

## SUPPORTING STATEMENT

### for the Paperwork Reduction Act Information Collection Submission for

#### Rules 17h-1T and 17h-2T

#### A. JUSTIFICATION

##### 1. Information Collection Necessity

On July 16, 1992, the Commission adopted Rules 17h-1T and 17h-2T (17 CFR 240.17h-1T and 17 CFR 240.17h-2T) (the “risk assessment rules”), under the Securities Exchange Act of 1934 (“Exchange Act”) pursuant to its authority under the risk assessment provisions of the Market Reform Act of 1990 (Pub. L. No. 101-432, 104 Stat. 963 (1990)).<sup>1</sup> These rules are intended to give the Commission access to information concerning the financial and securities activities of certain broker-dealer affiliates. A broker-dealer may be affected by the financial difficulties of an affiliate both directly, such as by the affiliate’s withdrawal of capital to meet the affiliate’s obligations, and indirectly, such as by the effect that the affiliate’s difficulties may have on the broker-dealer’s ability to obtain financing. This impact on a broker-dealer may be exacerbated in times of market stress. Accordingly, Rules 17h-1T and 17h-2T enable the Commission to monitor the activities of broker-dealer affiliates through its access to affiliate information and receipt of reports on a quarterly basis.

Rule 17h-1T requires a covered broker-dealer to maintain and preserve records and other information concerning certain entities that are associated with the broker-dealer. This requirement extends to the financial and securities activities of the holding company, affiliates and subsidiaries of the broker-dealer that are reasonably likely to have a material impact on the financial or operational condition of the broker-dealer. Rule 17h-2T requires a covered broker-dealer to file with the Commission reports concerning the information required to be maintained and preserved under Rule 17h-1T within 60 calendar days of the end of each fiscal quarter. However, Rule 17h-2T also allows a firm to file its year-end financial statements separately from the rest of its fiscal fourth quarter report, within 105 calendar days of the end of that quarter.<sup>2</sup>

The Commission is statutorily authorized by Section 17(h) of the Exchange Act of 1934 (15 U.S.C. 78q(h)) to adopt rules that require a broker-dealer to maintain and preserve risk assessment information with respect to those entities that are associated with the broker-dealer whose “business activities are reasonably likely to have a material impact on the financial and operational condition” of the broker-dealer. In addition, Section 17(h) authorizes the Commission to adopt rules that require a broker-dealer to file, no more frequently than quarterly, summary reports of the information and records maintained pursuant to the risk assessment rules. Further statutory authority is found in Section 23(a) of the Exchange Act (15 U.S.C. 78w).

---

<sup>1</sup> See *Final Temporary Risk Assessment Rules*, Exchange Act Release 30929 (July 16, 1992), 57 FR 32159 (July 21, 1992).

<sup>2</sup> Thus, the same information is filed with the Commission whether the broker-dealer files all the information within 60 calendar days of the end of the fiscal fourth quarter or some of the information within 60 calendar days and the rest within 105 calendar days of the end of the fiscal fourth quarter.

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

The information required by Rules 17h-1T and 17h-2T is necessary to enable the Commission to monitor the activities of a covered broker-dealer's affiliate whose business activities are reasonably likely to have a material impact on the financial and operational condition of the broker-dealer. Without this information, the Commission would be unable to assess the potentially damaging impact of the affiliate's activities on the broker-dealer.

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

Covered broker-dealers have the option to file Form 17H and other required reports electronically through the Commission's EDGAR system or by mail.

## **4. Duplication**

We are not aware of duplication of this information.

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

The risk assessment rules generally do not apply to small entities because a broker-dealer that maintains less than \$20 million in capital and does not carry customer accounts is exempted under the rules. Further, a broker-dealer that either restricts its business to certain mutual fund activities, certain direct participation programs or introduces accounts on a fully disclosed basis is also exempt under the rules. In addition, a broker-dealer that is owned by a natural person is exempt from the risk assessment rules under Section 17(h) of the Exchange Act.

