

SUPPORTING STATEMENT
for the Paperwork Reduction Act Information Collection Submission for
Rule 15b1-1 and Form BD

A. **Justification**

1. Information Collection Necessity

The Securities Exchange Act of 1934 (“Exchange Act”) regulates the nation’s securities markets and the securities professionals who participate in those markets.

Under the Exchange Act, broker-dealers must register with the Securities and Exchange Commission (“Commission”). Section 15(a)(1) of the Exchange Act provides that it is unlawful for broker-dealers to solicit or effect transactions in most securities unless they are registered as broker-dealers with the Commission pursuant to Section 15(b) of the Exchange Act. Section 15B(a)(1) of the Exchange Act also provides that it is unlawful for municipal securities dealers, other than registered broker-dealers, to solicit or effect transactions in municipal securities unless they are registered with the Commission as municipal securities dealers pursuant to Section 15B(a)(2) of the Exchange Act. In addition, Section 15C(a)(1) of the Exchange Act provides that it is unlawful for government securities broker-dealers, other than registered broker-dealers and certain financial institutions, to solicit or effect transactions in government securities unless they are registered as government securities broker-dealers with the Commission pursuant to Section 15C(a)(2) of the Exchange Act.

Sections 15(b)(1) and (2) of the Exchange Act authorize the Commission to prescribe by rule an application form for registration that contains such information about broker-dealers that is necessary or appropriate in the public interest or for the protection of investors. Section 17(a)(1) of the Exchange Act authorizes the Commission to require registered broker-dealers and registered municipal securities dealers to make and file such reports as the Commission determines as necessary or appropriate in the public interest or for the protection of investors.

To implement these provisions, the Commission adopted Rule 15b1-1 (17 CFR 240.15b11) and Form BD (17 CFR 249.501). Form BD is the uniform application for broker-dealer registration. Form BD requires the applicant or registrant filing the form to provide the Commission with certain information concerning the nature of its business and the background of its principals, controlling persons, and employees. Form BD is designed to permit the Commission to determine whether the applicant meets the statutory requirements to engage in the securities business.

In 1981, the Central Registration Depository (“CRD”) was created as a cooperative effort between the National Association of Securities Dealers¹ and the North American Securities Administration Association (“NASAA”), in order to facilitate a “one stop” filing process for broker-dealers and their associated persons (i.e., only one form had to be filed with the CRD to satisfy FINRA and participating state registration requirements). The CRD is operated and maintained by FINRA and is used by the Commission (since 1992),² self-regulatory organizations (or "SROs"),³ and state securities regulators in connection with registering and licensing broker-dealers and their associated persons.

2. Information Collection Purpose and Use

The Commission uses the information disclosed by applicants in Form BD: (1) to determine whether the applicant meets the standards for registration set forth in the provisions of the Exchange Act; (2) to develop a central information resource where members of the public may obtain relevant, up-to-date information about broker-dealers, municipal securities dealers, and government securities broker-dealers, and where the Commission, other regulators, and SROs may obtain information for investigatory purposes in connection with securities litigation; and (3) to develop statistical information about broker-dealers, municipal securities dealers, and government securities broker-dealers. Without the information disclosed in Form BD, the Commission could not effectively implement policy objectives of the Exchange Act with respect to its investor protection function.

3. Consideration Given to Information Technology

Broker-dealer applicants currently file Form BD electronically with FINRA. FINRA then provides the Commission with access to the CRD system and provides certain reports to the Commission, as requested. This method of collecting information reduces the regulatory burden upon broker-dealers by permitting them to file applications for registration and amendments thereto once and electronically, rather than requiring the broker-dealer to file multiple applications for registration and amendments separately with the Commission, SROs, and state regulators.

4. Duplication

As noted above, broker-dealer applicants use Form BD to register with the Commission, the states, and certain SROs. By filing Form BD in one central location, the Commission

¹ The National Association of Securities Dealers merged with New York Stock Exchange Member Regulation to form the Financial Industry Regulatory Authority (or "FINRA") on July 30, 2007. For the sake of clarity, as used herein the term "FINRA" will be used to identify both FINRA and its predecessor, the National Association of Securities Dealers.

