SUPPORTING STATEMENT
for the Paperwork Reduction Act Information Collection Submission for
Rule 15c2-1

A. JUSTIFICATION

1. Necessity of Information Collection

The Securities and Exchange Commission ("Commission") adopted Rule 15c2-1[1] together with Rule 8c-1[2] in 1940 to implement section 8(c) of the Securities Exchange Act of 1934 ("Exchange Act").[3] Section 8(c) of the Exchange Act addresses the pledging of customer securities by a broker-dealer as collateral for a loan (the "hypothecation" of the securities) and prohibits broker-dealers from: commingling the securities of different customers as collateral for a loan without the written consent of each customer; commingling customer securities with securities owned by the broker-dealer as collateral for a loan; or pledging customer securities for more than the total amount that all customers owe the broker-dealer on the securities (the "aggregate indebtedness" of the customers with respect to the securities). Rule 15c2-1, like Rule 8c-1, was adopted to furnish added protection to customers against losses which may result from broker-dealer failures. To this end, the two rules, in effect, prohibit broker-dealers from risking the securities of their customers as collateral to finance their own trading, speculating or underwriting ventures.

As adopted, Rule 15c2-1 prohibits, with certain exemptions, the commingling under the same lien of securities of margin customers: (a) with other customers without their written consent, and (b) with the broker-dealer. The rule also prohibits the re-hypothecation of customers' margin securities for a sum in excess of the customer's aggregate indebtedness.[4]

The Commission is statutorily authorized by section 15(c)(2) of the Exchange Act to adopt rules and regulations that define and prescribe means reasonably designed to prevent such acts and practices as are fraudulent, deceptive, or manipulative. Further statutory authority is found in section 23(a) of the Exchange Act.

2. Purpose and Use of the Information Collection

The information required by the rule is necessary for the execution of the Commission's mandate under the Exchange Act to prevent fraudulent, manipulative, and deceptive acts and practices by broker-dealers. In addition, the information required by the rule provides important

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1 17 CFR 240.15c2-1.

2 17 CFR 240.8c-1.

3 *See* Exchange Act Release No. 2690 (Nov. 15, 1940), 11 FR 10982 (Sept. 27, 1946). Rules 8c-1 and 15c2-1 were amended in 1971 to expand a limited exemption from the rules for the loans of clearing corporations of registered national securities associations. Exchange Act Release No. 9428 (Dec. 29, 1971), 37 FR 73 (Jan. 5, 1972).

4 *Id.*

investor protections.

3. Consideration Given to Information Technology

The compilation of this information must be done on an individual basis for each potential lender. Thus, improved information technology would not reduce the burden.

4. Duplication

Although Rule 8c-1 requires similar information, no rule prohibits combining the notices and consents under both Rules 8c-1 and 15c2-1 in the same documents.

5. Effect on Small Entities

The rule is not unduly burdensome on small broker-dealers because small broker-dealers generally would not carry customer accounts.

6. Consequences of Not Conducting Collection

The information is collected as each transaction warrants and, therefore, there is no way to require less frequent collection without undermining the purposes of the rule.

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 comments were received.

9. Payment or Gift

No payment or gift was provided to respondents.

10. Confidentiality

No assurances of confidentiality are provided in the statute or the rule.

11. Sensitive Questions

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

12. Information Collection Burden

Only broker-dealers that carry customer accounts can pledge customer securities as collateral for bank loans. There are approximately 79 respondents as of year-end 2016 (i.e., broker-dealers that conducted business with the public, filed Part II or Part IICSE of the FOCUS Report, did not claim an exemption from the Rule 15c3-3 reserve formula computation, and reported that they had a bank loan during at least one quarter of the current year).

Under Rule 15c2-1, a broker-dealer cannot commingle the securities of different customers as collateral for a loan without the written consent of each customer. Paragraph (f) of Rule 15c2-1 provides that when a broker-dealer hypothecates customer securities, it must give written notice to the lender that the securities are customer securities and that the hypothecation does not contravene any section of the rule. If the account is an omnibus account, the broker-dealer for whom the account is carried may furnish a statement to the person carrying the account that all the securities are customer securities and that the hypothecation does not contravene any section of the rule.

It is difficult to make a meaningful estimate of the reporting burden on respondents because of the variation in size of broker-dealers subject to the rule. For example, the amount of time required to comply with the rule will vary, depending on the amount of customer securities hypothecated by the broker-dealer. For each hypothecation, Commission staff estimates that it takes an average of approximately 10 minutes to create and send a notice of hypothecation to the pledgee in accordance with the rule and an average of approximately 20 minutes to request and process consents from customers to permit commingling of customer accounts under the same lien, for a total of 30 minutes. The staff also estimates that the respondent broker-dealers hypothecate customer securities an average of 45 times per year. The total annual compliance burden is therefore approximately 1,778 hours (79 x 45 x .5).[5] This total annual hour burden relates to both third party disclosure (10 minutes to create and send a notice) and recordkeeping (20 minutes to request and process customers consents), resulting in approximately 593 hours (10/30 x 1,778) related to third party disclosure and approximately 1,185 hours (20/30 x 1,778) related to recordkeeping, of the 1,778 annual hours.

13. Costs to Respondents

Respondents will not incur any capital, start up, operational, or maintenance costs to comply with the rule.

14. Costs to Federal Government

Respondent broker-dealers maintain the records required by this rule, so there is no cost to the federal government.

[5] 79 x 45 = 3,555 responses.

15. Changes in Burden

The changes in burden are due to an increase in the estimated number of respondents from 61 to 79.

16. Information Collection Planned for Statistical Purposes

There is no intention to publish the information for any purpose.

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.