

**SUPPORTING STATEMENT for the Paperwork Reduction Act Information Collection
Submission for Rule 18a-1 – Net capital requirements for security-based swap dealers for
which there is not a prudential regulator
3235-0701**

This submission is being made pursuant to the Paperwork Reduction Act of 1995, 44 U.S.C. Section 3501 *et seq.*

A. JUSTIFICATION

1. Necessity of Information Collection

On June 21, 2019, in accordance with Section 764 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the “Dodd-Frank Act”),¹ which added section 15F to the Securities Exchange Act of 1934 (the “Exchange Act”),² the Securities and Exchange Commission (the “Commission”) has adopted Rule 18a-1 to establish net capital requirements for nonbank security-based swap dealers that are not also broker-dealers registered with the Commission (“stand-alone SBSDs”).³ The rule establishes a number of new collections of information requirements. First, under paragraphs (a)(2) and (d) of Rule 18a-1, as adopted, a stand-alone SBSD needs to apply to the Commission to be authorized to use internal models to compute net capital. As part of the application process, a stand-alone SBSD is required to provide the Commission staff with, among other things: (1) a comprehensive description of the firm’s internal risk management control system; (2) a description of the value-at-risk (“VaR”) models the firm will use to price positions and compute deductions for market risk; (3) a description of the firm’s internal risk management controls over the VaR models, including a description of each category of person who may input data into the models; and (4) a description of the back-testing procedures that that firm will use to review the accuracy of the VaR models. In addition, under Rule 18a-1, a stand-alone SBSD authorized to use internal models must review and update the models it uses to compute market and credit risk, as well as backtest the models.

Second, under paragraph (f) of Rule 18a-1, as adopted, a stand-alone SBSD is required to comply with certain requirements of Rule 15c3-4 (17 CFR 240.15c3-4). Rule 15c3-4 requires OTC derivatives dealers and firms subject to its provisions to establish, document, and maintain a system of internal risk management controls to assist the firm in managing the risks associated with business activities, including market, credit, leverage, liquidity, legal, and operational risks.

Third, for purposes of calculating “haircuts” on credit default swaps, paragraph (c)(1)(vi)(B)(1)(iii)(A)Rule 18a-1, as adopted, requires stand-alone SBSDs that are not using

¹ See *Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010*, Public Law 111-203, 124 Stat. 1376 (2010).

² See 15 U.S.C. 78o-10(e)(2)(B).

³ See *Capital, Margin, and Segregation Requirements for Security-Based Swap Dealers and Major Security-Based Swap Participants and Capital Requirements for Broker-Dealers*, Exchange Act Release No. 86175.

internal models to use an industry sector classification system that is documented and reasonable in terms of grouping types of companies with similar business activities and risk characteristics.

Fourth, under paragraph (h) of Rule 18a-1, as adopted, stand-alone SBSBs are required to provide the Commission with certain written notices with respect to equity withdrawals.

Fifth, under paragraph (c)(5) of Rule 18a-1, as adopted, stand-alone SBSBs are required to file with the Commission two copies of any proposed subordinated loan agreement (including nonconforming subordinated loan agreements) at least 30 days prior to the proposed execution date of the agreement. The rule also requires an SBSB to file with the Commission a statement setting forth the name and address of the lender, the business relationship of the lender to the SBSB, and whether the SBSB carried an account for the lender effecting transactions in security-based swaps at or about the time the proposed agreement was filed.

Finally, under paragraph (c)(1)(ix)(C)(3) of Rule 18a-1, as adopted, nonbank SBSB may treat collateral held by a third-party custodian to meet an initial margin requirement of a security-based swap or swap customer as being held by the nonbank SBSB for purposes of the capital in lieu of margin charge provisions of the rule if certain conditions are met. Two of these conditions include: (1) the execution of an account control agreement governing the terms under which the custodian holds and releases collateral pledged by the counterparty as initial margin; and (2) that the nonbank SBSB obtains a written opinion from outside counsel that the account control agreement is legally valid, binding, and enforceable in all material respects, including in the event of bankruptcy, insolvency, or a similar proceeding.

