hours.<sup>29</sup>

With respect to the annual burden associated with paragraph (j)(2) of Rule 15c3-3, the Commission estimates that there are 126,458,378 customer accounts<sup>30</sup> of which 5% will be impacted each year.<sup>31</sup> The Commission further estimates that a broker-dealer will spend, on average, four minutes of employee resources to process a written affirmative consent for new customers, as well as disclosures required under paragraph (j) to Rule 15c3-3. Therefore, the Commission estimates that the annual recordkeeping burden to broker-dealers<sup>32</sup> arising from the requirement will be approximately 421,527.93 hours.<sup>33</sup>

Paragraph (o)(2)(i) of Rule 15c3-3 requires a broker-dealer that effects transactions for customers in SFPs to provide each customer that engages in SFP transactions with a disclosure document containing certain information. The Commission estimates that 8% of the accounts held by broker-dealers that are also registered as FCMs, or 1,270,616 accounts, may engage in SFP transactions.<sup>34</sup> The Commission estimates that it will take approximately 3 minutes to create each record.<sup>35</sup> Thus, the total annual disclosure burden associated with the requirements of paragraph (o)(2)(i) will be approximately 63,530.80 hours.<sup>36</sup>

Paragraph (o)(3) of Rule 15c3-3 requires a broker-dealer that effects transactions in SFPs for customers to make a record of each change in account type and to provide certain customers

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<sup>29</sup> 159 broker-dealers x 200 hours per firm = 31,800 hours. For purposes of this supporting statement, this one-time burden annualized over the three-year approval period is 10,600 hours (31,800 / 3 = 10,600), with an average hour burden per broker-dealer of 66.67 hours (10,600 / 159 broker-dealers = 66.666, rounded to 66.67).

<sup>30</sup> This estimate is based on the total number of public customer accounts listed on line 8080 of firms' FOCUS reports, as of December 2015.

<sup>31</sup> The Commission estimates approximately 6,322,919 accounts (126,458,378 x 5% = 6,322,918.9, rounded to 6,322,919) will be impacted annually.

<sup>32</sup> This annual burden will affect the 159 broker-dealers that carry free credit balances.

<sup>33</sup> (6,322,919 accounts x 4 minutes per account) / 60 minutes = 421,527.933, rounded to 421,527.93 hours. For purposes of this supporting statement, the Commission divided the total annual hour burden by 159 respondents for average annual burden per firm of 2,651.12 hours (421,527.93 / 159 = 2,651.119, rounded to 2,651.12).

<sup>34</sup> 15,882,696 accounts x 8% = 1,270,615.68, rounded to 1,270,616 accounts. The Commission derived its 8% estimate from the number of active options accounts and conversations with industry representatives.

<sup>35</sup> The Commission estimates that most firms will have this process automated. To the extent that no person need be involved in the generation of this record, the burden will be very minimal.

<sup>36</sup> 1,270,616 accounts x (3 minutes/60 minutes) = 63,530.80 hours

with disclosure documents containing certain information about SFP products.<sup>37</sup> The Commission estimates that broker-dealers that were also registered as futures commission merchants (“FCMs”) maintained approximately 15,882,696 customer accounts.<sup>38</sup> The Commission estimates that 8% of these customers may engage in SFP transactions,<sup>39</sup> and that of that 8%, 20% per year may change account type, requiring a broker-dealer to promptly notify the customer in writing on the date that change became effective.<sup>40</sup> Thus, broker-dealers may be required to create these records for approximately 254,123 accounts.<sup>41</sup> The Commission estimates that it will take approximately 3 minutes to create each record.<sup>42</sup> Thus, the total annual recordkeeping and disclosure burden associated with the requirements of paragraph (o)(3) will be approximately 12,706.15 hours.<sup>43</sup>

A broker-dealer that is determining whether a registered clearing or derivatives organization meets the requirements of Note G to Exhibit A to Rule 15c3-3 may not rely on the credit rating of that organization to determine whether the broker-dealer can keep customer’s positions in security future products with the organization for purposes of the reserve computation. Thus, broker-dealers that previously relied on ratings for the purposes of Note G use another method for assessing the creditworthiness of registered clearing or derivatives organizations. The Commission believes that approximately 72 broker-dealers will be required to change or update how they assess the creditworthiness of registered clearing or derivatives organizations under Note G.<sup>44</sup> The Commission believes that broker-dealers will spend .25 hours determining whether a clearing or derivatives organization meets the requirements of Note G, resulting in an annual recordkeeping burden of 18 hours.<sup>45</sup> The Commission further believes

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<sup>37</sup> More specifically, a broker-dealer that changes the type of account in which a customer’s SFPs are held must create a record of each change in account type that includes the name of the customer, the account number, the date the broker-dealer received the customer’s request to change the account type, and the date the change in account type took place.

