

**SUPPORTING STATEMENT**  
**for the Paperwork Reduction Act Information Collection Submission for**  
**Proposed Rule 15l-3**

**A. Justification**

1. Necessity for the Information Collection

On April 18, 2018, the Securities and Exchange Commission (the “Commission” or “SEC”) proposed rule 15l-3 under the Securities Exchange Act of 1934 (“Exchange Act”).<sup>1</sup> This proposed rule would require a broker-dealer registered under the Exchange Act to prominently disclose that it is registered as a broker-dealer with the Commission in print or electronic retail investor communications. The proposed rule also would require an associated natural person of a broker or dealer to prominently disclose that he or she is an associated person of a broker or dealer registered with the Commission in print or electronic retail investor communications.

For print communications, the proposed rule requires that such registration status be displayed in a type size at least as large as and of a font style different from, but at least as prominent as, that used in the majority of the communication. In addition, the disclosure must be presented in the body of the communication and not in a footnote. For electronic communications, or in any publication by radio or television, our proposed rule requires that such disclosure be presented in a manner reasonably calculated to draw retail investor attention to it.

Proposed rule 15l-3 contains a collection of information requirement. The title of this collection of information is: “Rule 15l-3 under the Securities Exchange Act.” The Commission submits this collection to the Office of Management and Budget (“OMB”) for review in accordance with 44 U.S.C. 3507(d) and 5 CFR 1320.11. If adopted, this collection of information would be codified as 17 CFR 240.15l-3 and would be mandatory. The respondents are registered broker-dealers or broker-dealers applying for registration and their associated natural persons or future associated natural persons that distribute print or electronic retail investor communications.

2. Purpose and Use of the Information Collection

We believe that this collection of information is necessary to provide retail investors and the Commission with information to better determine whether a communication is from a broker-dealer or investment adviser, and, for retail investors specifically, to allow them to better identify which type of firm is more appropriate for their specific investment needs. Additionally, by requiring an affirmative identification, retail investors would also be better informed whether a financial professional is an associated person of a broker-dealer rather than a supervised person of an investment adviser, allowing them to make a more informed choice as to which type of

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<sup>1</sup> See 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).

professional is appropriate for their financial goals. We believe that because retail investors interact with a firm primarily through financial professionals, it is important that financial professionals disclose the firm type with which they are associated.

### 3. Consideration Given to Information Technology

Proposed rule 15l-3 does not require the reporting of any information or the filing of any documents with the Commission. To the extent broker-dealers or their associated natural persons provide any information by electronic delivery, they should do so in accordance with Commission guidance.<sup>2</sup>

### 4. Duplication

The Commission evaluates rule-based disclosure obligation requirements for duplication, and reevaluates them whenever it proposes a rule or a change in a rule. No other rule requires broker-dealers and their financial professionals to provide the same information that would be required by rule 15l-3.

### 5. Effect on Small Entities

The requirements for rule 15l-3 are the same for all broker-dealers, including small entities. The Commission believes that establishing different compliance or reporting requirements for small entity broker-dealers would be inappropriate under these circumstances. Because the protections of the Exchange Act are intended to apply equally to retail investors of both large and small firms, the Commission preliminarily believes it would be inconsistent with the purposes of the Exchange Act to specify differences for small entities under the proposed rule.

We estimate that the costs associated with complying with the proposed rule's disclosure requirements would be smaller for small firms than for large firms. We estimate that the costs would increase with the size of the broker-dealer, such as costs associated with revisions to each individual representative's communication and advertising materials. Specifically, large broker-dealers would have to review, identify and change more print and electronic communications and in turn have their compliance staff verify more communications as being compliant with our proposed rule as compared to small broker-dealers which would have fewer communications. Therefore, we anticipate that small entity broker-dealers would require fewer resources to oversee their employees' compliance with the proposed rule.

### 6. Consequences of Not Conducting Collection

The collection of information required by the proposed rule is necessary to protect retail investors by providing them with the information necessary to determine whether the firm they

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<sup>2</sup> Use of Electronic Media by Broker-Dealers, Transfer Agents, and Investment Advisers for Delivery of Information: Additional Examples Under the Securities Act of 1933, Securities Exchange Act of 1934, and Investment Company Act of 1940, Investment Advisers Act Release No. 1562 (May 9, 1996).

are engaging or seeking to engage is a broker-dealer. The consequences of not collecting this information would be that retail investors may not have the information they need in order to evaluate which type of firm they are engaging or seeking to engage. This result would continue to leave investors confused and potentially lead to an inappropriate selection of firm type for an investor's financial goals. Similarly, if the information is either not collected or is a required collection on fewer retail investor communications, the investor protections would be reduced.

