

**SUPPORTING STATEMENT**  
**For the Paperwork Reduction Act Information Collection Submission for**  
**Form CRS and Rule 17a-14 under the Securities Exchange Act of 1934**

**A. JUSTIFICATION**

**1. Necessity for the Information Collection**

On June 5, 2019, the Securities and Exchange Commission (“Commission”) adopted new Form CRS and rule 17a-14 under the Securities Exchange Act of 1934.<sup>1</sup> New rule 17a-14 under the Exchange Act [17 CFR 240.17a-14] and Form CRS [17 CFR 249.640] will require a broker-dealer that offers services to retail investors to prepare and file with the Commission through WebCRD<sup>®</sup>, post to the broker-dealer’s website (if it has one), and deliver to retail investors a relationship summary. The relationship summary will assist retail investors in making an informed choice about whether to hire or retain a broker-dealer, as well as what types of accounts and services are appropriate for their needs.

New rule 17a-14 under the Exchange Act [17 CFR 240.17a-14] and Form CRS [17 CFR 249.641] contain a collection of information requirement. The collection is necessary to provide broker-dealer retail customers, prospective retail customers, and the Commission with information about the relationships and services the firm offers to retail investors, fees and costs that the retail investor will pay, specific conflicts of interest and standards of conduct, legal or disciplinary history, and how to obtain additional information about the firm. The Commission will use the information to manage our regulatory and examination programs. Clients can use the information required in the relationship summary to

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<sup>1</sup> Form CRS Relationship Summary; Amendments to Form ADV, Release Nos. IA-5247; 34-86032 (June 5, 2019) [84 FR 33492 (Jul. 12, 2019)]. The amendments to Form ADV were proposed in Form CRS Relationship Summary; Amendments to Form ADV; Required Disclosures in Retail Communications and Restrictions on use of Certain Names or Titles, Investment Advisers Act Release No. 4888. Exchange Act Release No. 83063 (Apr. 18, 2018) [83 FR 23848 (May 23, 2018)] (“Proposing Release”).

determine whether to hire or retain a broker-dealer, as well as what types of accounts and services are appropriate for their needs.

New Form CRS and rule 17a-14 contains a “collection of information” within the meaning of the Paperwork Reduction Act of 1995 (“Paperwork Reduction Act”), and the Commission submitted the collection of information to the Office of Management and Budget (“OMB”) for review in accordance with 44 U.S.C. 3507(d) and 5 CFR 1320.11. The title for the collection of information is: Form CRS and rule 17a-14 under the Exchange Act. An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless it displays a currently valid OMB control number. This collection of information will be found at 17 CFR 240.17a-14 and 17 CFR 249.641 and will be mandatory. Responses will not be kept confidential. The respondents will be broker-dealers registered with the Commission that offer services to a retail investor.

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

The purpose of Form CRS is to assist retail investors in making an informed choice when choosing an investment firm and professional, and type of account. Retail investors can use the information required in Form CRS to determine whether to hire or retain a broker-dealer, as well as what types of accounts and services are appropriate for their needs. The Commission also will use the information to manage its regulatory and examination programs. The collection of information is necessary to provide broker-dealer customers, prospective customers, and the Commission with information about the broker-dealer and its business, conflicts of interest and personnel.

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

The information collected pursuant to Form CRS requires disclosures made by broker-dealers to their customers and potential customers that are retail investors and reporting to the Commission. Broker-dealers will file their Form CRS electronically through Web CRD<sup>®</sup>. Dual registrants will file through both the Investment Adviser Registration Depository (“IARD”) and Web CRD<sup>®</sup>. The Commission required IARD and Web CRD<sup>®</sup> because they are familiar filing systems for investment advisers and broker-dealers. Investment advisers registered with the Commission file Form ADV on IARD. Many broker-dealers already use Web CRD<sup>®</sup> for filing their own registration records and those of their associated persons, and retail investors already can find broker-dealers’ disciplinary history and other information on BrokerCheck. By having firms file the relationship summaries with the Commission, the Commission can more easily monitor the filings for compliance with Form CRS. This approach ensures a complete and consistent filing record for each firm and facilitates the Commission’s data analysis, examinations, and other regulatory efforts.

### **4. Duplication**

The Commission periodically evaluates rule-based reporting and recordkeeping requirements for duplication, and reevaluates them whenever it adopts changes in its rules. Broker-dealers are subject to other disclosure requirements under the federal securities laws and

rules of self-regulatory organizations (“SROs”).<sup>2</sup> The relationship summary would provide in one place, for the first time, summary information about the services, fees, conflicts, and disciplinary history for broker-dealers. We believe that requiring broker-dealers to provide this type of disclosure at the time retail investors are newly selecting or deciding whether to stay with a firm, financial professional, or type of investment account, is necessary to helping retail investors make decisions that meet their needs and expectations.