<sup>38</sup> This estimate is based on the number of accounts that, as of December 2015, were listed on line 8080 of Schedule 1 of firms’ FOCUS reports provided that those firms also had a dollar amount greater than 0 listed on line 7465 of their Part II CSEs of their FOCUS reports.

<sup>39</sup>  $15,882,696 \text{ accounts} \times 8\% = 1,270,615.68$ , rounded to 1,270,616 accounts. The Commission derived its estimate from the number of active options accounts and conversations with industry representatives.

<sup>40</sup> Broker-dealers that engage in an SFP business may choose not to allow customers to change account type because it may be costly to facilitate such conversions. In addition, once a customer has researched the issue and made a choice as to account type, it may be unlikely for the customer to change his or her account type.

<sup>41</sup>  $1,270,616 \text{ accounts} \times 20\% = 254,123.2$ , rounded to 254,123 accounts.

<sup>42</sup> The Commission estimates that most firms will have this process automated. To the extent that no person need be involved in the generation of this record, the burden will be very minimal.

<sup>43</sup>  $254,123 \text{ accounts} \times (3\text{min} / 60\text{min}) = 12,706.15 \text{ hours}$ .

<sup>44</sup> The number 72 comes from reviewing the members of the Options Clearing Corporation (“OCC”) listed in the member directory on the OCC’s website, *available at* <http://www.optionsclearing.com/membership/member-information/>. Of the list of 228 members, the Commission looked only at those who trade in single stock futures. Of the list of members that trade in single stock futures, the Commission deleted any members who had the exact same firm name but different firm numbers.

<sup>45</sup>  $72 \text{ broker-dealers} \times .25 \text{ hours} = 18 \text{ hours}$ .



that broker-dealers will spend one hour changing or reviewing their methods for determining whether a clearing or derivatives clearing organization meets the requirements of Note G, resulting in a one-time recordkeeping burden of 72 hours.<sup>46</sup>

Consequently, the Commission estimates that the total annualized hour burden for the total collection under Rule 15c3-3 is 555,604 hours.<sup>47</sup>

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<sup>46</sup> 72 broker-dealers x 1 hour = 72 hours. For purposes of this supporting statement, this one-time burden annualized over the three-year approval period is 24 hours ( $72 / 3 = 24$ ), with an average hour burden per broker-dealer of .33 hours ( $24/72$  broker-dealers = .33). The staff believes that broker-dealers will be subject to a one-time cost associated with reviewing the standards a broker-dealer uses to determine whether a registered clearing or derivatives organization meets the requirements of Note G.

<sup>47</sup> 7,500 hours + 21,060 hours + 1,500 hours + 930 hours + 7,410 hours + 60 hours + 1,875 hours + 4,546.67 hours + 206.66 hours + 3.47 hours + 413.54 hours + 87 hours + 14.50 hours + 1,590 hours + 10,600.53 hours + 421,527.93 hours + 63,530.80 hours + 12,076.15 hours + 41.76 hours = 555,604.01 hours.