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

Not applicable.

8. Consultations Outside the Agency

In the release proposing, among other things, rule 151-3, the Commission requested public comment on the effect of information collections under the proposed rule. The Commission and the staff of the Division of Investment Management and Division of Trading and Markets continue to participate in an ongoing dialogue with representatives of the broker-dealer industry through public conferences, meetings and informal exchanges. These various forums provide the Commission and the staff with a means of ascertaining and acting upon paperwork burdens facing the industry.

9. Payment or Gift

None.

10. Confidentiality

The information collection under the proposed rule would be disclosed prominently in all print and electronic retail investor communications. These disclosures are not kept confidential.

11. Sensitive Questions

Not applicable.

12. Estimate of Hour Burden of Information Collection

We estimate that the total burden hours for rule 151-3 would be approximately 558,472 hours, as explained in the discussion below.

We estimate that the total initial burden for broker-dealers is 121,971 hours, which translates into a monetized cost of approximately \$33,179,514 for broker-dealers in the aggregate. This would be an annual average burden of 43 hours per broker-dealer (as monetized, is an aggregate burden per broker-dealer of \$11,613). In addition, we preliminarily estimate that the total ongoing annual aggregate burden for broker-dealers is 1,429 hours, or a total ongoing monetized cost of approximately \$204,275.50. This would be an annual average burden of 0.5 hours per broker-dealer (as monetized, is an average annual burden per broker-dealer of \$71.50).

We estimate that the total initial one-time burden for associated natural persons is 217,536 hours, which translates into a monetized cost of approximately \$31,107,576.50 for associated natural persons in the aggregate. This would be an annual average burden of 0.5 hours per associated natural person (as monetized, is an average annual burden per associated natural person of \$71.50). We also preliminarily estimate the total ongoing annual aggregate burden for associated natural persons to be 217,536 hours, which translates into a total ongoing monetized cost of approximately \$31,107,576.50 for associated natural persons in the aggregate. This would be an ongoing annual average burden of 0.5 hours per associated natural person (as monetized, is an average ongoing annual burden per associated natural person of \$71.50).

#### **a. Broker-dealers**

We estimate that approximately 2,857 of the 3,841 broker-dealers distribute print or electronic retail investor communications.<sup>3</sup> Of these broker-dealers that distribute print or electronic retail investor communications, 1,388 are large broker-dealers and 1,469 are small broker-dealers.<sup>4</sup>

We estimate that the initial one time burden for complying with the disclosure requirements would be 72 hours per large broker-dealer<sup>5</sup> and 15 hours per small broker-dealer.<sup>6</sup> We note that we are staging the compliance date to ensure that firms can phase out certain older communications from circulation through the regular business lifecycle rather than having to retroactively change them.<sup>7</sup> As a result of this staged compliance, our burden estimates do not reflect the burdens that would have been imposed had these firms had to replace all outstanding communications.

We preliminary estimate that to comply with our proposed rule with respect to print communications,<sup>8</sup> broker-dealers would need to review their communications, identify which would need to be amended, make the changes, and verify that all firm communications comply

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<sup>3</sup> The number of broker-dealers is as of Dec. 31, 2017 based on FOCUS reports data and Form BR.

<sup>4</sup> For the purposes of this proposed rule, we define large broker-dealers as those with total assets greater than 1 million and small broker-dealers as those with less than 1 million in total assets.

We note that we are not analyzing new broker-dealers or associated natural persons because there has been a downward trend in broker-dealer registration and the number of associated natural persons has not shown signs of a noticeable increase over the past few years. From 2016 through 2018 the number of broker-dealers registered with the Commission decreased by 160. (4064 – 3904) = 160. *See also* FINRA Statistics, available at <https://www.finra.org/newsroom/statistics#reps>.

<sup>5</sup> (8 hours for print communications per large broker-dealer + 64 hours for electronic communications per large broker-dealer).

<sup>6</sup> (5 hours for print communications per small broker-dealer + 10 hours for electronic communications per small broker-dealer).

<sup>7</sup> Similarly, we are not requiring firms to send new communications to replace all older print communications as this would be overly burdensome and costly for firms.

