

**Supporting Statement
for the Paperwork Reduction Act Information Collection Submission for
Rule 17a-3
OMB Control No. 3235-0033**

A. JUSTIFICATION

1. Information Collection Necessity

All brokers and dealers in the ordinary course of their businesses need to maintain certain books and records reflecting, among other things, income and expenses, assets and liabilities, daily trading activity and the status of customer and firm accounts. These books and records are, for the most part, standard and would be kept by any prudent individual engaging in a securities business.

The Securities and Exchange Commission (“Commission” or “SEC”) is statutorily authorized by Sections 17(a)¹ and 23(a)² of the Securities Exchange Act of 1934 (“Exchange Act”) to promulgate rules and regulations regarding the maintenance and preservation of books and records of exchange members, brokers and dealers (“broker-dealers”). Exchange Act Section 17(a)(1) provides in pertinent part:

“[all members of a national securities exchange and registered brokers and dealers] shall make and keep for prescribed periods such records...as the Commission, by rule, prescribes as necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the [Exchange Act].”

To standardize recordkeeping practices throughout the industry, the Commission, in 1939, adopted Rule 17a-3,³ which established minimum standards with respect to business records that broker-dealers must create.⁴ Rule 17a-3 requires broker-dealers to make and keep current certain records relating to their financial condition, communications, customer information, and employees.

The Commission adopted certain Amendments to Rule 17a-3 on October 25, 2001 (the “2001 Amendments”), in part as a response to the National Securities Market Improvement Act of 1996 (“NSMIA”).⁵ NSMIA prohibits any State from establishing books and records rules for broker-dealers that differ from, or are in addition to, the Commission's rules, and also requires the Commission to consult periodically with the States concerning the adequacy of the Commission’s books and records rules.⁶ The 2001 Amendments expanded the types of records that broker-dealers must create to include additional records necessary for State examiners to

¹ 15 U.S.C. § 78q(a).

² 15 U.S.C. § 78w(a).

³ 17 CFR 240.17a-3.

⁴ Exchange Act Release No. 2304 (Nov. 13, 1939).

⁵ Pub.L.No. 104-290, 110 Stat. 3416 (1996).

⁶ Exchange Act Section 15(h), 15 U.S.C. § 78o(h).

review for sales practice violations at office locations, and were designed to assist regulators, particularly State securities regulators, in conducting effective examinations.⁷ On June 5, 2019, the Commission adopted Rule 15c-1 under the Securities Exchange Act of 1934 (“Exchange Act”) establishing a standard of conduct for broker-dealers and natural persons who are associated persons of a broker-dealer (unless otherwise indicated, together referred to as “broker-dealer” or “BD”) when making a recommendation of any securities transaction or investment strategy involving securities to a retail customer (“Regulation Best Interest”).⁸ At the same time, the Commission adopted Exchange Act Rule 17a-14 (CFR 240.17a-14) and Form CRS (17 CFR 249.640) under the Exchange Act.⁹

As part of new Rule 17a-14 and Form CRS and Regulation Best Interest, the Commission recently amended Rule 17a-3 by adding new paragraphs (a)(24) and (a)(35), respectively.

2. Information Collection Purpose and Use

The purpose of requiring broker-dealers to create the records specified in Rule 17a-3 is to enhance regulators’ ability to protect investors. These records and the information contained therein will be and are used by examiners and other representatives of the Commission, State securities regulatory authorities, and the self-regulatory organizations (e.g., FINRA, CBOE, etc.) (“SROs”) to determine whether broker-dealers are in compliance with the Commission’s antifraud and anti-manipulation rules, financial responsibility program, and other Commission, SRO, and State laws, rules, and regulations.

If broker-dealers were not required to create these records, Commission, SRO, and state examiners would be unable to conduct effective and efficient examinations to determine whether broker-dealers were complying with relevant laws, rules, and regulations.

3. Consideration Given to Information Technology

The Commission believes that improvements in telecommunications and data processing technology may reduce any burdens that result from Rule 17a-3. Broker-dealers are not prevented by Rule 17a-3 from using computers or other mechanical devices to generate the records required under the Rule.

4. Duplication

Rule 17a-3 was drafted and amended to codify SRO record-keeping requirements and the record-keeping practices of prudent broker-dealers. Because most broker-dealers already create

⁷ See Exchange Act Release No. 37850 (October 22, 1996), 61 FR 55593 (October 28, 1996) (“Proposing Release”).

⁸ See Securities Exchange Act Release No. 86031 (Jun. 5, 2019), 84 FR 33669 (July 12, 2019); *see also* Securities Exchange Act Release No. 83062 (Apr. 18, 2018) [83 FR 21574] (May 9, 2018) (“Regulation Best Interest Adopting Release”).