Summary of Hourly Burdens										
Name of Information Collection	Type of Burden	Number of Entities Impacted	Annual Responses per Entity	Initial Burden per Entity per Response	Initial Burden Annualized per Entity per Response	Ongoing Burden per Entity per Response	Annual Burden Per Entity per Response	Total Annual Burden Per Entity	Total Industry Burden	Small Business Entities Affected
Rule 15c3-3(e)(3) – daily computations	Recordkeeping	12	250	0.00	0.00	2.50	2.50	625.00	7,500.00	0
Rule 15c3-3(e)(3) – weekly computations	Recordkeeping	162	52	0.00	0.00	2.50	2.50	130.00	21,060.00	0
Rule 15c3-3(e)(3) monthly computations	Recordkeeping	50	12	0.00	0.00	2.50	2.50	30.00	1,500.00	5
Rule 15c3-3(e) - updates	Recordkeeping	31	1	30.00	10.00	0.00	10.00	10.00	930.00	0
Rule 15c3-3(e) – weekly computations	Recordkeeping	57	52	0.00	0.00	2.50	2.50	130.00	7,410.00	0
Rule 15c3-3(e) - monthly computations	Recordkeeping	2	12	0.00	0.00	2.50	2.50	30.00	60.00	0
Rule 15c3-3(e) - daily computations	Recordkeeping	3	250	0.00	0.00	2.50	2.50	625.00	1,875.00	0
Rule 15c3-3(a)(16)	Recordkeeping	62	11	20.00	6.667	0.00	6.667	73.37	4,546.67	0
Rule 15c3-3(b)(5) – drafting/updating notice	Recordkeeping	62	1	10.00	3.33	0.00	3.33	3.33	206.66	0
Rule 15c3-3(b)(5) – notices to affected customers	Third-Party	62	0.84	0.17	0.06	0.00	0.06	0.06	3.47	0
Rule 15c3-3(b)(5) – amend/updatet agreement	Recordkeeping	62	1	20.00	6.67	0.00	6.67	6.67	413.54	0
Rule 15c3-3(f) - obtain new letter	Recordkeeping	346	0.25	0.00	0.00	1.00	1.00	1.00	87.00	0
Rule 15c3-3(f) - notice	Reporting	346	0.083	0.00	0.00	0.50	0.50	0.50	14.50	0
Rule 15c3-3(j)(1) - annual	Recordkeeping	159	1	0	0.00	10.00	10.00	10.00	1,590.00	5
Rule 15c3-3(j)(2) - initial	Recordkeeping	159	1	200.00	66.67	0.00	66.67	66.67	10,600.53	0
Rule 15c3-3(j)(2) - annual	Recordkeeping	159	39,766	0.00	0.00	0.0667	0.0667	0.0667	421,527.93	0
Rule 15c3-3(o)(2)(i)	Third-Party	159	7,991.3	0.00	0.00	0.05	0.05	0.05	63,530.80	0
Rule 15c3-3(o)(3)	Third-Party	159	1,598	0.00	0.00	0.05	0.05	0.05	12,706.15	0
Rule 15c3-3, Note G	Recordkeeping	72	1	1.00	0.33	0.25	0.58	0.58	41.76	0
<b>TOTAL HOURLY BURDEN FOR ALL RESPONDENTS</b>									<b>555,604.01</b>	

### 13. Costs to Respondents

Paragraph (b)(5) of Rule 15c3-3 will require a broker-dealer to incur postage costs when sending out the required written notice to customers. The Commission estimates that there are approximately 1,037 existing PAB customers and approximately 5% of those customers will be affected by this requirement as they have not yet received the required written notice from their broker-dealer.<sup>48</sup> Therefore, broker-dealers will have to send approximately 52 written notices. These carrying broker-dealers will likely use the least expensive method to comply with this requirement and may include this notification with other mailings sent to PAB account holders. The Commission, however, conservatively estimates that the postage cost or each notification, using the current price of first class postage, will be approximately \$0.49 per document sent.

<sup>48</sup> 1,037 PAB account holders x 5% = 51.85 PAB account holders, rounded to 52 PAB account holders.

Therefore, the Commission estimates that the total disclosure cost associated with sending the required written notification to PAB account holders will be approximately \$25.48.<sup>49</sup>

Additionally, the Commission estimates that the 62 broker-dealers carrying PAB accounts likely will engage outside counsel to review the required notice, as well as the standard PAB template agreement under the final rule amendments to Rule 15c3-3. As a result, the Commission estimates that these 62 broker-dealers will likely incur \$2,000 in legal costs,<sup>50</sup> for a total recordkeeping cost to the industry of \$124,000<sup>51</sup> to review and comment on these materials.

The Commission also estimates that broker-dealers will consult with outside counsel in making system changes, particularly with respect to the language in the disclosures and notices under paragraph (j)(2) to Rule 15c3-3 related to the treatment of free credit balances. As a result, the Commission estimates that the average one-time recordkeeping cost to a broker-dealer will be approximately \$20,000<sup>52</sup> and the average one-time recordkeeping cost to broker-dealers will be approximately \$3,180,000.<sup>53</sup>

Rule 15c3-3(o)(2)(i) requires a broker-dealer that effects transactions for customers in SFPs to provide each customer that engages in SFP transactions with a disclosure document containing certain information. The costs of printing and sending the disclosure document to customers will be based on the number of customer accounts that will be opened by customers to effect transactions in SFPs. As applied in section 12 above, the Commission estimates that 8% of the accounts held by broker-dealers that are also registered as FCMs, or 1,270,616 accounts, may engage in SFP transactions.<sup>54</sup> The Commission also estimates that the cost of printing and sending each disclosure document will be approximately \$.49 per document sent, based on the price of first class postage. Therefore, the Commission estimates that the annual recordkeeping and disclosure cost burden associated with this rule requirement to be approximately \$622,601.84.<sup>55</sup>

Rule 15c3-3(o)(3)(ii) requires a broker-dealer that changes the type of account in which a customer's SFPs are held to promptly notify the customer in writing of the date that change

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<sup>49</sup> 52 notices x \$0.49 = \$25.48, or about \$8.50 annualized over three years.