2. Purpose and Use of the Information Collection

The requirements in Rule 18a-1, as adopted, are an integral part of the Commission's financial responsibility program for stand-alone SBSBs. The program is designed to ensure that stand-alone SBSBs maintain sufficient liquidity at all times to meet all unsubordinated obligations of their customers and counterparties and, should a nonbank SBSB fail, that there are sufficient resources for an orderly liquidation. These information collections facilitate the monitoring of the financial condition of nonbank SBSBs by the Commission.

Furthermore, the program is designed to protect the financial stability of the U.S. financial and banking system from the failure of a given stand-alone SBSB. The information collections under Rule 18a-1, as adopted, provide the Commission with visibility into the liquidity and market risk profiles of stand-alone SBSBs, as well as meaningful plans on how stand-alone SBSBs intend to manage risks.

3. Consideration Given to Information Technology

The information collections do not require that respondents use any specific information technology system. The other information collections involve written notices, agreements, plans, and procedures, and do not benefit from specialized information technology.

4. Duplication

This information collection does not duplicate any existing information collection.

5. Effect on Small Entities

The information collections required under Rule 18a-1 do not place burdens on small entities. The stand-alone SBSBs subject to the information collections under the rule are not expected to be small entities.

6. Consequences of Not Conducting Collection

If the required information collections are not conducted or are conducted less frequently, the protection afforded to investors and the U.S. financial system would be diminished.

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 Commission requested comment on the collection of information requirements in the proposing release in October 2012.⁴ In addition, in 2018, the Commission reopened the comment period and requested additional comment on the proposed rules and amendments (including potential modifications to proposed rule language).⁵ While the Commission did not receive specific comments with respect to the proposed collection of information with respect to Rule 18a-1, as proposed to be adopted, the Commission received a number of comment letters in response to the 2012 proposal.⁶ In response to comments received regarding Rule 18a-1, as proposed to be adopted, the Commission has modified the language in the final rule, as discussed below. These comments and their impact on PRA estimates are discussed below.

In addition, in the SBSB Adopting Release, the Commission stated that, based on comments it received, it is not adopting the proposed liquidity stress test requirements that would have applied to standalone SBSBs.⁷ Therefore, the proposed collections of information with respect to the liquidity stress test and the written contingency funding plan are not included in this final collection of information.

⁴ See *Capital, Margin, and Segregation Requirements for Security-Based Swap Dealers and Major Security-Based Swap Participants and Capital Requirements for Broker-Dealers*, Exchange Act Release No. 68071 (Oct. 18, 2012), 77 FR 70213, 70299 (Nov. 23, 2012) (“Capital, Margin, and Segregation Proposing Release”).

⁵ See *Capital, Margin, and Segregation Requirements for Security-Based Swap Dealers and Major Security-Based Swap Participants and Capital Requirements for Broker-Dealers*, Exchange Act Release No. 84409 (Oct. 11, 2018), 83 FR 53007 (Oct. 19, 2018) (“Capital, Margin, and Segregation Comment Reopening”).

⁶ Comments available at <https://www.sec.gov/comments/s7-08-12/s70812.shtml>.

⁷ See *SEC Proposed Capital, Margin, and Segregation Requirements for SBSBs and MSBSPs*, 77 FR at 70252-70254.

9. Payment or Gift

No payment or gift is provided to respondents.

10. Confidentiality

The information collected by the Commission under Rule 18a-1, as adopted, is kept confidential to the extent permitted by the Freedom of Information Act (5 U.S.C. § 552 *et seq.*).

11. Sensitive Questions

The collections of information do not expressly include Personally Identifiable Information (“PII”).⁸ At the same time, however, Commission staff understands that there may be instances when certain information (including, but not limited to, a person’s name, email, or phone number) could be provided by a respondent in response to one of the collections of information. However, Commission staff does not envision any circumstance in which a social security number would be provided pursuant to any of the collections of information. As such, we believe that the treatment of any PII with the collection of information associated with this rule is not likely to implicate the Federal Information Security Management Act of 2002 or the Privacy Act of 1974.