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

The proposed disclosure requirements under Form CRS and rule 17a-14 will not distinguish between small entities and other broker-dealers. We recognize that different firms may require different amounts of time or external assistance in preparing the relationship summary. The Commission believes, however, that imposing different requirements on smaller firms would not be consistent with investor protection and the purposes of the relationship summary. The Commission reviews all rules periodically, as required by the Regulatory Flexibility Act, to identify methods to minimize recordkeeping or reporting requirements affecting small businesses.

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

The collection of information required by the form is necessary to protect investors and

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<sup>2</sup> Broker-dealers register with and report information to the Commission, the SROs, and other jurisdictions through Form BD. Form BD requires information about the background of the applicant, its principals, controlling persons, and employees, as well as information about the type of business the broker-dealer proposes to engage in and all control affiliates engaged in the securities or investment advisory business. Broker-dealers report whether a broker-dealer or any of its control affiliates have been subject to criminal prosecutions, regulatory actions, or civil actions in connection with any investment-related activity, as well as certain financial matters. Once a broker-dealer is registered, it must keep its Form BD current by amending it promptly when the information is or becomes inaccurate for any reason. In addition, firms report similar information and additional information to FINRA pursuant to FINRA Rule 4530. In addition, under existing antifraud provisions of the Exchange Act, a broker-dealer has a duty to disclose material information to its customers conditional on the scope of the relationship with the customer.

deter potentially misleading sales practices by providing customers and potential customers, as well as the Commission, with information about the broker-dealer, the services it offers to retail investors, applicable standard of conduct, fees, and conflict of interests. Providing this information before or at the time a retail investor first engages a brokerage firm's services, as well as at certain points during the relationship (*e.g.*, switching or adding account types) would help retail investors to make a more informed choice among the types of firms and services available to them. The consequences of not collecting this information include customers and prospective customers who are retail investors not having the information they need to evaluate a broker-dealer's practices and determine whether to hire and fire a broker-dealer and manage the relationship. In addition, if the information is either not collected or is collected less frequently, the Commission's ability to protect investors would be reduced.

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

Not Applicable.

**8. Consultation with Persons Outside the Agency**

In its release proposing Form CRS and rule 17a-14, the Commission requested public comment on the effect of information collections under the proposed new rules and rule amendments. The Commission received several comments on the information collection that addressed whether the relationship summary is necessary for broker-dealers, and whether we could further minimize the burden of the collection of information. Other commenters addressed the accuracy of our burden estimates for the proposed collections of information, suggesting that our estimates were too low, arguing that preparing, delivering, and filing the relationship summary would take significantly more hours based on input from compliance professionals and that there would be additional costs and compliance burdens that are hard to quantify. We have considered these comments and are increasing our PRA burden estimates from 15 hours to 40 hours

for broker-dealers to prepare and file the relationship summary. We also modified several substantive requirements to mitigate some of these estimated increased costs relative to the proposal. The Commission and staff of the Division of Investment Management and Division of Trading and Markets also participate in an ongoing dialogue with representatives of the investment advisory and broker-dealer industries through public conferences, meetings, and informal exchanges. These various forums provide the Commission and staff with a means of ascertaining and acting upon paperwork burdens confronting the industry.

**9. Payment or Gift**

Not Applicable.

**10. Confidentiality**

Not Applicable.

**11. Sensitive Questions**

No information of a sensitive nature, including social security numbers, will be required under this collection of information. The information collection collects basic Personally Identifiable Information (PII) that may include names, job titles, work addresses, and phone numbers. 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 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 IARD system, in connection with this collection of information. The IARD PIA, published on July 8, 2014, is provided as a supplemental document and is also available at <https://www.sec.gov/privacy>.

## 12. Burden of Information Collection

We estimate the total annual collection of information burden for proposed new rule 17a-14 in connection with obligations relating to the relationship summary, including (i) initial preparation, filing, and posting to a website; (ii) amendments to the relationship summary for material updates and related filing and website posting burdens; (iii) one-time initial delivery to existing customers; (iv) additional delivery to existing customers; (v) communicating changes to amended relationship summaries; and (vi) delivery to new and prospective customers. Given these requirements, we estimate the total annual aggregate hourly burden to be approximately 3,408,533 hours per year, or 1,232 hours on a per broker-dealer basis.<sup>3</sup> This translates into an aggregate annual monetized cost of \$219,110,726, or \$79,216 per broker-dealer per year.<sup>4</sup>

The respondents to this information collection will be the broker-dealers registered with the Commission that offer services to retail investors who will be required to prepare, file, and deliver a relationship summary in accordance with new rule 17a-14 under the Exchange Act [17 CFR 240.17a-14]. As of December 31, 2018, there were 2,766 broker-dealers registered with the

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<sup>3</sup> 36,880 hours per year for initial preparation and filing of relationship summary + 4,149 hours for posting to website + 8,298 hours per year for amendments, filing, and posting of amendments + 681,100 hours for one-time initial delivery to existing customers + 408,660 hours for delivery to existing customers making material changes to their accounts + 2,043,300 hours for delivery of amendments + 224,763 hours for delivery to new customers + 1,383 hours to make paper copies available upon demand = 3,408,533 total annual aggregate hours.  $3,408,533 \text{ hours} / 2,766 \text{ broker-dealers} = 1,232 \text{ hours per broker-dealer}$ .