<sup>50</sup> 5 hours x \$400 per hour = \$2,000. The Commission estimates the review of the notice and standard PAB template will require 5 hours of outside counsel time, which is the same estimate used for outside counsel review in another recent release. Based on Commission experience with the PAIB Letter and the application of Rule 15c3-3, the Commission estimates the outside counsel review related to the PAB amendments will take a comparable amount of time.

<sup>51</sup> 62 firms x \$2,000 legal cost = \$124,000.

<sup>52</sup> \$400 per hour x 50 hours = \$20,000. The Commission estimates that the average hourly cost for an outside counsel will be approximately \$400 per hour. The Commission used the estimate of \$400 per hour for legal services provided by outside counsel, which is the same estimate used by the Commission in other recent releases.

<sup>53</sup> 159 broker-dealers x \$20,000 = \$3,180,000, or \$1,060,000 annualized over three years.

<sup>54</sup> 15,882,696 accounts x 8% = 1,270,615.68, rounded to 1,270,616 accounts. The Commission derived its 8% estimate from the number of active options accounts and conversations with industry representatives.

<sup>55</sup> 1,270,616 accounts x \$.49 = \$622,601.84.

became effective. The Commission estimates that 254,123 accounts<sup>56</sup> may change account type per year, thus broker-dealers will be required to send this notification to 254,123 customers. The Commission notes that firms will likely use the least expensive method to comply with these requirements, and may include this notification with other mailings, such as customer account statements, sent to the customer. Therefore, the Commission estimates that the cost of printing and posting each notification will be approximately \$.49 per document sent, resulting in an annual recordkeeping and disclosure burden of \$124,520.27.<sup>57</sup>

Consequently, the Commission estimates that the total annual cost associated with Rule 15c3-3 is approximately \$1,848,464.68.<sup>58</sup>

Summary of Dollar Costs										
Name of Information Collection	Type of Burden	Number of Entities Impacted	Annual Responses per Entity	Initial Cost per Entity per Response	Initial Cost Annualized per Entity per Response	Ongoing Cost per Entity per Response	Annual Cost Per Entity per Response	Total Annual Cost Per Entity	Total Industry Cost	Small Business Entities Affected
Rule 15c3-3(b)(5)	Third-party disclosure	62	0.8387	\$0.49	\$0.16	0	\$0.16	\$0.16	\$8.50	0
Rule 15c3-3(b)(5)	Recordkeeping	62	1	\$2,000.00	\$666.67	0	\$666.67	\$666.67	\$41,333.54	0
Rule 15c3-3(j)(2)	Recordkeeping	159	1	\$20,000.00	\$6,666.67	0	\$6,666.67	\$6,666.67	\$1,060,000.53	0
Rule 15c3-3(o)(2)(i)	Third-party disclosure	159	7991.3	\$0.00	\$0.00	\$0.49	\$0.49	\$0.49	\$622,601.84	0
Rule 15c3-3(o)(3)(ii)	Third-party disclosure	159	1,598	\$0.00	\$0.00	\$0.49	\$0.49	\$0.49	\$124,520.27	0
<b>TOTAL COST FOR ALL RESPONDENTS</b>									<b>\$1,848,464.68</b>	

#### 14. Costs to Federal Government

The staff does not anticipate this information collection to impose additional costs to the Federal Government.

#### 15. Changes in Burden

The overall hour burden increased primarily due to the increased number of broker-dealer customer accounts estimated in this collection (126,458,378) versus the estimate in the prior collection (110,493,215). In addition, this collection included a more detailed estimate of the burden associated with broker-dealers' security futures product activity, which resulted in a higher overall hour burden estimate.

<sup>56</sup> 1,270,616 accounts x 20% = 254,123.2 accounts, rounded to 254,123 accounts.

<sup>57</sup> 254,123 accounts x \$.49 = \$124,520.27.

<sup>58</sup> \$8.50 + \$41,333.54 + \$1,060,000.53 + \$622,601.84 + \$124,520.27 = \$1,848,464.68.

**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 omit the expiration date.

**18. Exceptions to Certification for Paperwork Reduction Act Submissions**

This collection complies with the requirements in 5 CFR 1320.9.

**B. Collections of Information Employing Statistical Methods**

This collection does not involve statistical methods.