12. Burden of Information Collection

The staff estimates that the Rule 18a-1 will require in total, on an industry-wide basis, a total of 53,090.10 hours.⁹

VaR Models (Rule 18a-1(a))

The staff estimates that 4 stand-alone SBSs that elect to use internal models to compute net capital must first have an internal VaR model and submit information relating to the model along with its application to the Commission pursuant to Rule 18a-1.¹⁰ Based on past experience with broker-dealers that applied to use internal models under Rule 15c3-1 and related Appendix E, the Commission staff estimates that stand-alone SBSs will spend approximately 750 hours to create its model and risk control systems, as well as compiling its application for approval to

⁸ The term “Personally Identifiable Information” refers to information which can be used to distinguish or trace an individual’s identity, such as their name, social security number, biometric records, etc. alone, or when combined with other personal or identifying information which is linked or linkable to a specific individual, such as date and place of birth, mother’s maiden name, etc.

⁹ 19,720 hours + 5,500.02 hours + 2 hours + 3 hours + 100.02 hours + 1,200 hours + 20.01 hours = 53,090.10 hours.

¹⁰ This estimate has been reduced from six in the proposing release to four to account for the adoption of Rule 18a-10, which will enable stand-alone SBSs to elect an alternative compliance mechanism and comply with capital, margin, and segregation requirements of the Commodity Exchange Act and the U.S. Commodity Futures Trading Commission’s rules in lieu of Rule 18a-1. *See Capital, Margin, and Segregation Release*, 77 FR at 70293.

use the model, resulting in a one-time hour burden of 750 recordkeeping hours per stand-alone SBSB, ¹¹ and an industry one-time hours burden of 3,000. ¹²

The staff estimates that these firms will then spend 4,200 hours per year reviewing and updating its VaR models, and also 480 hours per year backtesting those models against available data. **That results in a total annual industry-wide hour burden of 19,720 recordkeeping hours.** ¹³

Risk Management Control System (Rule 18a-1(g))

Rule 18a-1 requires that all registered nonbank SBSBs comply with Rule 15c3-4. Currently, there are 9 firms expected to register as stand-alone SBSBs, but only 6 firms are expected to be subject to Rule 18a-1, as the Commission estimates that three firms will elect the alternative compliance mechanism under Rule 18a-10. The Commission staff estimates that these 6 firms will bear a one-time burden of 2,000 hours to initially set up risk management control systems, ¹⁴ and an annual burden of 250 hours per year. ¹⁵ This will result in an estimated industry-wide one-time internal hour burden of approximately 12,000 recordkeeping hours, ¹⁶ and an estimated industry-wide annual internal hour burden of approximately 1,500 recordkeeping hours per year, **for a total annualized recordkeeping burden of 5,500 hours.** ¹⁷

Industry Sector Classification (Rule 18a-1(c))

With respect to documenting an industry sector classification system with respect to credit default swap haircuts, the Commission staff expects that 2 stand-alone SBSBs will have to bear internal hours burdens. ¹⁸ The Commission expects that these firms will utilize external

¹¹ These one-time costs are annualized over three years resulting in 250 recordkeeping hours per respondent (750 hours/3 = 250). The Commission staff estimates that the hours will be used to: (1) develop and submit models and the description of risk management control systems to the Commission; (2) to create and compile the various documents to be included with the application; and (3) to work with the Commission staff through the application process. The hours burden also includes approximately 100 hours for an in-house attorney to complete a review of the application.

¹² These one-time costs are annualized over three years resulting in 1,000 recordkeeping hours for the industry (3,000 hours/3 = 1,000).

¹³ Accordingly, the total annualized industry-wide recordkeeping burden is 19,720 hours ((750 one-time hours annualized over 3 years + 4,200 hours + 480 hours) x 4 stand-alone SBSBs).