<sup>4</sup> \$10,068,240 per year for initial preparation, filing, and posting of relationship summary + \$257,238 per year for posting to website + \$514,476 per year for amendments, filing, and posting of amendments + \$42,228,200 for one-time initial delivery to existing customers (amortized over three years) + \$25,336,920 for delivery to existing customers making material changes to their accounts + \$126,684,600 for delivery of amendments + \$13,935,306 for delivery to new customers + \$85,746 per year to make paper copies of the relationship summary available upon demand = \$219,110,726 in total annual aggregate monetized cost.  $\$219,110,726 / 2,766 \text{ broker-dealers} = \$79,216 \text{ per broker-dealer}$ .

Commission that reported sales to retail customer investors,<sup>5</sup> and therefore likely will be required to prepare and deliver the relationship summary.<sup>6</sup> We also note that these include 318 broker-dealers that are dually registered as investment advisers.

### 1. Initial Preparation, Filing, and Posting of Relationship Summary

We estimate that the initial first year burden for preparing and filing the relationship summary will be 40.0 hours per registered broker-dealer. We are revising our estimate of the time it would take each broker-dealer to prepare and file the relationship summary in the first year from 15 hours in the proposal to 40 hours, considering comments that our estimated burden was too low and the changes we are making to the proposed relationship summary. We also estimate that each broker-dealer will incur 0.5 hours to prepare the relationship summary for posting to its website, if it has one, such as to ensure proper electronic formatting, and to perform the actual posting.

Given these assumptions, we estimate the total one-time initial hourly burden for broker-dealers to prepare the relationship summary and file it with the Commission will be 110,640 hours,<sup>7</sup> for a monetized value of \$30,204,720.<sup>8</sup> We estimate that the initial burden of posting the

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<sup>5</sup> Retail sales activity is identified from Form BR, which categorizes retail activity broadly (by marking the “sales” box) or narrowly (by marking the “retail” or “institutional” boxes as types of sales activity). We use the broad definition of sales as we believe that many firms will just mark “sales” if they have both retail and institutional activity. However, this may capture some broker-dealers that do not have retail activity, although we are unable to estimate that frequency.

<sup>6</sup> For purposes of Form CRS, a “retail investor” will be defined as: a natural person, or the legal representative of such natural person, who seeks to receive or receives services primarily for personal, family or household purposes.

<sup>7</sup>  $2,766 \times 40.0 \text{ hours} / 3 = 36,880 \text{ total hours.}$

<sup>8</sup> We expect that performance of this function will most likely be equally allocated between a senior compliance examiner and a compliance manager. Data from the SIFMA Management and Professional Earnings Report suggest that costs for these positions are \$237 and \$309 per hour, respectively.  $(0.5 \times 110,640 \text{ hours} \times \$237) + (0.5 \times 110,640 \text{ hours} \times \$309) = \$30,204,720.$



relationship summary to their websites, if they have one, will be 4,149 hours,<sup>9</sup> for a monetized value of \$257,238.<sup>10</sup> To arrive at an annual burden for preparing, filing, and posting the relationship summary the initial burden will be amortized over a three-year period. Therefore, the total annual aggregate hour burden for registered broker-dealers to prepare, file, and post a relationship summary to their website, if they have one, will be 38,263 hours, or 13.83 hours per broker-dealer,<sup>11</sup> for an annual monetized cost of \$10,325,478, or \$3,733 per broker-dealer.<sup>12</sup>

## **2. Amendments to the Relationship Summary and Filing and Posting of Amendments**

We do not expect broker-dealers to amend their relationship summaries frequently. Based on staff experience, we believe that many broker-dealers, as a matter of best practices, will update their relationship summary at a minimum once a year, after conducting an annual supervisory review, for example.<sup>13</sup> We also estimate that on average, each broker-dealer preparing a relationship summary may amend the disclosure once more during the year, due to

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<sup>9</sup> 1.5 hours x 2,766 broker-dealers = 4,149 hours to prepare and post relationship summary to the website.

<sup>10</sup> Based on data from the SIFMA Office Salaries Report, modified to account for an 1,800-hour work-year and multiplied by 2.93 to account for bonuses, firm size, employee benefits and overhead, we expect that performance of this function will most likely be performed by a general clerk at an estimated cost of \$62 per hour. 4,149 hours x \$62 = \$257,238 total aggregate monetized cost.