<sup>8</sup> Such communications could include business cards, letterheads, newspaper advertisements, and article reprints from an unaffiliated magazine or newspaper.

with the rule's requirements including its technical specifications such as the type size, font, and prominence. Therefore, for existing print communications for large broker-dealers, we preliminarily estimate that the total burden for broker-dealers would be 8 hours for compliance and business operations personnel to review, identify, and make changes across all print communications.<sup>9</sup>

For smaller broker-dealers, we preliminarily estimate that the total burden for broker-dealers would be 5 hours for compliance and business operations personnel to review, identify, and make changes across all print communications.<sup>10</sup> We note that there is a difference between large broker-dealers and smaller broker-dealers. We assume that large broker-dealers will have to review, identify and change more print communications and in turn have their compliance staff verify more print communications as being compliant with our proposed rule as compared to small broker-dealers which will have fewer print communications.

With respect to electronic communications,<sup>11</sup> we preliminarily anticipate that it would take large broker-dealers approximately 64 hours<sup>12</sup> to review, identify and make the required updates coupled with verifying that such communications (present and future) would be compliant with the proposed rule. Our estimates take into account that larger firms likely have full-featured websites that generate other webpages based on complex system code and logic.<sup>13</sup> In order to make changes to comply with our proposed rule, we assume that business operations

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<sup>9</sup> This estimate is based upon staff experience and industry sources more generally. *See e.g.* Self-Regulatory Organizations; Financial Industry Regulatory Authority, Inc.; Notice of Filing of a Proposed Rule Change to Amend FINRA Rule 2210, Exchange Act Release No. 34-75377 (Jul. 7, 2015), at Economic Impact Assessment (“FINRA 2015-22 Notice”) (stating with reference to adding BrokerCheck links to mid-size and smaller firm communications, which we believe is analogous to the manual changes made to print communications, that “mid-size and small members typically have less complex websites, which they manage and maintain with nontechnical staff. These members would use personnel in non-technical roles to accomplish the required updates to their websites.... [I]t would take mid-size or small members approximately eight hours of non-technical staffs’ time to make the required updates....”).

To compute the 8 hours internal initial burden we assume 2 hours by compliance personnel and 6 hours by business operations personnel of the broker-dealer.

<sup>10</sup> This estimate is based upon staff experience and industry sources more generally. *See e.g.* FINRA 2015-22 Notice, *supra* note 9. To compute the 5 hours internal initial burden we assume 1 hour by compliance personnel and 4 hours by business operations personnel of the broker-dealer.

<sup>11</sup> We believe such communications could include websites, smart phone apps, social media, emails, and blogs.

<sup>12</sup> This estimate is based upon staff experience and industry sources more generally. *See e.g.* FINRA 2015-22 Notice, *supra* note 9. (“These estimates are based on FINRA’s assumption that large members typically have full-featured websites that dynamically generate webpages based on data and logic. The technology personnel at these members would be required to update the underlying information in order to automate the implementation of references and hyperlinks to BrokerCheck across all applicable webpages. FINRA estimates that on average it would take large members approximately 60 hours of technology staffs’ time to make the required updates....”). To compute the 64 hours internal initial burden we assume 4 hours by compliance personnel and 60 hours by business operations and information technology personnel of the broker-dealer.

<sup>13</sup> This is based upon staff experience and industry sources more generally. *See e.g.* FINRA 2015-22 Notice, *supra* note 9 (discussing the burdens associated with the inclusion of a BrokerCheck reference and hyperlink across all firm communications for certain firms).

and information technology personnel would likely be required to update the underlying code and logic to automate the implementation of the required language to populate across all associated electronic media. Additionally, we assume that these teams would need to test to ensure that such changes were implemented correctly.

With respect to smaller broker-dealers, we preliminarily anticipate that it would take approximately 10 hours<sup>14</sup> to review, identify and make the required updates coupled with verifying that such communications (present and future) would be compliant with the proposed rule. Our estimate for smaller broker-dealers assumes that smaller broker-dealers have fewer electronic communications that would be subject to our proposed rule as compared to larger firms, resulting in a lower burden preliminary estimate.

We preliminarily estimate that the total initial burden for broker-dealers is 121,971 hours.<sup>15</sup> We preliminarily estimate a cost of approximately \$33,179,514 for broker-dealers.<sup>16</sup>

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<sup>14</sup> This estimate is based upon staff experience and industry sources more generally. *See e.g.* FINRA 2015-22 Notice (stating with reference to adding BrokerCheck links to firm communications that “mid-size and small members typically have less complex websites, which they manage and maintain with nontechnical staff. These members would use personnel in non-technical roles to accomplish the required updates to their websites.... [I]t would take mid-size or small members approximately eight hours of non-technical staffs’ time to make the required updates....”).