¹⁴ This amount will be annualized over three years, which results an annual burden of 666.67 recordkeeping hours.

¹⁵ The one-time estimate of 2,000 hours and the annual estimate of 250 hours is based on the estimates for OTC derivatives dealer burdens to implement the same controls under Rule 15c3-1. *See OTC Derivatives Dealers*, 62 FR 67940.

¹⁶ 6 stand-alone SBSBs x 2,000 hours = 12,000 hours. This results in an annual burden of 4,000 hours (12,000 hours/3 = 4,000).

¹⁷ 6 stand-alone SBSBs x 250 hours/year = 1,500 hours/year. The total annualized recordkeeping burden is 5,500 hours (12,000 one-time hours annualized over 3 years + 2,250 hours).

¹⁸ In the proposing release, the Commission estimated that 3 stand-alone SBSBs would not apply to use models. *See Capital, Margin, and Segregation Proposing Release*, 77 FR at 70293. This estimate has been

classifications systems because of reduced costs and ease of use as a result of the common usage of several of these classification systems in the financial services industry. The Commission staff estimates that these firms will spend approximately 1 hour per year documenting the industry sectors. **This results in an estimated industry-wide annual internal hour burden of approximately 2 recordkeeping hours per year.**¹⁹

Commission Notices (Rule 18a-1(h))

Rule 18a-1 requires that stand-alone SBSBs file written notices with the Commission when certain amounts of equity are withdrawn from the firm. Based on the staff's experience with similar withdrawal notices filed by broker-dealers under Rule 15c3-1, the staff estimates that the 6 stand-alone SBSBs will file an average of 2 notices per year. It requires an estimated 30 minutes to file these notices, **for an annual industry-wide hour burden of 3 reporting hours.**²⁰

Subordinated Loan Agreements under Rule 18a-1²¹

Rule 18a-1 requires stand-alone SBSBs to file subordinated loan agreements with the Commission. The staff estimates that each of the 6 stand-alone SBSBs will spend 20 hours of internal employee resources drafting or updating its agreement templates, resulting in a one-time industry-wide hour burden of 120 reporting hours.²² Based on its experience with broker-dealers submitting such loan agreements under a similar requirement under Rule 15c3-1, the staff estimates that each firm will file 1 subordinated loan agreement per year and that it will take approximately 10 hours to prepare and file the agreement, resulting in an annual industry-wide hour burden of 60 reporting hours, **for a total annualized industry hour burden of 100.02 hours.**²³

Account Control Agreements (Rule 18a-1(c))

Finally, as a result of comments received,²⁴ under the final amendments under Rule 18a-1, a nonbank SBSB may treat collateral held by a third-party custodian to meet an initial margin

modified from 3 firms to 2 firms to account for the nonbank SBSBs that will elect the alternative compliance mechanism under Rule 18a-10.

¹⁹ 2 non-model stand-alone SBSBs x 1 hour/year = 1 hours/year.

²⁰ 6 stand-alone SBSBs x 30 minutes/year = 3 hours/year.

²¹ Note that this hour burden was included in the supporting statement for Rule 18a-1, as proposed, but inadvertently not entered into ROCIS.

²² 6 stand-alone SBSBs x 20 hours = 120 hours. This amount annualized on an industry-wide basis is 60 hours (180 hours/3 = 60) and is 6.67 hours per respondent (60 hours/9 stand-alone SBSBs = 6.667, rounded to 6.67).

²³ 6 stand-alone SBSBs x 10 hours/year = 60 hours/year. The total annualized industry-wide hour reporting burden is 100.02 hours (120 hours annualized over 3 years) + 60 hours).