<sup>11</sup> 110,640 hours for preparing and filing + 4,149 hours for posting = 114,789 hours. 114,789 / 3 years = 38,263 total aggregate annual hour burden to prepare and file relationship summary. 38,263 hours / 2,766 broker-dealers with retail accounts = 13.83 hours annually per broker-dealer.

<sup>12</sup> \$10,068,240 total initial aggregate monetized cost for preparation and filing + \$257,238 for posting to the website / 3 = \$10,325,478 total annual monetized cost for preparation, filing and posting the relationship summary. \$10,325,478 / 2,766 broker-dealers subject to relationship summary obligations = \$3,733 per broker-dealer.

<sup>13</sup> FINRA rules set an annual supervisory review as a minimum threshold for broker-dealers, for example in FINRA Rules 3110 (requiring an annual review of the businesses in which the broker-dealer engages), 3120 (requiring an annual report detailing a broker-dealer's system of supervisory controls, including compliance efforts in the areas of antifraud and sales practices); and 3130 (requiring each broker-dealer's CEO or equivalent officer to certify annually to the reasonable design of the policies and procedures for compliance with relevant regulatory requirements).

emerging issues. Therefore, we assume that broker-dealers will update their relationship summary, on average, twice a year, and we estimate that broker-dealers will require 1.0 hours to amend and file the updated relationship summary instead of our proposed 0.5 hours estimate in light of the change from the proposal that broker-dealers delivering updated relationship summaries to customers also highlight the most recent changes by, for example, marking the revised text or including a summary of material changes. We also estimate that broker-dealers will require 0.5 hours to post the amended relationship summary to their website. Thus, we estimate that broker-dealers would incur a total annual aggregate hourly burden of 5,532 hours per year to prepare and file amendments per year, and 2,766 hours per year to post to their websites an estimated total of 5,532 amendments per year.<sup>14</sup> Therefore, the total annual aggregate hour burden for registered broker-dealers to prepare, file, and post amendments to a relationship summary to their website, if they have one, will be 8,298 hours. We therefore estimate that for making and filing amendments to their relationship summaries, broker-dealers will incur an annual aggregate monetized cost of \$1,510,236, or approximately \$546 per broker-dealer to prepare and file amendments,<sup>15</sup> and an annual aggregate monetized cost of \$171,492, or approximately \$62 per broker-dealer to post the amendments.<sup>16</sup> In total, the aggregate annual

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<sup>14</sup> 2,766 broker-dealers amending relationship summaries x 2 amendments per year = 5,532 amendments per year. 5,532 amendments x 1 hour to amend and file = 5,532 hours. 2,766 broker-dealers x (0.5 hours to post amendments to website x 2 amendments a year) = 2,766 hours.

<sup>15</sup> 5,532 total aggregate initial hour burden for amending relationship summaries. We believe that performance of this function will most likely be equally allocated between a senior compliance examiner and a compliance manager. Data from the 2019 SIFMA Management and Professional Earnings Report suggest that costs for these positions are \$237 and \$309 per hour, respectively. (5,532 hours x 50% x \$237 + 5,532 hours x 50% x \$309 = \$1,510,236. \$1,510,236 / 2,677 investment advisers = \$546 per investment broker-dealer.

<sup>16</sup> Based on data from the 2019 SIFMA Office Salaries Report, we expect that the posting will most likely be performed by a general clerk at an estimated cost of \$62 per hour. 2,766 aggregate hours to post amendment x \$62 = \$171,492. \$171,492 / 2,766 broker-dealers = \$62 in annual monetized costs.

monetized cost for broker-dealers to make, file, and post amendments will be \$1,681,728, or approximately \$608 per broker dealer,<sup>17</sup> for an annual monetized cost of \$514,476, or \$186 per broker-dealer.<sup>18</sup>

### 3. Delivery of the Relationship Summary

Rule 17a-14 under the Exchange Act will require a broker-dealer to deliver the relationship summary, with respect to a retail investor that is a new or prospective customer, before or at the at the earliest of: (i) a recommendation of an account type, a securities transaction or an investment strategy involving securities; (ii) placing an order for the retail investor; or (iii) the opening of a brokerage account for the retail investor. Broker-dealers also will make a one-time, initial delivery of the relationship summary to all existing customers within a specified time period after the effective date of the rule. Also with respect to existing customers, broker-dealers will deliver the most recent relationship summary before or at the time of (i) opening a new account that is different from the retail investor's existing account(s); or (ii) recommending that the retail investor roll over assets from a retirement account into a new or existing account or investment; or (iii) recommending or providing a new brokerage or investment advisory service or investment that does not necessarily involve the opening of a new account and would not be held in the existing account. Broker-dealers will also be required to post a current a version of the relationship summary prominently on their public websites (if they have one), and will be required to communicate any changes in an amended relationship

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<sup>17</sup>  $\$1,510,236$  to prepare and file amendment +  $\$171,492$  to post the amendments =  $\$1,681,728$ .  $\$1,681,728 / 2,766 = \$608$ .

