

**SUPPORTING STATEMENT**  
**For the Paperwork Reduction Act Information Collection Submission for**  
**Form CRS and Rule 17a-14 under the Securities Exchange Act of 1934**

**A. JUSTIFICATION**

**1. Necessity for the Information Collection**

On April 18, 2018, the Securities and Exchange Commission (“Commission”) issued a release proposing new Form CRS and rule 17a-14 under the Securities Exchange Act of 1934.<sup>1</sup> The Proposal would require registered broker-dealers that offer services to retail investors to prepare, file with the Commission on the Commission’s Electronic Data Gathering, Analysis and Retrieval System (“EDGAR”), post to the broker-dealer’s website (if it has one), and deliver to retail investors a brief relationship summary.

The relationship summary would assist retail investors in making an informed choice when choosing an investment firm and professional, and would contain sections covering: (i) introduction; (ii) the relationships and services the firm offers to retail investors; (iii) the standard of conduct applicable to those services; (iv) the fees and costs that retail investors will pay; (v) comparisons of brokerage and investment advisory services (for standalone broker-dealers and investment advisers); (vi) conflicts of interest; (vii) where to find additional information, including whether the firm and its financial professionals currently have reportable legal or disciplinary events and who to contact about complaints; and (viii) key questions for retail investors to ask the firm’s financial professional. Each relationship summary would be publicly

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<sup>1</sup> Form CRS Relationship Summary; Amendments to Form ADV; Required Disclosures in Retail Communications and Restrictions on the use of Certain Names or Titles, Release No. 34-83063, IA-4888 (Apr. 18, 2018).

available on the Commission's website, and a firm also would be required to post its relationship summary on its website, if it has one.<sup>2</sup>

Retail investors would receive a relationship summary at the beginning of a relationship with a firm, and would receive updated information following a material change. Specifically, a registered broker-dealer would deliver its relationship summary before or at the time a retail investor first engages the firm's services. In addition, a firm would be required to deliver the relationship summary before or at the time a new account is opened or changes are made to an existing retail customer's account(s) that would materially change the nature and scope of the firm's relationship with the retail investor.<sup>3</sup> The proposal also contains requirements to update the relationship summary. A firm would be required to update its relationship summary within 30 days whenever the relationship summary becomes materially inaccurate, to post the latest version on their websites (if they have one), and electronically file it with the Commission. Broker-dealers would file their updated relationship summaries electronically in a text-searchable format with the Commission on EDGAR. Firms would be required to communicate the updated information to their existing retail investors and may do so by delivering the amended relationship summary or by communicating it another way to the retail investor. A firm would be permitted to deliver the relationship summary (including updates) electronically, consistent with the Commission's guidance regarding electronic delivery.

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<sup>2</sup> Firms that do not maintain a website would be required to include in their relationship summaries a toll-free number for investors to call to obtain documents.

<sup>3</sup> Such changes would include a recommendation that the retail investor transfer from an investment advisory account to a brokerage account or from a brokerage account to an investment advisory account, or move assets from one type of account to another in a transaction that is not in the normal, customary, or already agreed course of dealing. A move of assets from one type of account to another in a transaction not in the normal, customary, or already agreed course of dealing could include, for example, asset transfers due to an IRA rollover; deposits or the investment of monies based on infrequent events or unusual size, such as an inheritance or receipt from a property sale; or a significant migration of funds from savings to an investment account.

Proposed Form CRS and rule 17a-14 is a “collection of information” within the meaning of the Paperwork Reduction Act of 1995 (“Paperwork Reduction Act”),<sup>4</sup> and the Commission is submitting the collection of information to the Office of Management and Budget (“OMB”) for review in accordance with 44 U.S.C. 3507(d) and 5 CFR 1320.11. The title for the collection of information is: Form CRS and rule 17a-14 under the Exchange Act. This collection of information would be found at 17 CFR 240.17a-14 and 17 CFR 249.640 and would be mandatory. Responses would not be kept confidential. The respondents would be broker-dealers registered with the Commission that offer services to a retail investor.

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

The purpose of Form CRS is to assist retail investors in making an informed choice when choosing an investment firm and professional, and type of account. Retail investors can use the information required in Form CRS to determine whether to hire or retain a broker-dealer, as well as what types of accounts and services are appropriate for their needs. It is also intended to facilitate comparisons across firms that offer the same or substantially similar services. The Commission also will use the information to manage its regulatory and examination programs. The collection of information is necessary to provide broker-dealer customers, prospective customers, and the Commission with information about the broker-dealer and its business, conflicts of interest and personnel.