⁹ See *Form CRS Relationship Summary; Amendments to Form ADV* Exchange Act Release No. 86032, Advisers Act Release No. 5247, File No. S7-08-18 (June 5, 2019), 84 FR 33492 (July 12, 2019). *See also* Release No. 34-83063, IA-4888, File No. S7-08-18 (Apr. 18, 2018), 83 FR 23848 (May 23, 2018).

many of the records required by Rule 17a-3 either voluntarily or pursuant to SRO requirements, no duplication of such information is apparent.

5. Effect on Small Entities

The books and records required under Rule 17a-3 are normally created by small broker-dealers. Since small broker-dealers utilize processes that are more manual in nature, while large broker-dealers use more automated processes, the Commission has estimated some of the time factors for small broker-dealers to be higher, as described below.

6. Consequences of Not Conducting Collection

The information required to be collected and recorded under Rule 17a-3 allows the Commission, State securities regulatory authorities, and the SROs to determine whether broker-dealers are in compliance with Commission, State, and SRO anti-fraud and anti-manipulation rules, financial responsibility rules, and other rules and regulations. If a broker-dealer does not make these records, or it makes these records less frequently, the level of investor protection will be reduced. The records a broker-dealer is required to make under Rule 17a-3 are, for the most part, essential to the successful operation of a securities firm, and failure to make the records on a current basis would likely cause the broker-dealer to experience operational difficulties.

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

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

8. Consultations Outside the Agency

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

9. Payment or Gift

No gifts or payments will be given to respondents.

10. Confidentiality

The records required by Rule 17a-3 are available only to the examination staffs of the Commission, State regulatory authorities, and the SROs. Subject to the provisions of the Freedom of Information Act, 5 U.S.C. § 552 ("FOIA") and the Commission's rules thereunder (17 CFR 200.80(b)(4)(iii)), the Commission generally does not publish or make available information contained in reports, summaries, analyses, letters, or memoranda arising out of, in anticipation of, or in connection with an examination or inspection of the books and records of any person or any other investigation.

11. Sensitive Questions

The information collection collects a broad range of PII related to an associated person of the broker-dealer. The broker-dealer is required to maintain the information. Upon Commission request, the information collection is manually submitted via mail and email and collected in paper form. The primary retrieval method is broker-dealer firm name and not a personal identifier. Based on the business practice of handling the information collection, the collection does not constitute a system of records under the Privacy Act and does not require a PIA of the E-Government Act of 2002. However, the SEC has privacy administrative, technical, and physical controls in place to protect the PII that the Commission requests. The information collected via email or scanned pdf documents are stored in a database on the GSS system that is covered under the GSS Rev.2 PIA. 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>.

12. Information Collection Burden

All registered broker-dealers are subject to Rule 17a-3. Rule 17a-3 establishes certain records that must be made by all broker-dealers, while other records must be made only by certain broker-dealers. All of these burdens are recordkeeping burdens.

As of December 31, 2018, there were 3,764 broker-dealers registered with the Commission. The Commission estimates that the aggregate hour burden of the requirements associated with Rule 17a-3 is approximately 5,317,241 hours, calculated as follows:

Records to be Made by All Broker-Dealers

Rule 17a-3 - Records to be made by certain exchange members, brokers and dealers

While recordkeeping requirements will vary based on the size and complexity of the broker-dealer, the Commission estimates that one hour a day is the average amount of time needed by a broker-dealer to comply with the overall requirements of Rule 17a-3, in addition to the separate burdens described below. The number of working days per year is 249, and as a result the total estimated burden for broker-dealers with respect to Rule 17a-3 generally is 937,236 hours per year.¹⁰ These hours are recordkeeping burdens.

Rule 17a-3(a)(12, 19)

In addition to the hour burden estimate for Rule 17a-3 generally, the Commission also believes that paragraphs (a)(12) and (19) of Rule 17a-3 will impose specific burdens on broker-dealers. Paragraphs (a)(12) and (a)(19) of Rule 17a-3 require that a broker-dealer create certain records regarding its associated persons.¹¹ The Commission estimates that each broker-dealer

¹⁰ 3,764 (the number of broker-dealers as of December 31, 2018) multiplied by 1 hour per day multiplied by 249 working days equals 937,236 hours.

¹¹ These records that a broker-dealer is required to make regarding the broker-dealer's associated persons include: 1) all agreements pertaining to the associated person's relationship with the broker-dealer and a

spends, on average, approximately 30 minutes each year to ensure that it is in compliance with these requirements, resulting in a total annual compliance burden of about 1,882 hours.¹² These hours are recordkeeping burdens.

Rule 17a-3(a)(20-22)

Paragraphs (a)(20)–(22) of Rule 17a-3 require broker-dealers to make, among other things, records documenting the broker-dealer’s compliance, or that the broker-dealer has adopted policies and procedures reasonably designed to establish compliance, with applicable federal regulations and SRO rules that require approval by a principal of the broker-dealer of any advertisements, sales literature or other communications with the public. Moreover, these rules require broker-dealers to create a record of the personnel responsible for establishing compliance policies and procedures and of the personnel capable of explaining the types of records the broker-dealer.¹³ The Commission estimates that, on average, each broker-dealer will spend 10 minutes each year to ensure compliance with these requirements, yielding a total burden of about 627 hours.¹⁴ These are recordkeeping burdens.