<sup>18</sup>  $\$1,510,236$  total initial aggregate monetized cost for preparing the relationship summary amendment +  $\$171,492$  for posting the amendments to the website / 3 =  $\$514,476$  total annual monetized cost for amendments, filing and posting of amendments.  $\$514,476 / 2,766$  broker-dealers subject to relationship summary obligations =  $\$186$  per broker-dealer.

summary to retail investors who are existing clients or customers within 60 days after the amendments are required to be made and without charge. Broker-dealers also must deliver a current relationship summary to each retail investor within 30 days upon request. Broker-dealers must make available a copy of the relationship summary upon request without charge, and where a relationship summary is delivered in paper format, the broker-dealer may link to additional information by including URL addresses, QR codes, or other means of facilitating access to such information. Broker-dealers must also include a telephone number where retail investors can request up-to-date information and request a copy of the relationship summary.

i. One-Time Initial Delivery to Existing Customers

We estimate the burden for broker-dealers to make a one-time initial delivery of the relationship summary to existing customers based on an estimate of the number of accounts held by these broker-dealers. Based on FOCUS data, we estimate that the 2,766 broker-dealers that report retail activity have approximately 139 million customer accounts, and that approximately 73.5%, or 102.165 million, of those accounts belong to retail customers.<sup>19</sup> We estimate that, under the adopted rule, broker-dealers will send their relationship summary along with other required disclosures, such as periodic account statements, in order to comply with initial delivery requirements for the relationship summary. We estimate that a broker-dealer will require no more than 0.02 hours to send the relationship summary to each existing retail investor, or an aggregate initial burden of 2,043,300 hours, or approximately 739 hours per broker-dealer for the

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<sup>19</sup> 2,766 broker-dealers (including dually registered firms) report 139 million customer accounts. Approximately 73.5% of registered broker-dealers report retail customer activity. Therefore, 73.5% x 139 million accounts = 102.165 million accounts. This number likely overstates the number of deliveries to be made due to the double-counting of deliveries to be made by dual registrants to a certain extent, and the fact that one customer may own more than one account.

first year after the rule is in effect.<sup>20</sup> We expect the aggregate monetized cost for broker-dealers to make a one-time initial delivery of relationship summaries to existing customers to be \$126,684,600.<sup>21</sup> Amortized over three years, the total annual hourly burden is estimated to be 681,100 hours, or approximately 246 hours per broker-dealer,<sup>22</sup> with annual monetized costs of \$42,228,200 and \$15,267, respectively.<sup>23</sup> We do not expect that broker-dealers will incur external costs for the initial delivery of the relationship summary to existing clients because we estimate that they will make such deliveries along with another required delivery, such as periodic account statements.

ii. Additional Delivery to Existing Customers

Broker-dealers will be required to deliver the relationship summary to existing customers when opening a new account that is different from the retail investor's existing account(s). In addition, delivery will be required before or at the time the broker-dealer (i) recommends that the retail investor roll over assets from a retirement account into a new or existing account or investment, or (ii) recommends or provides a new brokerage or investment advisory service or investment that does not necessarily involve the opening of a new account and would not be held in the existing account.

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<sup>20</sup> (0.02 hours per customer account x 102.165 million customer accounts) = 2,043,300 hours. The burden for preparing updated relationship summaries is already incorporated into the burden estimate for Form CRS discussed above. 2,043,300 hours / 2,766 broker-dealers = approximately 739 hours per broker-dealer.

<sup>21</sup> Based on data from SIFMA's Office Salaries Report, we expect that initial delivery requirement to existing clients of rule 17a-14 will most likely be performed by a general clerk at an estimated cost of \$62 per hour. 2,043,300 hours x \$62 = \$126,684,600. We estimate that broker-dealers will not incur any incremental postage costs because we estimate that they will make such deliveries with another mailing the broker-dealer was already delivering to clients, such as periodic account statements.

<sup>22</sup> 2,043,300 initial aggregate hours / 3 = 681,100 total annual aggregate hours. 739 initial hours per broker-dealer / 3 = 246 total annual hours per broker-dealer.

<sup>23</sup> \$126,684,600 initial aggregate monetized cost / 3 = \$42,228,200 annual aggregate monetized cost. \$42,228,200 / 2,766 broker-dealers = \$15,267 annual monetized cost per broker-dealer.