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

The information collected pursuant to Form CRS takes the form of disclosures made by broker-dealers to their customers and potential customers and reporting to the Commission. Broker-dealers would file their Form CRS electronically on EDGAR. Dual registrants would file

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<sup>4</sup> 44 U.S.C. 3501 *et seq.*

on both EDGAR and the Investment Adviser Registration Depository (“IARD”). We are proposing IARD and EDGAR because they are familiar filing systems for investment advisers and broker-dealers. Investment advisers registered with the Commission file Form ADV on IARD. Many broker-dealers submit documents to the Commission on EDGAR and all broker-dealers have an EDGAR CIK number.<sup>5</sup> By having firms file the relationship summaries with the Commission, the Commission can more easily monitor the filings for compliance with Form CRS. We believe that requiring dual registrants to file on both EDGAR and IARD is appropriate and in the public interest and will improve investor protection. This is because retail investors seeking brokerage services (but not investment advisory services) would be likely to search EDGAR, and retail investors seeking investment advisory services (but not brokerage services) would be likely to search IARD. We also believe that the public would benefit by being able to use a central location to find any firm’s relationship summary, and that easy access to various relationship summaries through one source may facilitate simpler comparison across firms. In addition, some firms may not maintain a website, and therefore their relationship summaries would not otherwise be accessible to the public.

#### **4. Duplication**

The Commission periodically evaluates rule-based reporting and recordkeeping requirements for duplication, and reevaluates them whenever it adopts changes in its rules. Broker-dealers are subject to other disclosure requirements under the federal securities laws and

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<sup>5</sup> During fiscal year 2017, approximately 1,100 broker-dealers submitted documents to the Commission using EDGAR. Broker-dealers can file their annual reports on EDGAR and broker-dealers that also conduct another business activity (e.g., broker-dealers that are also municipal advisers or large traders) use EDGAR for other required filings.

rules of self-regulatory organizations (“SROs”).<sup>6</sup> The relationship summary would provide in one place, for the first time, summary information about the services, fees, conflicts, and disciplinary history for broker-dealers. We believe that requiring broker-dealers to provide this type of disclosure at the time retail investors are newly selecting or deciding whether to stay with a firm, financial professional, or type of investment account, is necessary to helping retail investors make decisions that meet their needs and expectations.

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

The proposed disclosure requirements under Form CRS and rule 17a-14 would not distinguish between small entities and other broker-dealers. We recognize that different firms may require different amounts of time or external assistance in preparing the relationship summary. The Commission believes, however, that imposing different requirements on smaller firms would not be consistent with investor protection and the purposes of the relationship summary. The Commission reviews all rules periodically, as required by the Regulatory Flexibility Act, to identify methods to minimize recordkeeping or reporting requirements affecting small businesses.

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

The collection of information required by the form is necessary to protect investors and

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<sup>6</sup> Broker-dealers register with and report information to the Commission, the SROs, and other jurisdictions through Form BD. Form BD requires information about the background of the applicant, its principals, controlling persons, and employees, as well as information about the type of business the broker-dealer proposes to engage in and all control affiliates engaged in the securities or investment advisory business. Broker-dealers report whether a broker-dealer or any of its control affiliates have been subject to criminal prosecutions, regulatory actions, or civil actions in connection with any investment-related activity, as well as certain financial matters. Once a broker-dealer is registered, it must keep its Form BD current by amending it promptly when the information is or becomes inaccurate for any reason. In addition, firms report similar information and additional information to FINRA pursuant to FINRA Rule 4530. In addition, under existing antifraud provisions of the Exchange Act, a broker-dealer has a duty to disclose material information to its customers conditional on the scope of the relationship with the customer.

deter potentially misleading sales practices by providing customers and potential customers, as well as the Commission, with information about the broker-dealer, the services it offers to retail investors, applicable standard of conduct, fees, and conflict of interests. Providing this information before or at the time a retail investor first engages a brokerage firm's services, as well as at certain points during the relationship (e.g., switching or adding account types) would help retail investors to make a more informed choice among the types of firms and services available to them. The consequences of not collecting this information include continued retail investor confusion about the differences among broker-dealers, investment advisers, and firms registered with the Commission as both broker-dealers and investment advisers. In addition, if the information is either not collected or is collected less frequently, the Commission's ability to protect investors would be reduced.