Rule 17a-3(a)(17)

Estimating the paperwork burden associated with paragraph (a)(17) requires a more complicated formula to calculate the compliance burden because it is based on the number of customer accounts for which a broker-dealer must collect this information as opposed to the number of broker-dealers. In addition, the Commission understands that large broker-dealers have more automated processes to collect and create these records than smaller broker-dealers, and has factored this into its estimates.

As of the end of 2018, 3,764 registered broker-dealers that filed the FOCUS Schedule I Reports on December 31, 2018 reported that they maintained a total of 143,333,278 customer accounts. Forty-five (45) of those broker-dealers reported that they maintained over 100,000 accounts each (for purposes of this Supporting Statement, the “Large Broker-Dealers”), and the remaining 3,719 broker-dealers maintained less than 100,000 customer accounts each (for purposes of this Supporting Statement, the “Small Broker-Dealers”). The Large Broker-Dealers reported that they held a total of 142,049,978 customer accounts (or 99% of the total customer accounts reported), with the Small Broker-Dealers holding the remaining 1,283,300 customer accounts (or 1% of the total customer accounts reported). The Commission estimates that approximately 27.7% of the 143,333,278 total customer accounts would be excluded from the provisions of 17a-3(a)(17) because the accounts are either (i) not accounts of natural persons, (ii)

summary of each associated person’s compensation arrangement (17 CFR 240.17a-3(a)(19)(ii)), 2) a record delineating all identification numbers relating to each associated person (17 CFR 240.17a-3(a)(12)(ii)), 3) a record of the office at which each associated person regularly conducts business (17 CFR 240.17a-3(a)(12)(iii)), and 4) a record as to each associated person listing transactions for which that person will be compensated (17 CFR 240.17a-3(a)(19)(i)).

¹² (3,764 broker-dealers x 30 minutes) / 60 minutes.

¹³ 17 CFR 240.17a-3(a)(20); 17 CFR 240.17a-3(a)(21); and 17 CFR 240.17a-3(a)(22).

¹⁴ (3,764 broker-dealers x 10 minutes) / 60 minutes.

inactive, or (iii) accounts for which the broker-dealer does not have a suitability requirement.¹⁵ Accordingly, the total number of active customer accounts regarding which broker-dealers would need to provide customers with account information is approximately 103,629,960 (102,593,660, or 99%, held by Large Broker-Dealers and 1,036,300, or 1%, held by Small Broker-Dealers).

Rule 17a-3(a)(17)(i)(B)(1) – Large BD; and Rule 17a-3(a)(17)(i)(B)(1) – Small BD

The Commission estimates that broker-dealers will be required to provide customer account information to approximately 34,543,320 customers per year to comply with paragraph (a)(17)(i)(B)(1).¹⁶ Approximately 34,197,887 will be customers of Large Broker-Dealers,¹⁷ and approximately 345,433 will be customers of Small Broker-Dealers.¹⁸ Further, the Commission estimates that this will take Large Broker-Dealers an average of 1½ minutes per account, or a total of 854,947 hours per year for all Large Broker-Dealers,¹⁹ and that it will take Small Broker-Dealers an average of 7 minutes per account, or a total of 40,301 hours per year for all Small Broker-Dealers.²⁰ Thus, the estimated total burden on the industry to comply with the paragraph (a)(17)(i)(B)(1) requirement to provide account information to customers when an account is opened and periodically thereafter is 895,248 hours per year.²¹ These hours are recordkeeping and third party disclosure burdens, with an assumption that the burden is split evenly between the two burden types.

Rule 17a-3(a)(17)(i)(B)(2) + (3) – Large BD; and Rule 17a-3(a)(17)(i)(B)(2) + (3) – Small BD

If a customer provides a broker-dealer with updated account record information, the broker-dealer must, pursuant to paragraphs (a)(17)(i)(B)(2) and (3), update the customer's account information and send the revised account information to the customer to verify its accuracy.²² The Commission estimates that approximately 20% of the customers from whom information is requested will update their account records, resulting in 6,908,664 updated account records each year.²³ In addition, the Commission estimates that 5% of active customer accounts, or 5,181,498,²⁴ will initiate changes to their account records on a yearly basis, just as

¹⁵ See Rule 17 CFR 240.17a-3(a)(17)(i)(D). The Commission arrived at this number using estimates provided by the firms (in their comment letters and otherwise) as to how many of their accounts would fit in to one or more of these categories.

¹⁶ $(103,629,960 \times (1 \text{ every } 3 \text{ years}))$, or, in other words, $(103,629,960 / 3)$ because the broker-dealer must send each customer a copy of his or her account record information once every three years.