To compute the 10 hours internal initial burden, we assume 2 hours by compliance personnel and 8 hours by business operations and information technology personnel of the broker-dealer.

<sup>15</sup> (8 hours for print communications per large broker-dealer + 64 hours for electronic communications per large broker-dealers) = 72 hours per large broker-dealer. (72 hours x 1,388 large broker-dealers) = 99,936 total initial burden for large broker-dealers.

(5 hours for print communications per small broker-dealer + 10 hours for electronic communications per small broker-dealer) = 15 hours per small broker-dealer. (15 hours x 1,469 small broker-dealers) = 22,035 total initial burden for small broker-dealers.

(99,936 total initial burden large broker-dealers + 22,035 total initial burden small broker-dealers) = 121,971 total broker-dealer initial burden.

<sup>16</sup> The hourly wage figures in this and subsequent footnotes are from SIFMA’s Management & Professional Earnings in the Securities Industry 2013, modified by Commission staff to account for an 1800-hour work-year and inflation, and multiplied by 5.35 to account for bonuses, firm size, employee benefits, and overhead (“SIFMA Management and Professional Earnings Report”).

Based on the SIFMA Management and Professional Earnings Report, Commission staff preliminarily estimates that the average hourly rate for compliance services is \$298, for business operation services is \$268, and for information technology services is \$270. The average technology and business rate is  $(\$268 \text{ business rate} + \$270 \text{ technology rate}) / 2 = \$269 \text{ average rate}$ .

This figure was calculated as follows:  $((6 \text{ compliance hours} \times \$298 \text{ compliance rate}) + (66 \text{ technology/business hours} \times \$269 \text{ averaged technology/business rate})) \times 1,388 \text{ large broker-dealers} = \$27,124,296 \text{ total initial costs for large broker-dealers}$ .

$((3 \text{ compliance hours} \times \$298 \text{ compliance rate}) + (12 \text{ technology/business hours} \times \$269 \text{ averaged technology/business rate})) \times 1,469 \text{ small broker-dealers} = \$6,055,218 \text{ total initial costs for small broker-dealers}$ .

$\$27,124,296 \text{ total initial cost for large broker-dealers} + \$6,055,218 \text{ total initial cost for small broker-dealers} = \$33,179,514 \text{ total initial costs for all broker-dealers}$ .

This would be an annual average burden of 43 hours per broker-dealer<sup>17</sup> (as monetized, which is an average annual burden per broker-dealer of \$11,613).<sup>18</sup>

For the ongoing burden of new communications for broker-dealers, we preliminarily estimate that the burden for legal, compliance, business operations, and technology services for adding a registration status statement would be 0.5 hours annual hours per broker-dealer.<sup>19</sup> We anticipate that broker-dealers will need to add the registration disclosure to each new communication which they create, however we anticipate the burdens associated with this task to be minimal and therefore we do not believe there is a material difference between large and small broker-dealers.<sup>20</sup> We preliminarily estimate that the total ongoing annual aggregate burden for broker-dealers is 1,429 hours.<sup>21</sup> We preliminarily estimate a total ongoing monetized cost of

<sup>17</sup> (8 hours for print communications per large broker-dealer + 64 hours for electronic communications per large broker-dealers) = 72 hours per large broker-dealer. (72 hours x 1,388 large broker-dealers) = 99,936 total initial burden for large broker-dealers.

(5 hours for print communications per small broker-dealer + 10 hours for electronic communications per small broker-dealer) = 15 hours per small broker-dealer. (15 hours x 1,469 small broker-dealers) = 22,035 total initial burden for small broker-dealers.

99,936 total initial burden large broker-dealers + 22,035 total initial burden small broker-dealers = 121,971 total broker-dealer initial burden / 2,857 total broker-dealers = 43 total initial burden per broker-dealer.

<sup>18</sup> Based on the SIFMA Management and Professional Earnings Report, Commission staff preliminarily estimates that the average hourly rate for compliance services is \$298, for business operation services is \$268, and for information technology services is \$270. The average technology and business rate is (\$268 business rate + \$270 technology rate) / 2 = \$269 average rate.

This figure was calculated as follows: (6 compliance hours x \$298 compliance rate) + (66 technology/business hours x \$269 averaged technology/business rate) x 1,388 large broker-dealers = \$27,124,296 total initial costs for large broker-dealers.