With respect to delivery of the relationship summary in these types of situations, we estimate that this would take place among 10% of a broker-dealer’s retail investors annually. We replaced the “materially change” requirement in the proposal with more specific triggers to be clearer about when a relationship summary must be delivered. While these specific triggers will still impose operational and supervisory burdens on broker-dealers, we believe that they are more easily identified and monitored, such that firms will not incur significant burdens as described by commenters to implement entirely new supervisory, administrative, and operational processes needed to monitor events that cause a material change. However, recognizing that some additional processes will be necessary to implement these delivery triggers, we are increasing our burden estimate from 0.02 to 0.04 hours. We now estimate that each broker-dealer will incur 149 hours per year to deliver the relationship summary in these types of situations, and that delivery under these circumstances will take place among 10% of broker-dealer’s retail investors annually. We therefore estimate broker-dealers will incur a total annual aggregate burden of 408,660 hours, or 148 hours per broker-dealer,<sup>24</sup> at an annual aggregate monetized cost of \$25,336,920, or approximately \$9,160 per broker-dealer.<sup>25</sup>

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<sup>24</sup> 10% of 102.165 million customers x 0.04 hours = 408,660 hours. 408,660 hours / 2,766 broker-dealers = 148 hours per broker-dealer.

<sup>25</sup> Based on data from the SIFMA Office Salaries Report, modified to account for an 1,800-hour work-year and multiplied by 2.93 to account for bonuses, firm size, employee benefits and overhead, we expect that delivery requirements of rule 17a-14 will most likely be performed by a general clerk at an estimated cost of \$62 per hour. 408,660 hours x \$62 = \$25,336,920. \$25,336,920 / 2,766 broker-dealers = \$9,160 per broker-dealer. We estimate that broker-dealers will not incur any incremental postage costs in these deliveries of the relationship summary to existing customers, because we estimate that broker-dealers will make such deliveries with another mailing the broker-dealer was already delivering to clients, such as periodic account statements, or new account agreements and other similar documentation.

iii. Communicating Changes to Amended Relationship Summaries, Including by Delivery

Broker-dealers will be required to amend their relationship summaries within 30 days when any of the information becomes materially inaccurate. They must also communicate any changes in any new version of the relationship summary to retail investors who are existing customers of the firm within 60 days after the updates are required to be made and without charge. The communication can be made by delivering the relationship summary or by communicating the information through another disclosure to the retail investor.

Consistent with our discussion on broker-dealers' amendments to the relationship summary we are assuming that broker-dealers with relationship summaries will amend them twice each year. We also assume that 50% will choose to deliver the relationship summary to communicate the update information. We believe that it is likely that the other 50% of broker-dealers will incorporate all of the updated information in other disclosures, which they are already obligated to deliver in order to avoid having to deliver two documents. We estimate that broker-dealers will require 0.02 hours to make a delivery to each customer. Therefore, the estimated burden for those broker-dealers choosing to deliver an amended relationship summary to meet this communication requirement will be approximately 2,043,300 hours, or 739 hours per broker-dealer,<sup>26</sup> translating into a monetized cost of \$126,684,600 in aggregate, or \$45,801

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<sup>26</sup> 2 amendments per year x 102.165 million customer accounts x 50% delivering the amended relationship summary to communicate updated information x 0.02 hours per delivery = 2,043,300 hours to deliver amended relationship summaries. 2,043,300 hours / 2,766 broker-dealers = 739 hours per broker-dealer.

per broker-dealer.<sup>27</sup> We also estimate that broker dealers with relationship summary obligations will incur 0.5 hours each annually to make copies of the relationship summary available upon request. Where a relationship summary is delivered in paper format, firms may link to additional information by including URL addresses, QR codes, or other means of facilitating access to such information. Therefore, the estimated burden for these brokers will be 1,383 aggregate burden hours, with a monetized aggregate monetized cost of \$85,746 or \$31 per adviser.<sup>28</sup> Therefore, the total annual aggregate hour burden for registered broker-dealers to communicate changes to amended relationship summaries including by delivery will be 2,044,683 hours. We therefore estimate that for communicating changes to amended relationship summaries including by delivery, broker-dealers will incur an annual aggregate monetized cost of \$126,770,346.

#### 4. Delivery to New Clients or Prospective New Customers

To estimate the delivery burden for broker-dealers' new or prospective new customers, as discussed above, we estimate that the 2,766 standalone broker-dealers with retail activity have approximately 102.165 million retail customer accounts.<sup>29</sup> Based on FOCUS data over the past five years, we estimate that broker-dealers grow their customer base and enter into new

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<sup>27</sup> Based on data from the SIFMA Office Salaries Report, modified to account for an 1,800-hour work-year and multiplied by 2.93 to account for bonuses, firm size, employee benefits and overhead, we expect that delivery requirements of rule 17a-14 will most likely be performed by a general clerk at an estimated cost of \$62 per hour.  $2,043,300 \text{ hours} \times \$62 = \$126,684,600$ .  $\$126,684,600 / 2,766 \text{ broker-dealers} = \$45,801$  per broker-dealer. We estimate that broker-dealers will not incur any incremental postage costs to deliver these relationship summaries, because we estimate that advisers will make the delivery along with other documentation they normally would provide, such as account opening documents.