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

Not Applicable.

**8. Consultation Outside the Agency**

In its release proposing Form CRS and rule 17a-14, the Commission requested public comment on the effect of information collections under the proposed new rules and rule amendments. The Commission and staff of the Division of Investment Management and Division of Trading and Markets participate in an ongoing dialogue with representatives of the investment advisory and broker-dealer industries through public conferences, meetings, and informal exchanges. These various forums provide the Commission and staff with a means of ascertaining and acting upon paperwork burdens confronting the industry.

**9. Payment or Gift**

Not Applicable.

**10. Confidentiality**

Not Applicable.

## **11. Sensitive Questions**

No information of a sensitive nature, including social security numbers, will be required under this collection of information. The information collection collects basic Personally Identifiable Information (PII) that may include names, job titles, work addresses, and phone numbers. However, the agency has determined that the information collection does not constitute a system of record for purposes of the Privacy Act. Information is not retrieved by a personal identifier. In accordance with Section 208 of the E-Government Act of 2002, the agency has conducted a Privacy Impact Assessment (PIA) of the EDGAR system, in connection with this collection of information. The EDGAR PIA, published on 1/29/2016, is provided as a supplemental document and is also available at <https://www.sec.gov/privacy>

In accordance with Section 208 of the E-Government Act of 2002, the agency has conducted a PIA of the IARD system, in connection with this collection of information. The IARD PIA, published on July 8, 2014, is provided as a supplemental document and is also available at <https://www.sec.gov/privacy>.

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

We estimate the total annual collection of information burden for proposed new rule 17a-14 in connection with obligations relating to the relationship summary, including (i) initial preparation, filing, and posting to a website; (ii) amendments to the relationship summary for material updates and related filing and website posting burdens; (iii) one-time initial delivery to existing customers; (iv) delivery to existing customers who are opening new accounts or materially changing the nature or scope of their relationship with the broker-dealer; (v) delivery of amended relationship summaries; and (vi) delivery to new and prospective customers. Given

these proposed requirements, we estimate the total annual aggregate hourly burden to be approximately 3,084,835 hours per year, or 1,080 hours on a per broker-dealer basis.<sup>7</sup> This translates into an aggregate annual monetized cost of \$188,578,468, or \$66,006 on a broker-dealer basis per year.<sup>8</sup>

The respondents to this information collection would be the broker-dealers registered with the Commission that would be required to deliver a relationship summary in accordance with proposed new rule 17a-14 under the Exchange Act [17 CFR 240.17a-14] and Form CRS [17 CFR 249.640]. As of December 31, 2017, there were 2,857 broker-dealers registered with the Commission that reported sales to retail customer investors,<sup>9</sup> and therefore likely would be required to prepare and deliver the relationship summary.<sup>10</sup>

#### 1. Initial Preparation, Filing, and Posting of Relationship Summary

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<sup>7</sup> 14,761 hours per year for initial preparation, filing, and posting of relationship summary + 5,714 hours per year for amendments, filing, and posting of amendments + 674,987 hours for one-time initial delivery to existing customers + 202,496 hours for delivery to existing customers making material changes to their accounts + 2,024,960 hours for delivery of amendments + 161,917 hours for delivery to new customers = 3,084,835 total annual aggregate hours. 3,084,835 hours / 2,857 broker-dealers = 1,080 hours per broker-dealer.

<sup>8</sup> \$3,792,668 per year for initial preparation, filing, and posting of relationship summary + \$924,240 per year for amendments, filing, and posting of amendments + \$40,499,200 for one-time initial delivery to existing customers (amortized over three years) + \$12,149,760 for delivery to existing customers making material changes to their accounts + \$121,497,600 for delivery of amendments + \$9,715,001 for delivery to new customers = \$188,578,468 in total annual aggregate monetized cost. \$188,578,468 / 2,857 broker-dealers = \$66,066 per broker-dealer.

<sup>9</sup> Based on FOCUS data and Form BR. Retail sales activity is identified from Form BR, which categorizes retail activity broadly (by marking the “sales” box) or narrowly (by marking the “retail” or “institutional” boxes as types of sales activity). We use the broad definition of sales as we preliminarily believe that many firms will just mark “sales” if they have both retail and institutional activity. However, we note that this may capture some broker-dealers that do not have retail activity, although we are unable to estimate that frequency. We also note that this number includes 366 broker-dealers that are dually registered as investment advisers.

