

SUPPORTING STATEMENT
For the Paperwork Reduction Act Information Collection
Submission for Rule 17a-25

A. JUSTIFICATION

1. Information Collection Necessity

Rule 17a-25 (17 CFR 240.17a-25) under the Securities Exchange Act of 1934 (15 U.S.C. 78a *et. seq.*), requires registered broker-dealers to submit electronically to the Commission, upon request, information on customer and firm securities trading in a standardized format. In addition, the Rule requires broker-dealers to submit, and keep current, contact information for the person responsible for processing such requests. The Rule is necessary to support the Commission's efforts to analyze electronic submissions of transaction information, thereby facilitating Commission enforcement investigations and other trading reconstructions.

2. Information Collection Purpose and Use

Rule 17a-25 requires registered broker-dealers to submit securities trading data in a uniform electronic format, preferably using the electronic blue sheets ("EBS") reporting system utilized by the Commission, when requested by the Commission staff for enforcement and other regulatory purposes.¹ Rule 17a-25 requires the electronic submission of trading information to include data elements that assist the Commission staff in conducting complex enforcement inquiries and investigations. Additionally, the Rule requires broker-dealers to submit and keep current, contact person information for EBS requests. The Commission uses the information collected from EBS requests for enforcement inquiries or investigations and trading reconstructions, as well as for inspections and examinations.

3. Consideration Given to Information Technology

The EBS system is designed to reduce the burden of collecting and transmitting securities trading data. This technology increases the speed, accuracy, and availability of trading information, thereby generating benefits to both investors and the financial markets.

4. Duplication

Not applicable. There is no apparent duplication of information.

¹ In July 2017, the Commission retired its custom built EBS system and began using the Blue Sheets as a Service ("BSS") system operated by the Financial Industry Regulatory Authority ("FINRA").

5. Effect on Small Entities.

The Commission believes that Rule 17a-25 has a minimal effect on the approximately 985 broker-dealers who qualify as a small business or organization. As discussed in Item 12 below, the Commission primarily sends EBS requests to the 198 brokers that operate as clearing brokers as they, by nature of their role in clearing securities transactions for themselves and for other broker-dealers, are the repository for the trading data. Further, the vast majority of the information required in Rule 17a-25 involves collections of information that broker-dealers already maintain in compliance with existing regulations, and the rules of the self-regulatory organizations (the registered securities exchanges and FINRA) currently require broker-dealers to have adequate systems and procedures to submit the EBS transaction reports.

6. Consequences of Not Conducting Collection

The Commission requests securities trading data only when necessary for a specific enforcement inquiry or other regulatory purpose.

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

The respondents receive no payments or gifts.

10. Confidentiality

The information in the collections of information discussed above will not be made publicly available, except as provided by the Privacy Act of 1974 (5 U.S.C. 552a).

11. Sensitive Questions

The Rule requires exchange members, brokers, and dealers to electronically submit securities transaction information upon request by the Commission. The transaction information submitted includes personally identifiable information

("PII") such as customer names, addresses, tax identification numbers, account numbers, and related transaction information. In addition, Rule 17a-25 requires broker-dealers to submit and keep current, contact person information for electronic blue sheets requests. 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- 42, Enforcement Files. In accordance with Section 208 of the E-Government Act of 2002, the agency has conducted a Privacy Impact Assessment ("PIA") of the EBS system, in connection with this collection of information. The EBS PIA, published on September 15, 2006 is available at <https://www.sec.gov/privacy>. This PIA is currently being updated to reflect the changes in the collection of this information.

12. Information Collection Burden

The annual hour burden of Rule 17a-25 for individual broker-dealers varies widely due to differences in the levels of activities of the respondents and because of differences in the current recordkeeping systems of the respondents. While Rule 17a-25 requires all registered broker-dealers to be able to provide transaction data to the Commission, the Commission focuses its requests on clearing brokers as they are the repository for the trading data. Accordingly, all 198 clearing brokers respond electronically through the EBS system, except in rare instances where they respond manually. Manual submissions are allowed if there are no other means for the firm to submit responses electronically. It is estimated that the broker-dealers that respond electronically will take 8 minutes, and the broker-dealers that respond manually will take 1½ hours to prepare and submit the securities trading data requested by the Commission.

Based on EBS data compiled by the Commission for the period October 1, 2016 to October 23, 2018, the Commission estimates that it sent 13,493 electronic blue sheet requests to clearing broker-dealers, who in turn submitted 528,551 responses, for an average of 253,705 responses per year.² On average, each of the 198 clearing firms electronically submitted approximately 1,281 responses per year ($253,705 \div 198 = 1,281.34$). Accordingly, the annual aggregate hour reporting burden for electronic responses is estimated to be 33,827 ($253,705 \times 8 \div 60 = 33,827$ hours).

² A single EBS request has a unique number assigned to it (e.g., "0900001"). However, the number of broker-dealer submissions transmitted in response to one EBS request can range from one to thousands. EBS requests are sent directly to clearing firms, as the clearing firm is the repository for trading data for securities transactions information provided by the clearing firm and the correspondent firms. Clearing brokers respond for themselves and other firms for which they clear. There were 528,551 responses during the 25 month period, for an average of 21,142 responses per month or an average of 253,705 annual responses.