<sup>28</sup>  $0.5 \text{ hours to make copies of the relationship summary available upon request} \times 2,766 \text{ broker-dealers with relationship summary obligations} = 1,383 \text{ hours}$ . Based on data from the SIFMA Office Salaries Report, we expect that the requirement for broker-dealers to make paper copies of the relationship summary available upon request will most likely be performed by a general clerk at an estimated cost of \$62 per hour.  $0.5 \text{ hours per broker-dealer} \times \$62 = \$31$  in monetized costs per broker-dealer.  $\$31 \text{ per broker-dealer} \times 2,766 \text{ broker-dealers with relationship summary obligations} = \$85,746$  total aggregate monetized cost.

<sup>29</sup> Based on FOCUS data.



agreements with, on average, 11% more new retail investors each year.<sup>30</sup> We estimate the hour burden for initial delivery of a relationship summary will be the same by paper or electronic format, at 0.02 hours for each relationship summary, as we have estimated above. Therefore, the aggregate annual hour burden for initial delivery of the relationship summary by broker-dealers to new or prospective new customers will be 224,763 hours, or 81.3 hours per broker-dealer,<sup>31</sup> at a monetized cost of \$13,935,306 at an aggregate level, or \$5,038 per broker-dealer.<sup>32</sup>

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<sup>30</sup> This represents the average annual rate of growth from 2014-2018 in the number of accounts for all broker-dealers reporting retail activity.

<sup>31</sup> 102.165 million customer accounts x 11% increase = 11,238,150 new customers. 11,238,150 new customers x 0.02 hours per delivery = 224,763 total annual aggregate hours. 224,763 / 2,766 broker-dealers = 81.3 hours per broker-dealer for delivery to new customers.

<sup>32</sup> Based on data from the SIFMA Office Salaries Report, modified to account for an 1,800-hour work-year and multiplied by 2.93 to account for bonuses, firm size, employee benefits and overhead, we expect that these functions will most likely be performed by a general clerk at an estimated cost of \$62 per hour. 224,763 hours x \$62 = \$13,935,306. \$13,935,306 / 2,766 broker-dealers = \$5,038 per broker-dealer for delivery to new customers. We estimate that broker-dealers will not incur any incremental postage costs to deliver the relationship summary to new or prospective clients because we estimate that broker-dealers will make the delivery along with other documentation, such as periodic account statements.

**Table 1: Summary of Annual Responses, Burden Hours, and Burden Hour Costs Estimates for Form CRS Information Collection (“IC”)**

IC	Rule 17a-14 under the Securities Exchange Act of 1934	Annual No. of Responses			Annual Time Burden (Hrs.)			Monetized Time Burden (\$)		
		Previously approved	Requested Change Due to Agency Discretion	Total	Previously approved	Requested Change Due to Agency Discretion	Total	Previously approved	Requested Change Due to Agency Discretion	Total
	Description of Parts of IC									
IC1	Initial Preparation, Filing, and Posting of the Relationship Summary	0	2,766	2,766	0	38,263	38,263	0	10,325,478	10,325,478
IC1	Amendments to the Relationship Summary and Filing and Posting of Amendments	0	8,298	8,298	0	8,298	8,298	0	514,476	514,476
IC1	Third Party Disclosure (One-time Initial Delivery to Existing Clients)	0	102,165,000	102,165,000	0	681,100	681,100	0	42,228,200	42,228,200
IC1	Third Party Disclosure (Additional Delivery to Existing Customers)	0	10,216,500	10,216,500	0	408,660	408,660	0	25,336,920	25,336,920
IC1	Third Party Disclosure (Communicating Changes to Amended Relationship Summaries, Including by Delivery)	0	51,082,500	51,082,500	0	2,044,683	2,044,683		126,770,346	126,770,346
IC1	Third Party Disclosure (Delivery to New Clients or Prospective New Clients)	0	11,238,150	11,238,150	0	224,763	224,763	0	13,935,306	13,935,306
<b>Total for IC</b>		<b>0</b>	<b>174,713,214</b>	<b>174,713,214</b>	<b>0</b>	<b>3,405,767</b>	<b>3,405,767</b>	<b>0</b>	<b>219,110,726</b>	<b>219,110,726</b>

### 13. Cost to Respondents

We anticipate that some broker-dealers may incur a one-time initial cost for outside legal and consulting fees in connection with the initial preparation of the relationship summary. In the aggregate, we estimate broker-dealers would incur approximately \$8,560,770, or \$3,095 per broker-dealer,<sup>33</sup> translating into \$2,853,590 annually, or \$1,032 per broker-dealer, when amortized over a three year period.<sup>34</sup>