¹⁷ $34,543,320 \text{ account records} \times 99\% = 34,197,887 \text{ account records}$, or $759,953.0444 \text{ account records per Large Broker-dealer}$ $(34,197,887 \text{ account records} / 45)$.

¹⁸ $34,543,320 \text{ account records} \times 1\% = 345,433$, or approximately 93 account records per Small Broker-dealer $(345,433 / 3,719)$.

¹⁹ $(34,197,887 \times 1.5 \text{ minutes} / 60 \text{ minutes}) = 854,947 \text{ hours per year}$.

²⁰ $(345,433 \times 7 \text{ minutes} / 60 \text{ minutes}) = 40,301 \text{ hours per year}$.

²¹ $(854,947 \text{ hours} + 40,301 \text{ hours}) = 895,248 \text{ hours}$.

²² 17 CFR 240.17a-3(a)(17)(B)(2) and (3).

²³ $(34,543,320 \times 20\%) = 6,908,664$.

²⁴ $(103,629,960 \times 5\%) = 5,181,498$.

they do now, with no prompting from any account record mailing. The total number of updates, therefore, will be approximately 12,090,162.²⁵ The Commission estimates that it would take, on average, 5 minutes for Large Broker-Dealers to update each account and 10 minutes²⁶ for Small Broker-Dealers to update each account, resulting in an additional aggregate burden of 1,017,660 hours per year (997,518 for all Large Broker-Dealers and 20,142 for all Small Broker-Dealers) to update account record information and provide the new account information to customers as required by paragraphs (a)(17)(i)(B)(2) and (3).²⁷ These hours are recordkeeping and third party disclosure burdens, with an assumption that the burden is split evenly between the two burden types.

Rule 17a-3(a)(23) Part I

Paragraph (a)(23) of Rule 17a-3, requires certain broker-dealers to make and keep current a record documenting credit, market, and liquidity risk management controls established and maintained by the broker-dealer to assist it in analyzing and managing the risks associated with its business activities. The Commission estimates that a broker-dealer spends, on average, approximately 100 hours of employee resources to comply with this requirement to ensure its market, credit, and liquidity risk controls are documented. Based on FOCUS Report data, as of December 31, 2015, the Commission estimates there are approximately 456 broker-dealers that are subject to paragraph (a)(23).²⁸ Therefore, the Commission estimates that the total one-time recordkeeping burden to all broker-dealers will be approximately 45,600 hours, or 15,200 hours amortized over three years.²⁹

Rule 17a-3(a)(23) Part II

In addition to the one-time hour burden, based on similar collections of information requiring the documentation of risk management controls, broker-dealers required to comply with paragraph (a)(23) likely will incur annual hour burdens.³⁰ The Commission estimates that a

²⁵ $(6,908,664 + 5,181,498) = 12,090,162$.

²⁶ This estimate takes into account the 1½ and 7 minutes it would take Large and Small Broker-dealers, respectively, to provide this updated account information to customers, and the 3.5 minutes and 3 minutes it would take Large and Small Broker-dealers, respectively, to receive the returned data and input any changes into the account record. The estimated total minutes for updating and providing this information to customers of 5 minutes for Large Broker-dealers and 10 minutes for Small Broker-dealers were taken from a comment letter to the 2001 Amendments.

²⁷ $((12,090,162 \text{ account records} \times 99\%) \times (5 \text{ minutes} / 60 \text{ minutes})) + ((12,090,162 \text{ account records} \times 1\%) \times (10 \text{ minutes} / 60 \text{ minutes}))$.

²⁸ This estimate is based on the number of firms that have \$1,000,000 in credits or \$20,000,000 in capital as of December 31, 2018.

²⁹ $456 \text{ broker-dealers} \times 100 \text{ hours} = 45,600 \text{ hours}$. For purposes of this supporting statement, the one-time burden annualized over the three year approval period is 15,200 $(45,600/3)$, with an average hour burden per firm of 33.33 hours $(15,200/456 \text{ firms})$.

³⁰ See Risk Management Controls for Brokers or Dealers with Market Access; Final Rule, Exchange Act Release No. 63241 (Nov. 3, 2010), 75 FR 69792, 69815 (Nov. 15, 2010). See also 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 68071, 77 FR at 70295 and 70297.

broker-dealer spends approximately 45 hours per year to ensure its compliance with Paragraph (a)(23), for a total annual recordkeeping burden on the industry of 20,520 hours.³¹

Rule 17a-3(a)(16)

Paragraph (a)(16) of Rule 17a-3 requires any broker-dealer that sponsors an internal broker-dealer system to make and keep current certain records relating to such system. The Commission estimates that paragraph (a)(16) of Rule 17a-3 imposes an annual burden of 27 hours per year per internal broker-dealer system to create the requisite records. The Commission estimates that there are approximately 200 internal broker-dealer systems,³² resulting in a total annual recordkeeping burden of 5,400 hours.³³

Records to be Made by Certain Broker-Dealers: Rules 17a-3(a)(24) and 17a-3(a)(35)

In June 2019, the Commission amended Rule 17a-3 by adding paragraphs (a)(24) and (a)(35). These revisions to the collection of information were approved by OMB on October 3, 2019. Because these revisions were approved so recently, the Commission does not have any changes to the estimated burdens for these rules; however, these burdens are summarized below as part of the extension request for the currently approved collection in Rule 17a-3 (3235-0033).