((3 compliance hours x \$298 compliance rate) + (12 technology/business hours x \$269 averaged technology/business rate)) x 1,469 small broker-dealers = \$6,055,218 total initial costs for small broker-dealers.

\$27,124,296 total initial cost for large broker-dealers + \$6,055,218 total initial cost for small broker-dealers = \$33,179,514 total initial costs for all broker-dealers / 2,857 total number of broker-dealers = \$11,613 total initial cost per broker-dealer.

<sup>19</sup> This estimate is based upon staff experience. See e.g. Release 2968, *infra* note 26; Enhanced Mutual Fund Disclosure Adopting Release, *infra* note 26.

In this estimate we are not calculating the print and technological associated burdens of updating communications which we analyzed earlier as we are assuming those burdens to be a one-time initial burden for a firm seeking compliance with the proposed rule.

<sup>20</sup> Our assumption of no material difference between large and small rests on the fact that all major systems changes would already have been implemented as part of the initial one-time burden. Therefore, any new electronic communications would have the disclosure statement required by our proposed rule built in at the outset which should take minimal time rather than having to retroactively insert it into the systems logic which is a more onerous task. We note that such communications will need to be reviewed by compliance staff for compliance with applicable securities laws and associated self-regulatory organization rules, including FINRA Rule 2210. We anticipate that compliance with proposed rule 151-3's requirements will be reviewed as part of this larger compliance check.

<sup>21</sup> (0.5 hours x 2,857 broker-dealers) = 1,429 total ongoing burden for broker-dealers.

approximately \$204,275.50 for broker-dealers.<sup>22</sup> This would be an annual average burden of 0.5 hours per broker-dealer<sup>23</sup> (as monetized, is an average annual burden per broker-dealer of \$71.50).<sup>24</sup>

### **b. Associated Natural Persons:**

We estimate that 435,071 associated natural persons distribute print or electronic retail investor communications at standalone broker-dealers or dually registered firms.<sup>25</sup> We preliminarily anticipate that associated natural persons would have an initial one-time burden of 0.5 hours for each associated natural person respondent to review, identify, and make changes to

<sup>22</sup> Based on the SIFMA Management and Professional Earnings Report, Commission staff preliminarily estimates that the average hourly rate for compliance services is \$298, for business operation services is \$268, and for information technology services is \$270.

This figure was calculated as follows: 0.5 hours / 3 firm staff categories (*i.e.* compliance, business operations, and information technology) = 0.17 hours per staff category

(\$298 compliance/hour x 0.17) = \$51 per 0.17 of an hour.

(\$268 business operations rate/hour x 0.17) = \$46 per 0.17 of an hour.

(\$270 information technology rate/hour x 0.17) = \$46 per 0.17 of an hour.

\$51 + \$46 + \$46 = \$143 total cost per broker-dealer.

(0.5 hours x \$143 total cost per broker-dealer x 2,857 broker-dealers) = \$204,275.50 total ongoing cost for broker-dealers.

<sup>23</sup> (0.5 hours x 2,857 broker-dealers) = 1,429 total ongoing burden for broker-dealers.

(1,429 total ongoing burden for broker-dealers / 2,857 total broker-dealers) = 0.5 total initial burden per broker-dealer.

<sup>24</sup> Based on the SIFMA Management and Professional Earnings Report, Commission staff preliminarily estimates that the average hourly rate for compliance services is \$298, for business operation services is \$268, and for information technology services is \$270.

This figure was calculated as follows: 0.5 hours / 3 firm staff categories (*i.e.* compliance, business operations, and information technology) = 0.17 hours per staff category

(\$298 compliance/hour x 0.17) = \$51 per 0.17 of an hour.

(\$268 business operations rate/hour x 0.17) = \$46 per 0.17 of an hour.

(\$270 information technology rate/hour x 0.17) = \$46 per 0.17 of an hour.

\$51 + \$46 + \$46 = \$143 total cost per broker-dealer.

(0.5 hours x \$143 total cost per broker-dealer x 2,857 broker-dealers) = \$204,275.50 total ongoing cost for broker-dealers / 2,857 total number of broker-dealers = \$71.50 total ongoing cost per broker-dealer.

<sup>25</sup> For the purposes of the Paperwork Reduction Act analysis applicable to proposed rule 151-3, we are defining a “dually registered firm” as any firm that is dually registered with the Commission as an investment adviser and a broker-dealer.