² Securities Exchange Act Release No. 31660 (Dec. 28, 1992), 58 FR 11.

³ The SROs include FINRA and various other entities.

provides “one stop” filing for applicants, so that they are not required to file multiple copies of Form BD.

The requirements to disclose information in Form BD do not duplicate any other federal statute or rule.

5. Effect on Small Entities

On December 31, 2018, 3,813 broker-dealers were registered with the Commission.⁴ As of December 31, 2018 there were 985 small broker-dealers.⁵

All broker-dealers, regardless of size, are required to disclose the information requested in Form BD. Therefore, Form BD affects small broker-dealers registered or registering with the Commission. The Commission believes, however, that the disclosure requirements of Form BD are not unduly burdensome, particularly in relation to the important objectives served by the disclosure of registration information.

6. Consequences of Not Conducting Collection

Broker-dealer applicants generally are required to file Form BD only once to register and are required to file amendments to Form BD only when information originally reported in Form BD changes or becomes inaccurate. Therefore, less frequent collection for Form BD information would impair the accuracy of the information available to the Commission and decrease the protections afforded to investors.

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 60-day comment period soliciting comments on this collection of information was published. No public comments were received.

⁴ Based on Form BD data.

⁵ Based on data provided to the Commission through Forms X-17A-5. 17 CFR 240.0-10 defines “small entities under the Securities Exchange Act for purposes of the Regulatory Flexibility Act.^[1]” In particular, section (c) defines a small broker-dealer as a “broker dealer that: (1) Had total capital (net worth plus subordinated liabilities) of less than \$500,000 on the date in the prior fiscal year as of which its audited financial statements were prepared pursuant to § 240.17a-5(d) or, if not required to file such statements, a broker or dealer that had total capital (net worth plus subordinated liabilities) of less than \$500,000 on the last business day of the preceding fiscal year (or in the time that it has been in business, if shorter); and (2) Is not affiliated with any person (other than a natural person) that is not a small business or small organization as defined in this section[. . .]”.

9. Payment or Gift

Not applicable.

10. Confidentiality

The information provided on Form BD is not confidential and is available to the public.

11. Sensitive Questions

The information collection collects a broad range of personally identifiable information (“PII”) related to registration of a broker-dealer with the SEC. This Form is submitted via FINRA’s CRD system and is made available to the Commission through staff access to that system. FINRA’s CRD system links to the EDGAR system and SEC staff take action to review and either approve or deny registration in the EDGAR workstation. The primary retrieval method is company name, CRD number, or SEC filer number. 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. However, notice to the public of the collection of the information and the agency’s handling practices are described in System of Records Notice (“SORN”) SEC-70 “SEC’s Trading and Markets Records.” 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>. A Privacy Act Statement is available on Form BD. 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 January 29, 2016, is provided as a supplemental document and is also available at <https://www.sec.gov/privacy>.

12. Information Collection Burden

Based on the number of initial applications on Form BD the Commission received from 1/1/2016 through 12/31/2018, Commission staff estimates that the Commission will receive approximately 183 applications each year on Form BD.⁶ While it is likely that the time necessary to complete Form BD will vary depending on the nature and complexity of the entity’s business, Commission staff has previously estimated that the average time necessary for a broker-dealer to complete and file an application for broker-dealer registration on Form BD would be approximately 2.75 hours, and that estimate has been subject to notice and comment.⁷ Consequently, Commission staff estimates that total annual burden hours required for all firms to

⁶ The Commission generally classifies Form BD data based on the Federal government's fiscal year, from October 1 through September 30. The Commission received 162, 178, and 210 broker-dealer applications on Form BD during the years ending 2016, 2017, and 2018, respectively. $183 = (162 + 178 + 210) / 3$ years.