Based on data obtained from Form BR, the Commission preliminarily believes that approximately 73.5% of registered broker-dealers, or 2,766 broker-dealers, have retail customers and therefore would likely be subject to Rules 17a-3(a)(24) and 17a-3(a)(35),

Rule 17a-3(a)(24):

Rule 17a-3(a)(24) requires certain SEC-registered broker-dealers to make a record indicating the date that a Form CRS was provided to each customer and to each prospective customer.

The Commission estimates that it would take each broker-dealer from 0.1 hours to 0.5 hours to create the records required by paragraph (a)(24) of rule 17a-3. The incremental hour burden for broker-dealers to create the records required by paragraph (a)(24) of rule 17a-3 as adopted will therefore be 1,383 hours.³⁴

Rule 17a-3(a)(35)

³¹ 456 broker-dealers x 45 hours = 20,520 hours. The 45 per hour annual estimate is based on a similar collection of information. See Risk Management Controls for Brokers or Dealers with Market Access: Final Rule, Exchange Act Release No. 63241 (Nov. 3, 2010), 75 FR 69792, 69815 (Nov. 15, 2010).

³² The Commission believes that most over-the-counter (“OTC”) market makers maintain an internal broker-dealer system. In 2010, the Commission estimated that there are approximately 200 OTC market makers responsible for more than 1% of the trading volume in an exchange-traded security. *See See Disclosure of Order Handling Information*, Exchange Act Release No. 84528 (Nov. 2, 2018), 83 FR 58338 (Nov. 19, 2018).

³³ 27 hours x 200 internal broker-dealer systems = 5,400 hours.

³⁴ 2,766 broker-dealers x 0.5 hours annually = 1,383 annual hours for recordkeeping

Rule 17a-3(a)(35) requires a broker-dealer to make a record of all information collected from and provided to the retail customer pursuant to Regulation Best Interest, as well as the identity of each natural person who is an associated person of a broker or dealer, if any, responsible for the account. This requirement applies with respect to each retail customer to whom a recommendation of any securities transaction or investment strategy involving securities is provided. The burdens associated with each component of this rule are estimated as follows:

Rule 17a-3(a)(35): Record of Information Collected From and Provided to the Retail Customer Pursuant to Regulation Best Interest

The Commission understands that broker-dealers currently make records of relevant customer investment profile information, and therefore the Commission believes that no additional record-making obligations would arise as a result of broker-dealers' or their registered representatives' collection of information from retail customers.³⁵

Rule 17a-3(a)(35): Record of Identity of Associate Person Responsible for Account/ Firm Burden

In addition, Rule 17a-3(a)(35) requires a broker-dealer, "for each retail customer to whom a recommendation of any securities transaction or investment strategy involving securities is or will be provided," to make a record of the "identity of each natural person who is an associated person, if any, responsible for the account." The Commission assumes, for purposes of compliance with Rule 17a-3(a)(35), that broker-dealers will need to create a record, or modify an existing record, to identify the associated person, if any, responsible for the account in the context of Regulation Best Interest. For small broker-dealers, the use of outside counsel would result in a cost burden, which is discussed in Item 13 below. For large broker-dealers,³⁶ the Commission estimates that the initial burden will be 2 hours for each broker-dealer (1 hour for compliance personnel and 1 hour for legal personnel). The Commission therefore estimates the aggregate initial one-time burden for large broker-dealers to be approximately 4,020 burden hours.³⁷ When annualized over three years, this equates to approximately 1,340.67 hours, or rounded up to 1,341 hours per year.

³⁵ The PRA burdens and costs arising from the requirement that a record be made of all information provided to the retail customer are accounted for in the Regulation Best Interest Adopting Release and the Relationship Summary Adopting Release. With respect to the requirement that a record be made of all information from the retail customer, the Commission believes that Rule 17a-3(a)(35) would not impose any new substantive burdens on broker-dealers. As discussed in the Regulation Best Interest Adopting Release, the Commission continues to believe that the obligation to exercise reasonable diligence, care and skill will not require a broker-dealer to collect additional information from the retail customer beyond that currently collected in the ordinary course of business even though a broker-dealer's analysis of that information and any resulting recommendation would need to adhere to the enhanced best interest standard of Regulation Best Interest.

The Commission estimates, for the purposes of this rule, that there are 2,010 large broker-dealers. Consequently, the Commission estimates that the remaining 756 broker-dealers are small broker-dealers.