Such associated natural persons are registered as registered representatives with FINRA through Form U4 as of Dec. 31, 2017. We took the total 494,399 registered representatives across standalone broker-dealers, dually registered firms, and standalone investment advisers and isolated those registered representatives that act on behalf of standalone broker-dealers and dually registered firms (*i.e.* 88%).



their individual communications, both print and electronic.<sup>26</sup> Based on staff experience, we anticipate that many firms will make many communication changes for their associated natural persons, including their business cards and letterheads, leaving only certain responsibilities to the individual such as changes to their individual social media profile(s) and email signatures. Therefore, we preliminarily estimate that the total initial one-time burden for associated natural persons is 217,536 hours.<sup>27</sup> We preliminarily estimate a monetized cost of approximately \$31,107,576.50 for associated natural persons.<sup>28</sup> This would be an annual average burden of 0.5 hours per associated natural person<sup>29</sup> (as monetized, is an average annual burden per associated natural person of \$71.50).<sup>30</sup>

<sup>26</sup> This estimate is based upon staff experience. *See e.g.* Custody of Funds or Securities of Clients by Investment Advisers, Investment Advisers Act Release No. 2968 (Dec. 30, 2009) (“Release 2968”) (“We further estimate that the adviser will spend 10 minutes per client drafting and sending the notice.”); Enhanced Disclosure and New Prospectus Delivery Option for Registered Open-End Management Investment Companies, Investment Company Act Release No. 28584 (Jan. 13, 2009) [74 FR 4546 (Jan. 26, 2009)] (“Enhanced Mutual Fund Disclosure Adopting Release”) (“we estimate, as we did in the proposing release, that rule 498 will impose a ½ hour burden per portfolio annually associated with the compilation of the additional information required on a cover page or at the beginning of the Summary Prospectus. Rule 498 also imposes annual hour burdens associated with the posting of a fund’s Summary Prospectus, statutory prospectus, SAI, and most recent report to shareholders on an Internet website. We estimate that the average hour burden for one portfolio to comply with the Internet website posting requirements will be approximately one hour annually.”).

<sup>27</sup> (0.5 hours x 435,071 associated natural persons) = 217,536 total initial burden for associated natural persons.

<sup>28</sup> Based on the SIFMA Management and Professional Earnings Report, Commission staff preliminarily estimates that the average hourly rate for compliance services is \$298, for business operation services is \$268, and for information technology services is \$270.

This figure was calculated as follows: 0.5 hours / 3 firm staff categories (*i.e.* compliance, business operations, and information technology) = 0.17 hours per staff category

(\$298 compliance/hour x 0.17) = \$51 per 0.17 of an hour.

(\$268 business operations rate/hour x 0.17) = \$46 per 0.17 of an hour.

(\$270 information technology rate/hour x 0.17) = \$46 per 0.17 of an hour.

\$51 + \$46 + \$46 = \$143 total cost per associated natural person.

(0.5 x \$143 total cost per associated natural person x 435,071 associated natural persons) = \$31,107,576.50 total initial cost for associated natural persons.

<sup>29</sup> (0.5 hours x 435,071 associated natural persons) = 217,536 total initial burden for associated natural persons.

(217,536 total initial burden / 435,071 total associated natural persons) = 0.5 total initial burden per associated natural person.

<sup>30</sup> Based on the SIFMA Management and Professional Earnings Report, Commission staff preliminarily estimates that the average hourly rate for compliance services is \$298, for business operation services is \$268, and for information technology services is \$270.

This figure was calculated as follows: 0.5 hours / 3 firm staff categories (*i.e.* compliance, business operations, and information technology) = 0.17 hours per staff category

(\$298 compliance/hour x 0.17) = \$51 per 0.17 of an hour.

(\$268 business operations rate/hour x 0.17) = \$46 per 0.17 of an hour.

For the ongoing burden of new communications for associated natural persons of a broker-dealer, we preliminarily estimate that the burden for compliance, business operations, and technology services for adding a registration status statement would be 0.5 hours.<sup>31</sup> Therefore, we preliminarily estimate that the total ongoing annual aggregate burden for associated natural persons is 217,536 hours.<sup>32</sup> We preliminarily estimate a total ongoing monetized cost of approximately \$31,107,576.50 for associated natural persons.<sup>33</sup> This would be an ongoing annual average burden of 0.5 hours per associated natural person<sup>34</sup> (as monetized, is an average ongoing annual burden per associated natural person of \$71.50).<sup>35</sup>

$(\$270 \text{ information technology rate/hour} \times 0.17) = \$46 \text{ per } 0.17 \text{ of an hour.}$

$\$51 + \$46 + \$46 = \$143 \text{ total cost per associated natural person.}$

$(0.5 \times \$143 \text{ total cost per associated natural person} \times 435,071 \text{ associated natural persons}) = \$31,107,576.50 \text{ total initial cost for associated natural persons.}$

$(\$31,107,576.50 \text{ total initial cost for associated natural persons} / 435,071 \text{ total number of associated natural persons}) = \$71.50 \text{ total initial cost per associated natural person.}$

<sup>31</sup> This estimate is based upon staff experience. See e.g. Release 2968, *supra* note 26; Enhanced Mutual Fund Disclosure Adopting Release, *supra* note 26.