The Commission received 798 manual submissions between July 24, 2017 (when it began using the BSS system) and February 28, 2019, or an average of 500 manual submissions per year. On average, each of the 198 clearing firms submitted approximately 2.5 manual responses per year ($500 \div 198 = 2.525$).

Accordingly, the annual aggregate hour reporting burden for manual responses is estimated to be 750 ($500 \times 1.5 = 750$ hours).³

Further, while Rule 17a-25 requires broker-dealers to submit, and keep current, contact information for the person responsible for processing such requests, the Commission retired its EBS system and began using the BSS system operated by FINRA. Because FINRA separately requires broker-dealers to submit, and keep current, contact information directly to FINRA, firms no longer have to submit that information to the Commission. Accordingly, the Commission has eliminated the collection of information burden for that aspect of Rule 17a-25.

Thus, the total number of responses is 254,205 ((253,705 electronic responses + 500 manual responses). The annual aggregate reporting burden for all respondents to the collection of information requirements of Rule 17a-25 is estimated at 34,577 ($253,705 \text{ electronic responses} \times 8 \text{ minutes per response} \div 60 \text{ minutes in an hour} = 33,827 \text{ hours}$) + ($500 \text{ manual responses} \times 1.5 \text{ hours per response} = 750 \text{ hours}$).

Summary of Hourly Burdens

Burden Type	Number of Respondents	Number of Annual Responses per Respondent	Time per Response (Hours)	Total Burden (Hours)
Electronic	198	1,281.34	.13333	33,827
Manual	198	2.525	1.5	750
<i>Total Aggregate Burden</i>				34,577

13. Costs to Respondents

The Commission believes that there will be no additional costs to the respondents associated with the operation and maintenance of the EBS system. In addition, Rule 17a-25 will not impose any additional recordkeeping requirements for

³ Manual submissions most frequently occur when an analyst requests transaction information that is older than 6 years (the required retention period). The number of manual submissions (approximately 500 per year) has a minimal effect on the total annual burden hours.

broker-dealers because broker-dealers already maintain all of the information required for EBS reports. Therefore the annualized cost burden is \$0.

14. Costs to Federal Government

The annual cost to the Federal Government for this collection of information is estimated to be \$1,136,640. As noted above, the Commission retired its EBS system and now uses the BSS system operated by FINRA to send electronic requests for trading data. As such, the Commission no longer incurs a cost to maintain its own separate EBS system. Instead, it incurs costs to use the BSS system. In particular, to help administer the BSS system and ensure that submissions are timely and accurate, the Commission employs three full-time contractors. We estimate an average of \$76 for contractors per hour for those persons, multiplied by a full-time (40 hours per week) working schedule (\$474,240 annually). In addition, two other contracted staff devote approximately 10% of their time to facilitate this collection of information. At \$150 per hour, those costs are estimated to be \$62,400. Infrastructure and support costs to maintain the EBS system are estimated to be \$600,000. Accordingly, total costs for staff, BSS contract and system costs (including system access, staff training, and system development and enhancement costs), and dedicated infrastructure costs are thus estimated to be \$1,136,640. Other expenses, including the professional staff that utilize the information collected as part of their regulatory reviews, as well as general technology and overhead expenses, would have been incurred without this specific collection of information and are part of the Commission's normal labor costs for staff and facilities.

15. Changes in Burden

The increases in burden reflect an increase in (1) the number of electronic EBS requests sent (13,493 versus 7,697 from the prior comparable 25-month figure reported in 2015); (2) an increase in the number of electronic responses received (528,551 versus 124,912 from the prior comparable 25-month figure reported in 2015); and (3) an increase in the number of manual responses received (500⁴ versus 80 from the prior annual figure reported in 2015).

In addition, there was a decrease in the burden hours resulting from the elimination of the previously reported 2-hour burden (8 broker-dealers x 15 minutes per year) to supply and update contact information in response to a Commission request. As noted in footnote 1, the Commission now uses the BSS system operated by FINRA to manage its EBS requests. Because FINRA already collects firm contact information, the Commission has reduced the potential for duplication and no longer needs to request this information. Therefore, we have removed this information collection.

⁴ As noted in Section 12, the Commission received 798 manual submissions over a 19 month period (July 24, 2017 through February 28, 2019), for an average of 500 submissions received per year.

Accounting for all of these changes, the annual aggregate hour reporting burden has increased from 8,116 in 2015 to 34,577 currently. This increase reflects additional regulatory and enforcement inquiries and investigations using the EBS system, as well as the increased complexity of some of the trading activity involved in those inquiries that are contained in a higher number of multiple responses to a single request.

16. Information Collection Planned for Statistical Purposes.

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

17. Approval to Omit OMB Expiration Date

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

18. Exceptions to Certification for Paperwork Reduction Act Submissions

This collection complies with the requirements in 5 CFR 1320.9.

B. COLLECTIONS OF INFORMATION EMPLOYING STATISTICAL METHODS

The collection of information does not involve statistical methods.