Although broker-dealers subject to the relationship summary requirement may vary widely in terms of the size, complexity and nature of their businesses, the amount of disclosure required will not vary substantially among broker-dealers. Accordingly, the amount of time, and thus cost, required for outside legal and compliance review is unlikely to vary substantially among those broker-dealers who elect to obtain outside assistance.<sup>35</sup> Most of the information required in the relationship summary is readily available to broker-dealers because the information required pertains largely to broker-dealer's own business practices, and thus the information is likely more readily available to the broker-dealer than to external legal or compliance consultants. As a result, we anticipate that only a half of broker-dealers will seek the help of outside legal services and half will seek the help of compliance consulting services in connection with the initial preparation of the relationship summary. We estimate that the initial per broker-dealer cost for legal services related to the preparation of the relationship summary

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<sup>33</sup>  $\$3,436,755 + \$5,124,015 = \$8,560,770$ .  $\$8,560,770 / 2,766$  broker-dealers = \$3,095 per broker-dealer.

<sup>34</sup>  $\$8,560,770$  initial aggregate monetized cost / 3 years = \$2,853,590 annually.  $\$3,095$  initial monetized cost per broker-dealer / 3 years = \$1,032.

<sup>35</sup> We estimate that an external service provider would spend 5 hours helping a broker-dealer prepare an initial relationship summary.

will be \$2,485.<sup>36</sup> We estimate that the initial per broker-dealer cost for compliance consulting services related to the preparation of the relationship summary will be \$3,705.<sup>37</sup>

Accordingly, we estimate that 1,383 broker-dealers will use outside legal services, for a total initial aggregate cost burden of \$3,436,755,<sup>38</sup> and 1,383 broker-dealers will use outside compliance consulting services, for a total initial aggregate cost burden of \$5,124,015,<sup>39</sup> resulting in a total initial aggregate cost burden among all respondents of \$8,560,770, or \$3,095 per broker-dealer, for outside legal and compliance consulting fees related to preparation of the relationship summary.<sup>40</sup> Annually, this represents \$2,853,590, or \$1,032 per broker-dealer, when amortized over a three-year period.<sup>41</sup>

We do not expect ongoing external legal or compliance consulting costs for the relationship summary. Although broker-dealers will be required to amend the relationship summary within 30 days whenever any information becomes materially inaccurate, we expect that the amendments will require relatively minimal wording changes, given the relationship

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<sup>36</sup> External legal fees are in addition to the projected hour per broker-dealer burden discussed above. Data from the SIFMA Management and Professional Earnings Report suggest that outside legal services cost approximately \$497 per hour. \$497 per hour for legal services x 5 hours per broker-dealer = \$2,485. The hourly cost estimate of \$497 is adjusted for inflation and based on our consultation with broker-dealers and law firms who regularly assist them in compliance matters.

<sup>37</sup> External compliance consulting fees are in addition to the projected hour per broker-dealer burden discussed above. Data from the SIFMA Management and Professional Earnings Report suggest that outside management consulting services cost approximately \$741 per hour. \$741 per hour for outside consulting services x 5 hours per broker-dealer = \$3,705.

<sup>38</sup> 50% x 2,766 SEC registered broker-dealers = 1,383 broker-dealers. \$2,485 for legal services x 1,383 broker-dealers = \$3,436,755.

<sup>39</sup> 50% x 2,766 SEC registered broker-dealers = 1,383 broker-dealers. \$3,705 for compliance consulting services x 1,383 broker-dealers = \$5,124,015.

<sup>40</sup> \$3,436,755 + \$5,124,015 = \$8,560,770. \$8,560,770 / 2,766 broker-dealers = \$3,095 per broker-dealer.

<sup>41</sup> \$8,560,770 initial aggregate monetized cost / 3 years = \$2,853,590 annually. \$3,095 initial monetized cost per broker-dealer / 3 years = \$1,032.

summary's page limitation and summary nature. We believe that broker-dealers will be more knowledgeable about the information to include in the amendments than outside legal or compliance consultants and will be able to make these revisions in-house. Therefore, we do not expect that broker-dealers will need to incur ongoing external costs for the preparation and review of relationship summary amendments.

#### **14. Estimate of Cost to the Federal Government**

The Commission estimates that it will incur technology costs of \$983,808 over three years in connection filing of Form CRS by broker-dealers.<sup>42</sup> There are no other costs to the government directly attributable to Form CRS and rule 17a-14. Commission staff may, however, review records produced pursuant to the rule in order to assist the Commission in carrying out its examination and oversight program.

#### **15. Change in Burden**

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**

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

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<sup>42</sup> This is based on an Independent Government Cost Estimate (IGCE), developed using historical rates and labor categories for comparable work.

**18. Exceptions to Certification Statement for Paperwork Reduction Act Submission**

Not Applicable.

**B. COLLECTIONS OF INFORMATION EMPLOYING STATISTICAL METHODS**

Not Applicable.