²⁴ If a stand-alone dealer or nonbank SBSB delivers initial margin to a counterparty, it must take a deduction from net worth in the amount of the posted collateral. See paragraphs (c)(2)(i) through (xiv) of Rule 15c3-1. The Commission recognizes that the imposition of this deduction could increase transaction costs for stand-alone broker-dealers and nonbank SBSBs. Consequently, the Commission sought comment on

requirement of a security-based swap or swap customer as being held by the broker-dealer for purposes of the capital in lieu of margin charge provisions of the rule if certain conditions are met. More specifically, Rule 18a-1, as adopted, requires the execution of an account control agreement governing the terms under which the custodian holds and releases collateral pledged by the counterparty as initial margin if the nonbank SBSB intends to treat collateral held by a third-party custodian to meet an initial margin requirement of a security-based swap or swap customer as being held by the nonbank SBSB for purposes of the capital in lieu of margin charge provisions of the rule if certain conditions are met. Based on staff experience with the net capital and customer protection rules, the Commission estimates that the 6 stand-alone SBSBs will enter into approximately 100 account control agreements per year with security-based swap customers and that it will take approximately 2 hours to execute each account control agreement, **resulting in an annual hour burden under Rule 18a-1 of 1,200 third-party hours for all these 6 entities.**²⁵

Commission staff also estimates 6 stand-alone SBSBs will need to maintain written documentation of their legal analysis of the account control agreement. Based on staff experience, the Commission estimates that stand-alone SBSBs will meet this requirement split evenly between obtaining a written opinion of outside legal counsel or through the firm’s own “in house” analysis. The Commission estimates that it will take a stand-alone SBSB approximately 20 hours to conduct a written “in house” analysis, resulting in an industry-wide one-time burden of 60 hours, **or 20.01 hours on an annualized basis.**²⁶

Summary of Hourly Burdens										
Name of Information Collection	Type of Burden	Number of Entities Impacted	Annual Responses per Entity	Initial Burden per Entity per Response	Initial Burden Annualized per Entity per Response	Ongoing Burden per Entity per Response	Annual Burden Per Entity per Response	Total Annual Burden Per Entity	Total Industry Burden	Small Business Entities Affected
Rule 18a-1(a) (VaR Models)	Recordkeeping	4	1	750.00	250.00	4,680.00	4,930.00	4,930.00	19,720.00	0
Rule 18a-1(g) (Risk Management Control System)	Recordkeeping	6	1	2,000.00	666.67	250.00	916.67	916.67	5,500.02	0
Rule 18a-1(c) Industry Sector Classification	Recordkeeping	2	1	0	0	1.00	1.00	1.00	2.00	0

whether it should provide a means for a firm to post initial margin to counterparties without incurring the deduction with respect to Rule 15c3-1 under specified conditions. Several commenters expressed support for this general approach. *See, e.g.*, Letter from Kenneth E. Benton, Jr., President and CEO, Securities Industry and Financial Markets Association (Nov. 19, 2018); Letter from Sebastian Crapanzano and Soo-Mi Lee, Managing Directors, Morgan Stanley (Nov. 19, 2018).

²⁵ 6 stand-alone SBSBs x 100 account control agreements x 2 hours = 1,200 hours.

²⁶ (3 stand-alone SBSBs) x 20 hours = 60 hours. On an annual basis, this burden would be 20.01 hours ((20 hours/3) x 3 stand-alone SBSBs = 20.01 hours).

Rule 18a-1(h) (Commission Notices)	Reporting	6	2	0	0	0.25	0.25	0.50	3.00	0
Rule 18a-1 (Subordinated Loan Agreements)	Reporting	6	1	20.00	6.67	10.00	16.67	16.67	100.02	0
Rule 18a-1(c) (Account Control Agreements, Opinion of Counsel)	Third-Party	6	100	0	0	2.00	2.00	200.00	1,200.00	0
Rule 18a-1(c) (Account Control Agreements, Legal Analysis)	Recordkeeping	3	1	20	6.67	0	6.67	6.67	20.01	0
Rule 18a-1									26,545.05	