<sup>10</sup> For purposes of Form CRS, a “retail investor” would be defined as: a prospective or existing client or customer who is a natural person (an individual) and would include a trust or other similar entity that represents natural persons, even if another person is a trustee or managing agent of the trust.



We estimate that the initial first year burden for preparing and filing the relationship summary would be 15.0 hours per registered broker-dealer. We also estimate that each broker-dealer would incur 0.5 hours to prepare the relationship summary for posting to its website, if it has one, such as to ensure proper electronic formatting, and to perform the actual posting.

Given these assumptions, we estimate the total one-time initial hourly burden for broker-dealers to prepare the relationship summary and file it with the Commission would be 42,855 hours,<sup>11</sup> for a monetized value of \$11,292,293.<sup>12</sup> We estimate that the initial burden of posting the relationship summary to their websites, if they have one, would be 1,428 hours,<sup>13</sup> for a monetized value of \$85,710.<sup>14</sup> To arrive at an annual burden for preparing, filing, and posting the relationship summary the initial burden would be amortized over a three-year period. Therefore, the total annual aggregate hour burden for registered broker-dealers to prepare, file, and post a relationship summary to their website, if they have one, would be 14,761 hours, or

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<sup>11</sup> 15.0 hours x 2,857 broker-dealers with retail accounts = 42,855 total hours.

<sup>12</sup> 42,855 total aggregate initial hour burden for preparing and filing a relationship summary. We expect that performance of this function will most likely be equally allocated between a senior compliance examiner and a compliance manager. Data from the SIFMA Management and Professional Earnings Report, modified to account for an 1,800-hour work year and multiplied by 5.35 to account for bonuses, firm size, employee benefits, and overhead, and adjusted for inflation (“SIFMA Management and Professional Earnings Report”) suggest that costs for these positions are \$229 and \$298 per hour, respectively. (21,427.5 hours x \$229 + (21,427.5 hours x \$298 = \$11,292,293).

<sup>13</sup> 0.5 hours x 2,857 broker-dealers = 1,428 hours to prepare and post relationship summary to the website.

<sup>14</sup> Based on data from the data from the SIFMA Office Salaries in the Securities Industry Report, modified to account for an 1,800-hour work year and multiplied by 2.93 to account for bonuses, firm size, employee benefits, and overhead (“SIFMA Office Salaries Report”), we expect that performance of this function will most likely be performed by a general clerk at an estimated cost of \$60 per hour. 1,428 hours x \$60 = \$85,710 total aggregate monetized cost.

5.17 hours per broker-dealer,<sup>15</sup> for an annual monetized cost of \$3,792,668, or \$1,328 per broker-dealer.<sup>16</sup>

## 2. Amendments to the Relationship Summary and Filing and Posting of Amendments

We do not expect broker-dealers to amend their relationship summaries frequently. Based on staff experience, we believe that many broker-dealers, as a matter of best practices, would update their relationship summary at a minimum once a year, after conducting an annual supervisory review, for example.<sup>17</sup> We also estimate that on average, each broker-dealer preparing a relationship summary may amend the disclosure once more during the year, due to emerging issues. Therefore, we assume that broker-dealers would update their relationship summary, on average, twice a year, and we estimate that broker-dealers would require 0.5 hours to amend and file the updated relationship summary, and 0.5 hours to post it to their website. Thus, we estimate that broker-dealers would incur a total annual aggregate hourly burden of 5,714 hours per year, to prepare and file, and post to their websites an estimated total of 5,714 amendments per year.<sup>18</sup>

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<sup>15</sup>  $42,855 \text{ hours} / 3 \text{ years} = 14,761$  total aggregate annual hour burden to prepare and file relationship summary.  $14,761 \text{ hours} / 2,857 \text{ broker-dealers with retail accounts} = 5.17$  hours annually per broker-dealer.

<sup>16</sup>  $(\$11,292,293 \text{ total initial aggregate monetized cost for preparation and filing} + \$85,710 \text{ for posting to the website}) / 3 = \$3,792,668$  total annual monetized cost for preparation, filing and posting the relationship summary.  $\$3,792,668 / 2,857 \text{ broker-dealers subject to relationship summary obligations} = \$1,328$  per broker-dealer.