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

The risk assessment rules enable the Commission to monitor the activities of a covered broker-dealer's affiliate whose business activities are reasonably likely to have a material impact on the financial and operational condition of the broker-dealer. This information is collected quarterly. If the information were to be collected less frequently, the Commission would have to rely on stale and outdated information when assessing risks to the broker-dealer. As a result, the Commission would be unable to adequately assess the potentially damaging impact of more recent activities of the broker-dealer affiliates on the broker-dealer.

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

There are no special circumstances. This collection is consistent with the guidelines in 5 CFR 1320.5(d)(2).

## **8. Consultations Outside the Agency**

The required Federal Register notice with a 60-day comment period soliciting comments on this collection of information was published. No public comments were received.

## **9. Payment or Gift**

No payment or gift is provided to respondents.

## **10. Confidentiality**

All information obtained by the Commission pursuant to the provisions of Rules 17h-1T and 17h-2T from a broker or dealer concerning a material associated person is deemed confidential information for the purposes of section 24(b) of the Exchange Act.

## **11. Sensitive Questions**

No information of a sensitive nature will be required under this collection of information. The information collection collects basic Personally Identifiable Information (“PII”) that may include name, job title, work address, telephone number, and email address. The agency has determined that the information collection constitutes a system of record for purposes of the Privacy Act and is covered under System of Records Notice (“SORN”) SEC-70. The records are retrieved by a personal identifier. The SEC-70 SORN, published on February 15, 2018 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 Privacy Impact Assessment (“PIA”) of the EDGAR system and the Collaboration SharePoint (“CSP”) system, in connection with this collection of information. The EDGAR PIA, published on January 29, 2016 is provided as a supplemental document and is also available at <https://www.sec.gov/privacy>. The CSP PIA, published on November 27, 2012 is provided as a supplemental document and is available upon request.

## **12. Information Collection Burden**

There are currently 285 respondents that must comply with Rules 17h-1T and 17h-2T. Each of these 285 respondents are estimated to require 10 hours per year to maintain the records required under Rule 17h-1T, for an aggregate estimated annual burden of 2,850 hours (285 respondents X 10 hours).

In addition, each of these 285 respondents must make five annual responses under Rule 17h-2T (for a total of 1,425 responses per year). These five responses are estimated to require 14 hours per respondent per year, for an aggregate estimated annual burden of 3,990 hours (285 respondents X 14 hours).

In addition, new respondents must draft an organizational chart required under Rule 17h-1T and establish a system for complying with the risk assessment rules. The staff estimates that drafting the required organizational chart requires one hour and establishing a system for complying with the rules requires three hours. Based on the reduction in the number of filers in recent years, the staff estimates there will be zero new respondents, and thus, a corresponding estimated burden of zero hours for new respondents. Thus, the total estimated compliance burden per year is 6,840 burden hours (2,850 hours + 3,990 hours).

The staff estimates that approximately two-thirds of the total compliance burden hours, or 4,560 hours, are performed by junior accountants at \$148 per hour, for an estimated internal cost of compliance of \$674,880.<sup>3</sup> In addition, the staff estimates that approximately one-third of the total compliance burden hours, or 2,280 hours, are performed by compliance managers at \$314 per hour for a cost of \$715,920.<sup>4</sup> Thus, the estimated total internal cost of compliance per year is \$3,390,800 (\$674,880 + \$715,920).

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

The estimated total annual cost burden for Rules 17h-1T and 17h-2T is \$0.

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

There is no estimated cost to the federal government.

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

The change in burden is a result of a decrease in the number of respondents from 306 to 285 and because no new respondents are expected to register and begin complying with Rules 17h-1T and 17h-2T.

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

Not applicable. The information collection is not used for statistical purposes.

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

We request authorization to omit the expiration date on the electronic version of the form. Including the expiration date on the electronic version of the 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. The OMB control number will be displayed.

### **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**

The collection of information does not involve statistical methods.

---

<sup>3</sup> The \$148 per hour figure for a Junior Accountant is from the Securities Industry and Financial Markets Association ("SIFMA"), publication entitled Management and Professional Earnings in the Securities Industry 2013, modified by Commission staff to account for an 1800-hour work year and multiplied by 5.35 to account for bonuses, firm size, employee benefits and overhead.

<sup>4</sup> See explanation at footnote 3.