⁷ Securities Exchange Act Release No. 41594 (July 2, 1999), 64 FR 37586.

complete and file applications for broker-dealer registration on Form BD is approximately 503.25 hours (2.75 x 183).

Once registered, a broker-dealer must file an amended Form BD when information it originally reported on Form BD changes or becomes inaccurate. Commission staff has previously estimated that the average time necessary to complete an amended Form BD would be approximately 20 minutes, and that estimate has been subject to notice and comment.⁸ Based on the number of amended Forms BD the Commission received from 1/1/2016 through 12/31/2018, Commission staff estimates that the total number of amendments that the Commission will receive on Form BD would be approximately 10,954,⁹ or 2.87 per broker-dealer each year.¹⁰ Therefore, Commission staff estimates that the total annual burden hours necessary for broker-dealers to complete and file amended Forms BD is approximately 3,614.82 hours (10,954 amended Forms BD per year x 0.33 hours per amendment).

Thus, the Commission estimates that the total industry-wide annual filing burden for applications and amendments filed with the Commission on Form BD is approximately 4,118.07 hours (503.25 + 3,614.82).

Form type	Burden type	Annual number of responses received	Hours per response	Total burden per burden type (hours)
Form BD	Initial reporting	183	2.75	503.25
Form BD/A	Periodic reporting	10,954	0.33	3,614.82
<i>Total Burden</i>				4,118.07

The staff believes that a broker-dealer would have a Compliance Manager complete and file both applications and amendments on Form BD, at \$314/hour.¹¹ Consequently, the staff estimates that the total internal cost of compliance associated with these burden hours for all broker-dealers is approximately \$1,293,073.98 each year (\$314 x 4,118.07).

⁸ *Id.*

⁹ *See supra*, footnote 6. The Commission received 11,477, 10,659, and 10,726 amended Forms BD's during the fiscal years ending 2016, 2017, and 2018, respectively. $10,954 = (11,477 + 10,659 + 10,726) / 3$ years.

¹⁰ $2.87 = 10,954 / 3,813$.

¹¹ \$314 per hour figure for a Compliance Manager is from the Securities Industry and Financial Markets Association's publication titled *Management & Professional Earnings in the Securities Industry 2013*, as modified by Commission staff to account for an 1,800-hour work-year and multiplied by 5.35 to account for bonuses, firm size, employee benefits, and overhead.

13. Costs to Respondents

It is not anticipated that respondents will have to incur any capital and start-up costs, nor any additional operational or maintenance costs (other than as provided in Item 12), to comply with the collection of information.

14. Costs to Federal Government

Commission staff estimates that the review and processing of a broker-dealer application filed on Form BD requires approximately 2 hours of staff time. Thus, estimating staff time and related overhead at \$82 per hour, the cost to the Federal government in connection with review and processing of broker-dealer applications filed on Form BD is approximately \$30,012 (183 applications x 2 hours x \$82). With respect to amended Forms BD, the staff estimates that it requires approximately 1 hour of staff time to review and process the filings. Thus, the cost to the Federal government related to the review and processing of amended Forms BD is approximately \$898,228 (10,954 amendments x 1 hour x \$82). In sum, the total cost to the government for reviewing and processing broker-dealer applications and amendments filed on Form BD is approximately \$928,240 (\$30,012 + \$898,228).¹²

15. Changes in Burden

The reduction in the respondents' annual time burden (from 4,999 hours to 4,118.07 hours) is due to a reduction in the estimated number of applications and amendments the staff expects broker-dealers to file on Form BD.

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

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

This collection complies with the requirements in 5 CFR 1320.9.

¹² The cost burden estimates in this submission have been computed according to the guidelines set forth in *GSA, Guide to Estimating Reporting Costs* (1973). Accordingly, the Commission staff has valued related overhead at 35 percent of the value of the combined salaries of the aforementioned participants.

B. Collections of Information Employing Statistical Methods

This collection does not involve statistical methods.