<sup>17</sup> FINRA rules set an annual supervisory review as a minimum threshold for broker-dealers, for example in FINRA Rules 3110 (requiring an annual review of the businesses in which the broker-dealer engages), 3120 (requiring an annual report detailing a broker-dealer's system of supervisory controls, including compliance efforts in the areas of antifraud and sales practices); and 3130 (requiring each broker-dealer's CEO or equivalent officer to certify annually to the reasonable design of the policies and procedures for compliance with relevant regulatory requirements).

<sup>18</sup>  $2,857 \text{ broker-dealers amending relationship summaries} \times 2 \text{ amendments per year} = 5,714$  amendments per year.  $5,714 \text{ amendments} \times (0.5 \text{ hours to amend and file} + 0.5 \text{ hours to post to website}) = 5,714$  hours.

### 3. Delivery of the Relationship Summary

Proposed rule 17a-14 under the Exchange Act would require a broker-dealer to deliver the relationship summary, with respect to a retail investor that is a new or prospective customer, before or at the time the retail investor first engages the broker-dealer's services. Broker-dealers also would make a one-time, initial delivery of the relationship summary to all existing customers within a specified time period after the effective date of the proposal. Also with respect to existing customers, broker-dealers would deliver the relationship summary before or at the time (i) a new account is opened that is different from the retail investor's existing account(s); or (ii) changes are made to the retail investor's account(s) existing account(s) that would materially change the nature and scope of the broker-dealer's relationship with the retail investor.

#### i. One-Time Initial Delivery to Existing Customers

We estimate the burden for broker-dealers to make a one-time initial delivery of the relationship summary to existing customers based on an estimate of the number of accounts held by these broker-dealers. Based on FOCUS data, we estimate that the 2,857 broker-dealers that report retail activity have approximately 128 million customer accounts, and that approximately 79%, or 101.248 million, of those accounts belong to retail customers.<sup>19</sup> We estimate that, under the proposed rule, broker-dealers would send their relationship summary along with other required disclosures, such as periodic account statements, in order to comply with initial delivery

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<sup>19</sup> 2,857 broker-dealers (including dual registrants) report 128 million customer accounts. We are aware that, based on data from IARD, investment advisers reporting retail activity have approximately 79.1% retail clients and 21.9% non-retail clients. While acknowledging the differences between the investment adviser and broker-dealer models, we apply the 79.1% in estimating the proportion of broker-dealer accounts that belong to retail customers. Therefore, 79.1% x 128 million accounts = 101.248 million accounts. This number likely overstates the number of deliveries to be made due to the double-counting of deliveries to be made by dual registrants to a certain extent, and the fact that one customer may own more than one account.

requirement for the relationship summary. We estimate that a broker-dealer will require no more than 0.02 hours to send the relationship summary to each customer, or an aggregate initial burden of 2,024,960 hours, or approximately 709 hours per broker-dealer for the first year after the rule is in effect.<sup>20</sup> We would therefore expect the aggregate monetized cost for broker-dealers to make a one-time initial delivery of relationship summaries to existing customers to be \$121,497,600.<sup>21</sup> Amortized over three years, the total annual hourly burden is estimated to be 674,987 hours, or approximately 236.3 hours per broker-dealer,<sup>22</sup> with annual monetized costs of \$40,499,200 and \$14,175, respectively.<sup>23</sup> We do not expect that broker-dealers will incur external costs for the initial delivery of the relationship summary to existing clients because we assume that they will make such deliveries along with another required delivery, such as periodic account statements.

ii. Delivery for New Account Types or Material Changes in the Nature or Scope of the Brokerage Relationship

Broker-dealers would be required to deliver the relationship summary to existing customers before or at the time (i) a new account is opened that is different from the retail investor's existing account(s); or (ii) changes are made to the retail investor's existing account(s)

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<sup>20</sup> 0.02 hours per customer account x 101.248 million customer accounts = 2,024,960 hours. We note that the burden for preparing updated relationship summaries is already incorporated into the burden estimate for Form CRS discussed above. 2,024,960 hours / 2,857 broker-dealers = approximately 709 hours per broker-dealer.

<sup>21</sup> Based on data from SIFMA's Office Salaries Report, we expect that initial delivery requirement to existing clients of rule 17a-14 will most likely be performed by a general clerk at an estimated cost of \$60 per hour. 2,024,960 hours x \$60 = \$121,497,600. We estimate that broker-dealers will not incur any incremental postage costs because we assume that they will make such deliveries with another mailing the broker-dealer was already delivering to clients, such as periodic account statements.