13. Costs to Respondents

VaR Models (Rule 18a-1(a))²⁷

With respect to the external costs for respondents associated with developing VaR models and applying to the Commission for approval to use them, the staff estimates that, based upon previous experience with broker-dealers that developed internal models, 25% of these tasks will be handled by outside consultants. This results in 250 hours per respondent. The outside consultants are estimated to charge at a rate of \$400 per hour. This will result in a one-time external recordkeeping cost of \$100,000 per respondent²⁸ or one-time industry-wide external cost of \$400,000.²⁹ With respect to the external costs associated with reviewing, backtesting, and updating VaR models, the staff estimates that, based on previous experience with broker-dealers that developed internal models, 25% of these tasks will be handled by outside consultants. The outside consultants are estimated to charge at a rate of \$400 per hour resulting in a recordkeeping cost of \$624,000 per respondent. This will result in an annual industry-wide external cost of \$2,496,000.³⁰ **Taken together, the annualized recordkeeping cost burden is \$2,628,333.34.**³¹

VaR Models (Rule 18a-1(d))³²

²⁷ Note that the two cost burdens for VaR Models (Rule 18a-1(a), as adopted, and Rule 18a-1(d), as adopted), were previously contained in one cost burden in ROCIS but have been separated for clarity.

²⁸ 250 hours x \$400/hour = \$100,000. This amount annualized over three years is \$33,333.33 per respondent (\$100,000/3 = \$33,333.33).

²⁹ 4 stand-alone SBSBs x 250 hours x \$400 = \$400,000. This amount annualized over three years is \$133,333.34 (\$400,000/3 = \$133,333.333, rounded up to \$133,333.34).

³⁰ The total industry-wide recordkeeping cost is \$2,496,000 (4 stand-alone SBSBs x \$624,000).

³¹ \$133,333.34 + \$2,496,000 = \$2,629,333.34.

³² See *supra* note 31.

Stand-alone SBSBs electing to file an application with the Commission to use a VaR model will incur start-up costs including information technology costs to comply with Rule 18a-1. Based on past experience with broker-dealers that applied to use internal models under Rule 15c3-1 and related Appendix E, it is expected that a stand-alone SBSB will incur an average of approximately \$8.0 million to modify its information technology systems to meet the VaR requirements of Rule 18a-1, for a total one-time industry-wide cost of \$32 million, **or \$10,666,666.67 on an annualized basis.**³³ **NOTE:** This cost burden was included in the notice of proposed rulemaking but was inadvertently left out of the 2013 Supporting Statement and OMB submission for the proposed rule. The notice of proposed rulemaking estimated that each respondent would incur an initial one-time cost of \$8,000,000, which resulted in an industry cost of \$48,000,000 for 6 respondents (*See* 77 FR 70213, footnote 847 and accompanying text). Amortized over three years this resulted in an annual industry burden of \$16,000,000. The Commission did not receive any comments on this estimate, and the estimated cost per respondent in the final rule is unchanged. However, the number of respondents in the final rule has been reduced to from 6 to 4 due to the adoption of a new rule (Rule 18a-10) in the SBSB Adopting Release. This resulted in a lower annual industry burden of \$10,666,666.67 in the final rule as compared to \$16,000,000 in the proposed rule.

Risk Control Management System (Rule 18a-1(g))

Nonbank SBSBs may need to incur start-up information technology external costs with respect to setting up a risk control management system. Based on the estimates for similar collections of information, it is expected that a nonbank SBSBs will incur an average of approximately \$16,000 for initial hardware and software expenses, while the average ongoing cost will be approximately \$20,500 per nonbank SBSB. This will result in a one-time industry-wide external cost of \$32,000 annualized over three years,³⁴ and an ongoing industry-wide external cost of \$123,000 per year, **for a total annualized cost of \$155,000.**³⁵

Account Control Agreement Opinion of Counsel (Rule 18a-1(c))

As a result of comments received,³⁶ under Rule 18a-1, as adopted in the SBSB Adopting Release, a stand-alone SBSB may treat collateral held by a third-party custodian to meet an initial margin requirement of a security-based swap or swap customer as being held by the nonbank SBSB for purposes of the capital in lieu of margin charge provisions of the rule if certain conditions are met. More specifically, the final rule requires that a nonbank SBSB obtain

³³ 4 stand-alone SBSBs x \$8 million = \$32 million. This cost annualized is \$10,666,666.67 million industry-wide ($\$32 \text{ million} / 3 = \$10,666.67 \text{ million}$) and \$2,666,666.67 per firm ($\$10,666.67 \text{ million} / 4 \text{ SBSBs} = \$2,666,666.67$, rounded to \$2,666,666.67).