³⁷ This estimate is based on the following calculation: (2 burden hours per broker-dealer) x (2,010 large broker-dealers) = 4,020 aggregate burden hours per year.

Rule 17a-3(a)(35): Record of Identity of Associated Person Responsible for Account/ Individual Burden

As noted above, Rule 17a-3(a)(35) requires a broker-dealer, “for each retail customer to whom a recommendation of any securities transaction or investment strategy involving securities is or will be provided,” to make a record of the “identity of each natural person who is an associated person, if any, responsible for the account.” The Commission estimates that for the first year after Regulation Best Interest is in effect, registered representatives associated with each of the 2,766 broker-dealer respondents will spend an additional 0.04 hours (or 0.0133333 hours per year when annualized over three years) per each of its retail customer accounts to fill out the information in the account disclosure document. The Commission estimates that each broker-dealer will incur this burden for approximately 36,876 accounts per year.³⁸ The Commission continues to believe that there are no ongoing costs and burdens associated with this record-keeping requirement of Rule 17a-3(a)(35). As a result, the total annual estimated recordkeeping burden associated with the Identity of Associated Person Responsible for the Account requirement is approximately 1,359,983 hours for all broker-dealer respondents.³⁹

Rule 17a-3(a)(35): Record of Oral Disclosure

In cases where broker-dealers choose to meet part of the Disclosure Obligation orally under the circumstances outlined in Section II.C.1 of the Regulation Best Interest Adopting Release, the Commission believes the requirement to maintain a record of the fact that oral disclosure was provided to the retail customer will trigger a record-making obligation under paragraph (a)(35) and the Commission estimates that this would take place among 52% of a broker-dealer’s retail customer accounts (and thus 52% of a registered representative’s retail customer accounts) annually. The Commission estimates that there are currently 102 million customer accounts. Consequently, the Commission estimates the total burden associated with the record of oral disclosure requirement of Rule 17a-3(a)(35) to be 1,060,761 hours per year.⁴⁰

In summary, the aggregate annual burden attributed to Rule 17a-3 is 5,317,241 hours broken down as follows:

Summary of Hourly Burdens					
Name of Information Collection	Type of Burden	Number of Respondents	Annual Responses per Respondent	Hourly Burden per Response	Annual Burden for all

³⁸ For the purposes of this rule, the Commission assumes that each broker-dealer has 36,876 retail customer accounts (i.e., (102 million retail customer accounts) / (2766 broker-dealers)).

³⁹ (2,766 broker-dealers) x (0.0133333) x (36,876 retail customer accounts) = 1,359,983 hours.

⁴⁰ For the purposes of this rule, the Commission assumes that each broker-dealer has 36,876 retail customer accounts (i.e., (102 million retail customer accounts) / (2766 broker-dealers)). The Commission further assumes that 52% of the 36,876 retail customer accounts per broker-dealer would trigger the record-making obligation, or (0.52 x 36,876) = 19,175 retail customer accounts per broker-dealer. Thus, the Commission estimates the burden to be: (19,175 affected retail customer accounts) x (0.02 hours for recording each oral disclosure relating to a retail customer’s account) x (2,766 broker-dealers) = 1,060,761 hours.

					Respondents
Rule 17a-3; Records to be Made by Certain Exchange Members, Brokers and Dealers	Recordkeeping	3,764	249	1	937,236
Rule 17a-3(a)(12) & (19)	Recordkeeping	3,764	1	0.50	1,882
Rule 17a-3(a)(20-22)	Recordkeeping	3,764	1	0.1666	627
Rule 17a-3(a)(17)(i)(B)(1) - Large BD	Recordkeeping & Third Party Disclosure	45	759,953	0.0250	854,947
Rule 17a-3(a)(17)(i)(B)(1) - Small BD	Recordkeeping & Third Party Disclosure	3,719	92.88302	0.11667	40,301
Rule 17a-3(a)(17)(i)(B)(2) & (3) - Large BD	Recordkeeping & Third Party Disclosure	45	265,983.564	0.08334	997,518
Rule 17a-3(a)(17)(i)(B)(2) & (3) - Small BD	Recordkeeping & Third Party Disclosure	3,719	32.5092	0.1666	20,142
Rule 17a-3(a)(23) Part I	Recordkeeping	456	1	33.334	15,200
Rule 17a-3(a)(23) Part II	Recordkeeping	456	1	45	20,520
Rule 17a-3(a)(16)	Recordkeeping	200	1	27	5,400
*Rule 17a-3(a)(24): Record of Date Form CRS Provided to Each Customer and Prospective Customer (ongoing burden)	Recordkeeping	2766	1	0.5	1383
*Rule 17a-3(a)(35): Record of Identity of Associate Person Responsible for Account - Large Broker-Dealers (initial one-time burden)	Recordkeeping	2010	1	0.667	1341
*Rule 17a-3(a)(35): Record of Identity of Associate Person Responsible for Account/Individual Burden (initial one-time burden)	Recordkeeping	2766	36,876	0.0133333	1,359,983
*Rule 17a-3(a)(35): Record of Oral Disclosure (ongoing burden)	Recordkeeping	2766	19,175	.02	1,060.761
TOTAL					5,317,241

*These burdens were approved by OMB on October 3, 2019.