In this estimate we are not calculating the print and technological associated burdens of updating communications which we analyzed earlier as we are assuming those burdens to be a one-time initial burden for an associated natural person of a broker-dealer seeking compliance with the proposed rule.

<sup>32</sup>  $(0.5 \text{ hours} \times 435,071 \text{ associated natural persons}) = 217,536 \text{ total ongoing burden for associated natural persons.}$

<sup>33</sup> Based on the SIFMA Management and Professional Earnings Report, Commission staff preliminarily estimates that the average hourly rate for compliance services is \$298, for business operation services is \$268, and for information technology services is \$270.

This figure was calculated as follows:  $0.5 \text{ hours} / 3 \text{ firm staff categories (i.e. compliance, business operations, and information technology)} = 0.17 \text{ hours per staff category}$

$(\$298 \text{ compliance/hour} \times 0.17) = \$51 \text{ per } 0.17 \text{ of an hour.}$

$(\$268 \text{ business operations rate/hour} \times 0.17) = \$46 \text{ per } 0.17 \text{ of an hour.}$

$(\$270 \text{ information technology rate/hour} \times 0.17) = \$46 \text{ per } 0.17 \text{ of an hour.}$

$\$51 + \$46 + \$46 = \$143 \text{ total cost per associated natural person.}$

$(0.5 \text{ hours} \times \$143 \text{ total cost per associated natural person} \times 435,071 \text{ associated natural person}) = \$31,107,576.50 \text{ total ongoing cost for associated natural persons.}$

<sup>34</sup>  $(0.5 \text{ hours} \times 435,071 \text{ associated natural persons}) = 217,536 \text{ total ongoing annual burden for associated natural persons.}$

$(217,536 \text{ total ongoing burden} / 435,071 \text{ total associated natural persons}) = 0.5 \text{ total ongoing annual burden per associated natural person.}$

<sup>35</sup> Based on the SIFMA Management and Professional Earnings Report, Commission staff preliminarily estimates that the average hourly rate for compliance services is \$298, for business operation services is \$268, and for information technology services is \$270.

This figure was calculated as follows:  $0.5 \text{ hours} / 3 \text{ firm staff categories (i.e. compliance, business operations, and information technology)} = 0.17 \text{ hours per staff category}$

$(\$298 \text{ compliance/hour} \times 0.17) = \$51 \text{ per } 0.17 \text{ of an hour.}$

### 13. Cost to Respondents

Aside from the internal initial burden, we anticipate that there will be certain associated outside costs to the respondents. We estimate that the total external costs to respondents will be approximately \$625,862,867, as explained in the discussion below. We believe that broker-dealers and their associated natural persons may engage outside counsel to assist them in understanding our proposed rule should it be adopted.<sup>36</sup> We assume that the amount of outsourced legal assistance would vary among various sizes of broker-dealers and their number of associated natural persons. As a result, we preliminarily estimate that large broker-dealers together with their associated natural persons may initially outsource approximately 8 hours of legal time in order to understand the implications of our proposed rule, including which communications are subject to the proposed rule and how best to comply with the technical specifications.<sup>37</sup> For small broker-dealers, we anticipate that such firms will outsource 4 hours of legal time.<sup>38</sup> Our preliminary estimates take into account that large firms have more communications affected by our proposed rule and more associated natural persons to supervise than smaller firms. We estimate initial outside legal costs associated with the proposed rule of \$8,014,560 for broker-dealers<sup>39</sup> or \$2,805 per broker-dealer.<sup>40</sup>

$(\$268 \text{ business operations rate/hour} \times 0.17) = \$46 \text{ per } 0.17 \text{ of an hour.}$

$(\$270 \text{ information technology rate/hour} \times 0.17) = \$46 \text{ per } 0.17 \text{ of an hour.}$

$\$51 + \$46 + \$46 = \$143 \text{ total cost per associated natural person.}$

$(0.5 \text{ hours} \times \$143 \text{ total cost per associated natural person} \times 435,071 \text{ associated natural person}) =$   
 $\$31,107,576.50 \text{ total ongoing cost for associated natural persons} / 435,071 \text{ total number of associated}$   
 $\text{natural persons}) = \$71.50 \text{ total ongoing annual cost per associated natural person.}$

<sup>36</sup> We are assuming that associated natural persons would not independently seek outside counsel and would instead rely on the advice received from outside counsel to the firm. Therefore, we are not including a separate estimate for associated natural persons.