<sup>22</sup> 2,024,960 initial aggregate hours / 3 = 674,987 total annual aggregate hours. 709 initial hours per broker-dealer / 3 = 236.3 total annual hours per broker-dealer.

<sup>23</sup> \$121,497,600 initial aggregate monetized cost / 3 = \$40,499,200 annual aggregate monetized cost. \$40,499,200 / 2,857 broker-dealers = \$14,175 annual monetized cost per broker-dealer.

that would materially change the nature and scope of the adviser's relationship with the retail investor. With respect to delivery of the relationship summary in the event of material changes in the nature or scope of the brokerage relationship, we estimate that this would take place among 10% of a broker-dealer's retail investors annually. We would therefore estimate broker-dealers to incur a total annual aggregate burden of 202,496 hours, or 71 hours per broker-dealer,<sup>24</sup> at an annual aggregate monetized cost of \$12,149,760, or approximately \$4,253 per broker-dealer.<sup>25</sup> We do not expect broker-dealers to incur external costs related to deliveries of the relationship summary due to new account type openings, or material changes to the nature or scope of the relationship, because we assume that broker-dealers will deliver the relationship summary along with new account agreements and other documentation normally required in such circumstances, or with periodic account statements.

### iii. Communicating Changes to Amended Relationship Summaries, Including by Delivery

As discussed above, broker-dealers must communicate any changes in an updated relationship summary to retail investors who are existing customers of the firm within 30 days after the updates are required to be made and without charge. The communication can be made by delivering the relationship summary or by communicating the information in another way to the retail investor. Consistent with our discussion on broker-dealers' amendments to the

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<sup>24</sup> 10% of 101.248 million customers x .02 hours = 202,496 hours. 202,496 hours / 2,857 broker-dealers = 71 hours per broker-dealer.

<sup>25</sup> Based on data from the SIFMA Office Salaries Report, modified to account for an 1,800-hour work-year and multiplied by 2.93 to account for bonuses, firm size, employee benefits and overhead, we expect that delivery requirements of rule 17a-14 will most likely be performed by a general clerk at an estimated cost of \$60 per hour. 202,496 hours x \$60 = \$12,149,760. \$12,149,760 / 2,857 broker-dealers = \$4,253 per broker-dealer. We estimate that broker-dealers will not incur any incremental postage costs in these deliveries of the relationship summary to existing customers, because we assume that broker-dealers will make such deliveries with another mailing the broker-dealer was already delivering to clients, such as periodic account statements, or new account agreements and other similar documentation.

relationship summary we are assuming that the 2,857 broker-dealers with relationship summaries will amend them twice each year. We also assume that 50% will choose to deliver the relationship summary to communicate the update information. We estimate that broker-dealers would require 0.02 hours to make a delivery to each customer. Therefore, the estimated burden for those broker-dealers choosing to deliver an amended relationship summary to meet this communication requirement would be approximately 2,024,960 hours, or 709 hours per broker-dealer,<sup>26</sup> translating into a monetized cost of \$121,497,600 in aggregate, or \$42,526 per broker-dealer.<sup>27</sup> Similar to the other delivery requirements relating to proposed rule 17a-14, we do not expect broker-dealers to incur external costs in delivering amended relationship summaries because we assume that they will make this delivery with other documents required to be delivered, such as periodic account statements.

#### 4. Delivery to New Clients or Prospective New Customers

To estimate the delivery burden for broker-dealers' new or prospective new customers, as discussed above, we estimate that the 2,857 standalone broker-dealers with retail activity have approximately 101.248 million retail customer accounts.<sup>28</sup> Based on FOCUS data over the past five years, we estimate that broker-dealers grow their customer base and enter into new

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<sup>26</sup> 2 amendments per year x 101.248 million customer accounts x 50% delivering the amended relationship summary to communicate updated information x 0.02 hours per delivery = 2,024,960 hours to deliver amended relationship summaries. 2,024,960 hours / 2,857 broker-dealers = 709 hours per broker-dealer.