13. Costs to Respondents

The Commission estimates that the aggregate cost burden of the requirements associated with Rule 17a-3 is approximately \$54,448,137, calculated as follows:

Rule 17a-3(a)(17) – providing updated information to customers

Ongoing operation and maintenance costs include the cost of postage to provide customers with account information, and costs for equipment and systems development. The Commission estimates that under Rule 17a-3(a)(17), approximately 46,633,482 customers (34,543,320 account records⁴¹ + 6,908,664 updated account records⁴² + 5,181,498 updated account records for customers that will initiate changes to their account records on a yearly basis, with no prompting from any account record mailing⁴³) will need to be provided with information regarding their account on a yearly basis. Firms may include this information with other communications sent to customers, for instance in customer account statements. In response to requests for comment relating to the 2001 Amendments, those firms that provided estimates of postage costs indicated that postage costs to provide customers with account record information would be about \$0.244 per item mailed.⁴⁴ However, postage costs have increased since that time. The current estimate for postage costs is \$0.35.⁴⁵ Consequently, the Commission estimates that the postage costs associated with providing 46,633,482 customers with copies of their account record information would be approximately \$16,321,719 per year (46,633,482 x \$0.35). These costs are recordkeeping and third party disclosure burdens, with an assumption that the burden is split evenly between the two burden types.

Ongoing Cost for Equipment and Systems Development

At the time of the 2001 Amendments, Large Broker-Dealers that provided cost information estimated that their ongoing, yearly costs for equipment and systems development resulting from Rule 17a-3 would be approximately \$0.25 per customer account. The Commission believes that the additional cost for smaller broker-dealers is included in the increased hourly burden costs

⁴¹ This figure is based on the number of active customer accounts (103,629,960) divided by 3 since the broker-dealer must send each customer a copy of his or her account record information once every three years.

⁴² This figure is based on the number of active customer accounts that receive their account record (34,543,320) times .20, since the Commission estimates that 20% of customers that receive their account record will update their account record information.

⁴³ This figure is based on the number of active customer accounts (103,629,960) times 0.05, since 5% of customers update their account record information each year.

⁴⁴ See Morgan Stanley Dean Witter comment letter submitted by J. Higgins in response to the 2001 Amendments; See Merrill Lynch comment letter to the 2001 Amendments.

⁴⁵ The CPI has increased by about 46% since the end of 2001. $(\$0.244 \times 1.46) = \0.35 . In addition, postage costs have increased. Therefore, the Commission is increasing the estimate to \$0.35.

delineated above.⁴⁶ However costs for equipment and systems development have increased since 2001. Consequently, the Commission believes that the total ongoing equipment and systems development costs relating to Rule 17a-3 for the industry would be about \$37,446,686 per year (102,593,660 active customer accounts held by the 45 Large Broker-Dealers x \$0.365⁴⁷), or an annual cost burden of \$832,148.57 for each of the 45 Large Broker-Dealers. This cost is a recordkeeping burden.

Rule 17a-3(a)(23) Part 1

With respect to the amendment to paragraph (a)(23) to Rule 17a-3, a broker-dealer is required to document its liquidity, credit, and market risk management controls, if it has established such controls. These broker-dealers may incur one-time startup costs to hire outside counsel to review the documented controls to ensure the broker-dealer is meeting the requirements of the rule. Based on staff experience with similar reviews, the Commission estimates that 456 broker-dealers would incur \$2,000 in legal costs,⁴⁸ or \$912,000, in the aggregate, initial one-time recordkeeping burden to review and comment on the documented risk management controls.⁴⁹ For purposes of this supporting statement, the one-time cost of \$912,000 annualized over the three-year approval period is \$304,000,⁵⁰ with an average cost per respondent of \$666.67.⁵¹

Rule 17a-3(a)(35): Record of Identity of Associate Person Responsible for Account/Firm Burden

To meet the requirement under Rule 17a-3(a)(35) to make a record of the “identity of each natural person who is an associated person, if any, responsible for the account,” the Commission believes that small broker-dealers will require, on average, approximately 1 hour per year for outside legal counsel, at an updated average rate of \$497/hour, for an average annual cost of \$497 for each small broker-dealer to update an account disclosure document. The projected aggregate annual cost for small broker-dealers is therefore estimated to be \$375,732 per year, or (756 x \$497).

In summary, the total cost burden associated with Rule 17a-3 is approximately \$54,448,137 per year, broken down as indicated below.⁵²

⁴⁶ Smaller broker-dealers are not as automated, and their processes tend to be more manual in nature. In addition, no smaller broker-dealers provided information regarding any increased equipment or systems development costs at the time of the 2001 Amendments.