³⁴ 6 nonbank SBSBs x \$16,000 = \$96,000. This cost annualized is \$32,000 industry-wide ($\$96,000 / 3 \text{ years} = \$32,000$) and \$5,333.33 per firm ($\$32,000 / 6 \text{ nonbank SBSBs} = \$5,333.33$).

³⁵ 6 nonbank SBSBs x \$20,500/year = \$123,000. The total annualized industry-wide recordkeeping cost is \$154,999.98 (6 nonbank SBSBs x (\$16,000 annualized over 3 years + \$20,500), which has been rounded to \$155,000).

³⁶ *See supra* note 24.

a written opinion from outside counsel that the account control agreement is legally valid, binding, and enforceable in all material respects, including in the event of bankruptcy, insolvency, or a similar proceeding. The Commission staff estimates that 6 stand-alone SBSDe entities will engage outside counsel to draft and review the account control agreement at a cost of \$400 per hour for an average of 20 hours per respondent, resulting in a one-time cost burden of \$48,000 for these 6 entities, **or \$16,000 on an annualized basis.**³⁷

Account Control Agreement Legal Analysis (Rule 18a-1(c))

The Commission estimates that 6 stand-alone SBSDe will need to maintain written documentation of their legal analysis of the account control agreement. Based on staff experience, the Commission estimates that stand-alone broker-dealers will meet this requirement split evenly between obtaining a written opinion of outside legal counsel or through the firm’s own “in-house” analysis. The Commission estimates that the approximate cost to obtain an opinion of counsel will be \$8,000, resulting in a one-time cost burden of \$24,000 for these 3 entities, **or \$8,000 on an annualized basis.**³⁸

Summary of Dollar Costs										
Name of Information Collection	Type of Burden	Number of Entities Impacted	Annual Responses per Entity	Initial Cost per Entity per Response	Initial Cost Annualized per Entity per Response	Ongoing Cost per Entity per Response	Annual Cost Per Entity per Response	Total Annual Cost Per Entity	Total Industry Cost	Small Business Entities Affected
Rule 18a-1(a) (VaR Models)	Recordkeeping	4	1	\$100,000.00	\$33,333.33	\$624,000.00	\$657,333.33	\$657,333.33	\$2,629,333.32	0
Rule 18a-1(d) (VaR Models)	Recordkeeping	4	1	\$8,000.00	\$2,666,666.67	0	\$2,666,666.67	\$2,666,666.67	\$10,666,666.68	0
Rule 18a-1(g) (Risk Control Management System)	Recordkeeping	6	1	\$16,000.00	\$5,333.33	\$20,500.00	\$25,833.33	\$25,833.33	\$155,000.00	0
Rule 18a-1(c) (Account Control Agreement Opinion of Counsel)	Recordkeeping	6	1	\$8,000.00	\$2,666.67	0	\$2,666.67	\$2,666.67	\$16,000.02	0
Rule 18a-1(c)	Recordkeeping	3	1	\$8,000.00	\$2,666.67	0	\$2,666.67	\$2,666.67	\$8,000.01	0

³⁷ 6 stand-alone SBSDe x \$400 per hour x 20 hours = \$48,000. This cost annualized is \$16,000 industry-wide (\$48,000/3 = \$16,000) and \$2,666.67 per firm (\$16,000/6 stand-alone SBSDe = \$2,666.667, rounded to \$2,666.67).

³⁸ 3 stand-alone SBSDe x \$8,000 = \$24,000. The annualized amount per year/ per respondent would be \$8,000/3 = \$2,666.67, or a total of \$8,000 (\$2,666.67 x 3 stand-alone SBSDe).