<sup>27</sup> Based on data from the SIFMA Office Salaries Report, modified to account for an 1,800-hour work-year and multiplied by 2.93 to account for bonuses, firm size, employee benefits and overhead, we expect that delivery requirements of rule 17a-14 will most likely be performed by a general clerk at an estimated cost of \$60 per hour. 2,024,960 hours x \$60 = \$121,497,600. \$121,497,600 / 2,857 broker-dealers = \$42,526 per broker-dealer. We estimate that broker-dealers will not incur any incremental postage costs to deliver these relationship summaries, because we assume that advisers will make the delivery along with other documentation they normally would provide, such as account opening documents.

<sup>28</sup> Based on FOCUS data.

agreements with, on average, 8% more new retail investors each year.<sup>29</sup> We estimate the hour burden for initial delivery of a relationship summary would be the same by paper or electronic format, at 0.02 hours for each relationship summary, as we have estimated above. Therefore, the aggregate annual hour burden for initial delivery of the relationship summary by broker-dealers to new or prospective new customers would be 161,917 hours, or 56.7 hours per broker-dealer.<sup>30</sup> at a monetized cost of \$9,715,001 at an aggregate level, or \$3,400 per broker-dealer.<sup>31</sup>

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<sup>29</sup> This represents the average annual rate of growth from 2012-2016 in the number of accounts for all broker-dealers reporting retail activity.

<sup>30</sup> 101.248 million customer accounts x 8% increase = 8,095,834 new customers. 8,095,834 new customers x 0.02 hours per delivery = 161,917 total annual aggregate hours. 161,917 / 2,857 broker-dealers = 56.7 hours per broker-dealer for delivery to new customers.

<sup>31</sup> Based on data from the SIFMA Office Salaries Report, modified to account for an 1,800-hour work-year and multiplied by 2.93 to account for bonuses, firm size, employee benefits and overhead, we expect that these functions will most likely be performed by a general clerk at an estimated cost of \$60 per hour. 161,917 hours x \$60 = \$9,715,001. \$9,715,001 / 2,857 broker-dealers = \$3,400 per broker-dealer for delivery to new customers. We estimate that broker-dealers will not incur any incremental postage costs to deliver the relationship summary to new or prospective clients because we assume that broker-dealers will make the delivery along with other documentation, such as periodic account statements.

**Table 1: Summary of Revised Annual Responses, Burden Hours, and Burden Hour Costs Estimates for Each Information Collection**

IC	Rule 17a-14 under the Securities Exchange Act of 1934	Annual No. of Responses			Annual Time Burden (Hrs.)			Monetized Time Burden (\$)		
		Previously approved	Requested Change Due to Agency Discretion	Total	Previously approved	Requested Change Due to Agency Discretion	Total	Previously approved	Requested Change Due to Agency Discretion	Total
	Description of Parts of IC									
IC1	Initial Preparation, Filing, and Posting of the Relationship Summary	0	2,857	2,857	0	14,761	14,761	0	3,792,668	3,792,668
IC1	Amendments to the Relationship Summary and Filing and Posting of Amendments	0	5,714	5,714	0	5,714	5,714		924,240	924,240
IC1	Third Party Disclosure (One-time Initial Delivery to Existing Clients)	0	101,248,000	101,248,000	0	674,987	674,987	0	40,499,200	40,499,200
IC1	Third Party Disclosure (Delivery for New Account Types or Material Changes in the Nature or Scope of the Advisory)	0	10,124,800	10,124,800	0	202,496	202,496	0	12,149,760	12,149,760
IC1	Third Party Disclosure (Communicating Changes to Amended Relationship Summaries, Including by Delivery)	0	50,624,000	50,624,000	0	2,024,960	2,024,960	0	121,497,600	121,497,600
IC1	Third Party Disclosure (Delivery to New Clients or Prospective New Clients)	0	8,099,840	8,099,840	0	161,917	161,917	0	9,715,001	9,715,001
<b>Total for IC</b>		<b>0</b>	<b>170,105,211</b>	<b>170,105,211</b>	<b>0</b>	<b>3,084,835</b>	<b>3,084,835</b>	<b>0</b>	<b>188,578,469</b>	<b>188,578,469</b>



### 13. Cost to Respondents

We anticipate that some broker-dealers may incur a one-time initial cost for outside legal and consulting fees in connection with the initial preparation of the relationship summary. In the aggregate, we estimate broker-dealers would incur approximately \$4,024,085, or \$1,409 per broker-dealer, translating into \$1,341,362 annually, or \$470 per broker-dealer, when amortized over a three year period.