<sup>37</sup> This estimate is based upon staff experience. *See e.g.* Disclosure of Order Handling Information Proposed Rule, Securities Exchange Act Release No. 34-78309 (July 13, 2016) (“Release 34-78309”) (estimating 4 hours for legal burden “to assign each order routing strategy for institutional orders into passive, neutral, and aggressive categories and establish and document its specific methodologies for assigning order routing strategies as required by Rule 606(b)(3)(v)”); Regulation of NMS Stock Alternative Trading Systems Proposed Rule, Securities Exchange Act Release No. 34-76474 (Nov. 18, 2015) (“Release 34-76474”) (estimating 7 legal hours “to put in writing its safeguards and procedures to protect subscribers’ confidential trading information and the oversight procedures to ensure such safeguards and procedures are followed....”).

<sup>38</sup> This estimate is based upon staff experience. *See supra* note 38.

<sup>39</sup> Based on the SIFMA Management and Professional Earnings Report, Commission staff preliminarily estimates that the average hourly rate for legal services is \$472/hour.

$(\$472 \times 8 \text{ legal hours} = \$3,776 \times 1,388 \text{ large broker-dealers} = \$5,241,088) + (\$472 \times 4 \text{ legal hours} =$   
 $\$1,888 \times 1,469 \text{ small broker-dealers} = \$2,773,472).$

$(\$5,241,088 \text{ large broker-dealers} + \$2,773,472 \text{ small broker-dealers}) = \$8,014,560 \text{ total cost.}$

<sup>40</sup> Based on the SIFMA Management and Professional Earnings Report, Commission staff preliminarily estimates that the average hourly rate for legal services is \$472/hour.

We anticipate that firms will also have one-time outside cost associated with the cost of printing new communications including new business cards, envelopes, pitch books, and letterheads. As part of these costs, we anticipate that both large and small broker-dealers will have to work with printers to set the disclosure on, for example, business cards. We estimate initial costs to amend certain communications associated with the proposed rule of \$617,848,307 for broker-dealers<sup>41</sup> (or \$216,258 per broker-dealer).<sup>42</sup> We assume that because small broker-dealers have fewer associated natural persons there will be less communications that will require printing.

14. Estimate of Cost to Federal Government

There are no costs to the federal government directly attributable to proposed rule 15l-3.

15. Change in Burden

Not applicable. 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

Not applicable.

18. Exceptions to Certification for Paperwork Reduction Act Submissions

Not applicable.

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

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$(\$472 \times 8 \text{ legal hours} = \$3,776 \times 1,388 \text{ large broker-dealers} = \$5,241,088) + (\$472 \times 4 \text{ legal hours} = \$1,888 \times 1,469 \text{ small broker-dealers} = \$2,773,472).$

$\$5,241,088 \text{ large broker-dealers} + \$2,773,472 \text{ small broker-dealers} = \$8,014,560 \text{ total cost} / 2,857 \text{ broker-dealers} = \$2,805 \text{ total cost per broker-dealer}.$

<sup>41</sup> Our estimates are based on staff experience and industry sources. In particular, staff factored in its cost estimate the costs associated with printing envelopes, pitch books, letterheads, and business cards. For large broker-dealers, the staff assumes a printing cost of \$445,121. For small broker-dealers, the staff assumes a printing cost of \$20,359.

$(\$445,121 \times 1,388 \text{ large broker-dealers} = \$617,827,948) + (\$20,359 \times 1,469 \text{ small broker-dealers} = \$29,907,371) = \$617,848,307 \text{ total broker-dealer outside costs}.$

<sup>42</sup>  $(\$445,121 \times 1,388 \text{ large broker-dealers} = \$617,827,948) + (\$20,359 \times 1,469 \text{ small broker-dealers} = \$29,907,371) = \$617,848,307 \text{ total broker-dealer outside costs} / 2,857 \text{ broker-dealers} = \$216,258 \text{ total cost per broker-dealer}.$

Not applicable.