(Account Control Agreement Legal Analysis)										
TOTAL COST FOR ALL RESPONDENTS									\$13,475,000.01	

14. Cost to Federal Government

The staff does not anticipate this information collection to impose additional costs to the Federal Government.

15. Changes in Burden

Name of Information Collection	Annual Industry Burden	Annual Industry Burden Previously Reviewed	Change in Burden	Reason for Change
Liquidity Stress Test	0	4,000	(4,000)	Previously proposed, but not adopted in the amendments to Rule 18a-1 described in the SBSB Adopting Release based on comments received.
Rule 18a-1(a) (VaR Models)	19,720.00	29,580.00	(9,860)	Reduction in the number of entities impacted due to the adoption of a new rule (Rule 18a-10) in the SBSB Adopting Release.
Rule 18a-1(g) (Risk Control Management System)	5,500.02	8,250.03	(2,750.01)	Reduction in the number of entities impacted due to the adoption of a new rule (Rule 18a-10) in the SBSB Adopting Release.
Rule 18a-1(c) (Industry Sector Classification)	2.00	3.00	(1.00)	Reduction in the number of entities impacted due to the adoption of a new rule (Rule 18a-10) in the SBSB Adopting Release.
Rule 18a-1(h) (Commission Notices)	3.00	4.50	(1.50)	Reduction in the number of entities impacted due to the adoption of a new rule (Rule 18a-10) in the SBSB Adopting Release.
Rule 18a-1 (Subordinated Loan Agreements)	100.02	150.03	(50.01)	Reduction in the number of entities impacted due to the adoption of a new rule (Rule 18a-10) in the SBSB Adopting Release. Note that this burden was included in the

				supporting statement for Rule 18a-1, as proposed, but inadvertently not entered into ROCIS.
Rule 18a-1(c) (Account Control Agreement Opinion of Counsel)	1,200.00	0	1,200.00	New provision adopted in new Rule 18a-1 as described in the SBSD Adopting Release, based on comments received.
Rule 18a-1(c) (Account Control Agreement Legal Analysis)	20.01	0	20.01	New provision adopted in new Rule 18a-1 as described in the SBSD Adopting Release, based on comments received.
Rule 18a-1(a) (VaR Models)	\$2,629,333.32	\$3,943,999.98	(\$1,314,666.66)	Reduction in the number of entities impacted due to the adoption of a new rule (Rule 18a-10) in the SBSD Adopting Release. Note that the two cost burdens for VaR Models (Rule 18a-1(a), as adopted, and Rule 18a-1(d), as adopted), were previously contained in one cost burden in ROCIS but have been separated for clarity.
Rule 18a-1(d) (VaR Models)	\$10,666,666.68	\$0	\$10,666,666.68	This cost burden was included in the notice of proposed rulemaking but was inadvertently left out of the Supporting Statement and OMB submission for the proposed rule. Furthermore, the number of respondents has been reduced from 6 to 4 due to the adoption of a new rule (Rule 18a-10) in the SBSD Adopting Release. new IC
Rule 18a-1(g) (Risk Control Management System)	\$155,000	\$232,499.97	(\$77,499.97)	Reduction in the number of entities impacted due to the adoption of a new rule (Rule 18a-10) in the SBSD Adopting Release.
Rule 18a-1(c) (Account Control Agreement Opinion of Counsel)	\$16,000.02	\$0	\$16,000.02	New provision adopted in new Rule 18a-1 as described in the SBSD Adopting Release, based on comments received.

Rule 18a-1(c) (Account Control Agreement Legal Analysis)	\$8,000.01	\$0	\$8,000.01	New provision adopted in new Rule 18a-1 as described in the SBSD Adopting Release, based on comments received.
--	------------	-----	------------	--

16. Information Collected Planned for Statistical Purposes

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

17. OMB Expiration Date Display Approval

The Commission is not seeking approval to not display the OMB approval 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

This collection does not involve statistical methods.