Although broker-dealers subject to the relationship summary requirement may vary widely in terms of the size, complexity and nature of their businesses, the amount of disclosure required would not vary substantially among broker-dealers. Accordingly, the amount of time, and thus cost, required for outside legal and compliance review is unlikely to vary substantially among those broker-dealers who elect to obtain outside assistance.<sup>32</sup> The relationship summary is short, standardized, and contains largely prescribed language. Because the information required in the relationship summary pertains largely to the broker-dealer's own business practices, the information is likely more readily available to the broker-dealer than to an external legal or compliance consultant. As a result, we anticipate that only a quarter of broker-dealers will seek the help of outside legal services and half will seek the help of compliance consulting services in connection with the initial preparation of the relationship summary. We estimate that the initial per broker-dealer cost for legal services related to the preparation of the relationship summary would be \$1,416.<sup>33</sup> We estimate that the initial per broker-dealer cost for compliance

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<sup>32</sup> We estimate that an external service provider would spend 3 hours helping a broker-dealer prepare an initial relationship summary.

<sup>33</sup> External legal fees are in addition to the projected hour per broker-dealer burden discussed above. \$472 per hour for legal services x 3 hours per broker-dealer = \$1,416. The hourly cost estimate of \$472 is

consulting services related to the preparation of the relationship summary would be \$2,109.<sup>34</sup> Accordingly, we estimate that 715 broker-dealers will use outside legal services, for a total initial aggregate cost burden of \$1,011,378,<sup>35</sup> and 1,429 broker-dealers will use outside compliance consulting services, for a total initial aggregate cost burden of \$3,012,707,<sup>36</sup> resulting in a total initial aggregate cost burden among all respondents of \$4,024,085, or \$1,409 per broker-dealer, for outside legal and compliance consulting fees related to preparation of the relationship summary.<sup>37</sup> Annually, this represents \$1,341,362, or \$470 per broker-dealer, when amortized over a three-year period.<sup>38</sup>

We do not expect ongoing external legal or compliance consulting costs for the relationship summary. Although broker-dealers would be required to amend the relationship summary within 30 days whenever any information becomes materially inaccurate, given the standardized nature and prescribed language of the relationship summary, we expect that amendments would be factual and require relatively minimal wording changes. We believe that broker-dealers would be more knowledgeable about these facts than outside legal or compliance

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adjusted for inflation and based on our consultation with broker-dealers and law firms who regularly assist them in compliance matters.

<sup>34</sup> External compliance consulting fees are in addition to the projected hour per broker-dealer burden discussed above. Data from the SIFMA Management and Professional Earnings Report suggest that outside management consulting services cost approximately \$703 per hour. \$703 per hour for outside consulting services x 3 hours per adviser = \$2,109.

<sup>35</sup> 25% x 2,857 SEC registered broker-dealers = 715 broker-dealers. \$1,416 for legal services x 715 broker-dealers = \$1,011,378.

<sup>36</sup> 50% x 2,857 SEC registered broker-dealers = 1,429 broker-dealers. \$2,109 for compliance consulting services x 1,429 broker-dealers = \$3,012,707.

<sup>37</sup> \$1,011,378 + \$3,012,707 = \$4,024,085. \$4,024,085 / 2,857 broker-dealers = \$1,409 per broker-dealer.

<sup>38</sup> \$4,024,085 initial aggregate hours / 3 years = \$1,341,362 annually. \$1,409 initial hours per broker-dealer / 3 years = \$469.50.

consultants and would be able to make these revisions in-house. Therefore, we do not expect that broker-dealers will need to incur ongoing external costs for the preparation and review of relationship summary amendments.

**14. Estimate of Cost to the Federal Government**

There are no costs to the government directly attributable to Form CRS and rule 17a-14. Commission staff may, however, review records produced pursuant to the rule in order to assist the Commission in carrying out its examination and oversight program.

**15. Change in Burden**

This is the first request for approval of the collection of information for this rule.

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

Not Applicable.

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

We request authorization to omit the expiration date on the electronic version of the form, although the OMB control number will be displayed. Including the expiration date on the electronic version of this form will result in increased costs, because the need to make changes to the form may not follow the application's scheduled version release dates.

**18. Exceptions to Certification Statement for Paperwork Reduction Act Submission**

Not Applicable.

**B. COLLECTIONS OF INFORMATION EMPLOYING STATISTICAL METHODS**

Not Applicable.