

**SUPPORTING STATEMENT**  
**for the Paperwork Reduction Act Information Collection Submission for**  
**Rule 15c2-7**

**A. JUSTIFICATION**

**1. Necessity of Information Collection**

The Securities and Exchange Commission (“Commission”) adopted Rule 15c2-7 in 1964 to enhance reliability and transparency of inter-dealer quotation systems. The rule was primarily derived from the findings of a Special Study of Securities Markets (“Special Study”). Based on the Special Study, the Commission determined that additional regulation was necessary to strengthen the integrity of wholesale quotations systems and in turn, the over-the-counter market.

Rule 15c2-7 enumerates certain criteria that broker-dealers must meet to furnish a quotation for a security to an inter-dealer quotation system, such as the OTC Bulletin Board (“OTCBB”) or OTC Link (formerly “Pink Sheets”), operated by OTC Markets Group Inc. (“OTC Link”). Prior to the adoption of Rule 15c2-7, broker-dealers could submit price quotations to inter-dealer quotation systems on behalf of other broker-dealers as correspondents, or in furtherance of a pre-existing agreement, without indicating the identity of other involved broker-dealers.

The Commission found that this practice and broker-dealers’ resulting inability to identify participants to transactions precluded users of inter-dealer quotation systems from determining the full depth and activity of the market for a particular security. The Commission further determined that broker-dealers’ failure to identify quotations entered on behalf of third-parties created an environment where inter-dealer quotation systems could be used for fraudulent or manipulative purposes.

Rule 15c2-7 requires that broker-dealers acting as correspondents for other broker-dealers disclose to the inter-dealer quotation system both the existence of the relationship and the identity of the other party when submitting a price quotation in that capacity. Rule 15c2-7 also requires that a quotation for a security submitted in furtherance of any other existing arrangement between or among broker-dealers must be accompanied by a disclosure to the inter-dealer quotation system that identifies each broker-dealer involved in the arrangement. The rule further requires that the inter-dealer quotation system must make it a general practice to disclose any of these relationships with each published quotation. Lastly, Rule 15c2-7 requires that when a broker-dealer is involved in an arrangement that calls for multiple broker-dealers to submit quotations for a particular security, that broker-dealer must inform all involved broker-dealers of both the arrangement and the identity of the involved parties.

**2. Purpose and Use of the Information Collection**

The information required by Rule 15c2-7 is necessary for the Commission’s mandate under the Securities Exchange Act of 1934 to prevent fraud, manipulation and deceptive acts and practices. When Rule 15c2-7 was adopted in 1964, the information it required was critical to the

Commission's role in monitoring broker-dealers and protecting the integrity of over the counter markets. It was through the disclosures required by Rule 15c2-7 that inter-dealer quotation systems would reflect the demand for and market activity related to the securities quoted on these systems.

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

Improvements to information and data processing technologies have reduced regulatory burdens that may have otherwise arisen under Rule 15c2-7. The Commission is not aware of any technical or legal obstacles to reducing the burden through the use of improved information technology.

### **4. Duplication**

The information required under Rule 15c2-7 does not duplicate that required by any other federal regulation.

### **5. Effect on Small Entities**

The requirements for Rule 15c2-7 apply evenly to all broker-dealers submitting quotations through inter-dealer quotation systems. The Commission does not believe the requirements of Rule 15c2-7 are unduly burdensome on small entities.

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

Rule 15c2-7 was adopted after the Commission determined that its information requirements were necessary to improve the integrity of inter-dealer quotation systems. Less frequent collection of the required information could potentially result in a reversion to the pre-adoption environment that was cause for the Commission's concern.

### **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. No public comments were received.

### **9. Payment or Gift**

Payments or gifts to respondents are not required.

### **10. Confidentiality**

No assurance of confidentiality is provided.

#### **11. Sensitive Questions**

No questions of a sensitive nature are asked. The information collection does not collect any Personally Identifiable Information (PII).

#### **12. Burden of Information Collection**

There are approximately 3,939 broker-dealers registered with the Commission. Any of these broker-dealers could be potential respondents for Rule 15c2-7, so the Commission is using that number as the number of respondents. Only quotations entered into an inter-dealer quotation system such as OTC Link or OTCBB, are covered by Rule 15c2-7. According to representatives of both OTC Link and the OTCBB, neither entity has recently received, nor anticipates receiving, any Rule 15c2-7 notices. However, because such notices could be made, the Commission estimates that one filing, in the aggregate, by only one broker-dealer, is made annually pursuant to Rule 15c2-7.

Based on prior industry estimates, the time required to enter a notice pursuant to Rule 15c2-7 is 45 seconds, or .75 minutes. The Commission sees no reason to change this estimate. In sum, it is thought that impacted respondents spend a total of .0125 hours per year to comply with the requirements of Rule 15c2-7 (1 notice (x) 45 seconds/notice). These hours represent a third party disclosure burden for each published quotation that is subject to the rule. The Commission estimates that a typical employee of a broker-dealer charged to ensure compliance with Commission regulations receives annual compensation of \$139,577. This compensation is the equivalent of \$67.10 per hour (\$139,577 divided by 2,080 payroll hours per year). Thus, the Commission estimates that the annual internal cost of compliance for Rule 15c2-7 is \$0.84 (\$67.10/hour multiplied by 0.0125 hours). This cost reflects the cost of internal labor only.

#### **13. Costs to Respondents**

Not applicable; (a) it is not anticipated that respondents will have to incur any capital and start-up cost to comply with the rule; (b) it is not anticipated that the respondents will have to incur any additional operational or maintenance cost (other than provided for in Item no. 12 above) to comply with the rule.

#### **14. Costs to Federal Government**

The government does not experience any direct costs based on the record keeping required pursuant to Rule 15c2-7.

#### **15. Changes in Burden**

Based on discussions with representatives of the OTCBB and OTC Link, the Commission believes that the industry practice relating to the notices made under Rule 15c2-7 remains at most minimal. As a result, there are no changes in estimated third party disclosure burden.

**16. Information Collection Planned for Statistical Purposes**

Not applicable. There are no plans to require the publication of these records in the future.

**17. Approval to Omit OMB Expiration Date**

The Commission is not seeking approval to omit the expiration date.

**18. Exceptions to the 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.