⁴⁷ The CPI has increased by about 46% since the end of 2001. $(\$0.25 \times 1.46) = \0.365 .

⁴⁸ The Commission staff estimates that the review of the documented controls would require 5 hours of outside counsel time at a cost of \$400 per hour.

⁴⁹ $\$2,000 \times 456 \text{ broker-dealers} = \$912,000$.

⁵⁰ $\$912,000 / 3 \text{ years} = \$304,000$.

⁵¹ $\$304,000 / 456 \text{ firms} = \666.667 .

⁵² This includes annual postage costs of \$16,321,719 and ongoing equipment and systems development costs of \$37,446,686 per year.

Summary of Cost Burdens				
Name of Information Collection	Type of Burden	Number of Respondents	Annual Cost Burden per Respondent	Annual Cost for all Respondents
Rule 17a-3 - providing updated information to customers	Recordkeeping & Third Party Disclosure	3,764	\$4,336.27	\$ 16,321,719
Ongoing cost for equipment & systems development	Recordkeeping	45	\$832,148.57	\$ 37,446,686
Rule 17a-3(a)(23) Part 1	Recordkeeping	456	\$666.667	\$304,000
*Rule 17a-3(a)(35): Record of Identity of Associate Person Responsible for Account/ Firm Burden -Small Broker-dealers	Recordkeeping	756	\$497	\$375,732
TOTAL				\$ 54,448,137

*This burden was approved by OMB on October 3, 2019.

14. Costs to Federal Government

There will be no additional costs to the Federal Government.

15. Changes in Burden

The annual burden has changed due to a decrease in the number of respondents (i.e., the number of registered broker-dealers has decreased from 4,104 to 3,764) and an increase in the number of customer accounts held by broker-dealers (from 126,458,378 to 143,333,278). The result of these changes has been an increase in the hourly burden from 2,763,612 to 2,893,773 hours, or an increase of 130,161 hours per year. The annual costs increased due to inflation, increases in postage costs, and in increase in the number of customer accounts. The overall impact of these changes has been an increase in costs of \$9,510,043, going from \$44,562,361 to \$54,072,405 per year.⁵³

⁵³ The changes in burdens are calculated exclusive of the burdens that were approved by OMB on October 3, 2019.

Changes in Hourly Burden				
Name of Information Collection	Annual Industry Burden	Annual Industry Burden Previously Reviewed	Change in Burden	Reason for Change
Rule 17a-3; Records to be Made by Certain Exchange Members, Brokers and Dealers	937,236	1,021,896	(84,660)	Reduction in the number of registered broker-dealers (i.e., respondents) from 4,104 to 3,764
Rule 17a-3(a)(12) & (19)	1,882	2,052	(170)	Reduction in the number of registered broker-dealers (i.e., respondents) from 4,104 to 3,764
Rule 17a-3(a)(20-22)	627	684	(57)	Reduction in the number of registered broker-dealers (i.e., respondents) from 4,104 to 3,764
Rule 17a-3(a)(17)(i)(B)(1) - Large BD	854,947	752,007	102,940	Increase in the number and percentage of customer accounts held by large broker dealers
Rule 17a-3(a)(17)(i)(B)(1) - Small BD	40,301	46,220	(5,919)	Reduction in the number and percentage of customer accounts held by small broker-dealers
Rule 17a-3(a)(17)(i)(B)(2) & (3) - Large BD	997,518	877,411	120,107	Increase in the number of customer accounts requiring an update due to an increase in the number of total accounts and the percentage of accounts held by large broker-dealers
Rule 17a-3(a)(17)(i)(B)(2) & (3) - Small BD	20,142	23,102	(2,960)	Decrease in the number of customer accounts requiring an update due to a decrease in the percentage of accounts held by small broker-dealers
Rule 17a-3(a)(23) Part I	15,200	15,400	(200)	Decrease in the number of registered broker-dealers subject to this rule
Rule 17a-3(a)(23) Part II	20,520	20,790	(270)	Decrease in the number of registered broker-dealers subject to this rule
Rule 17a-3(a)(16)	5,400	4,050	1,350	Increase in the number of broker-dealers subject to this rule

Change in Hourly Costs				
Name of Information Collection	Annual Industry Cost	Annual Industry Cost Previously Reviewed	Change in Cost	Reason for Change
Rule 17a-3 - providing updated information to customers	\$ 16,321,719	\$ 13,577,267	\$ 2,744,452	Increase in the number of customer accounts and increase in the cost of postage
Ongoing cost for equipment & systems development	\$ 37,446,686	\$ 30,677,094	\$ 6,769,592	Increase in the costs of equipment and systems due to inflation
Rule 17a-3(a)(23) Part 1	\$304,000	\$ 308,000	\$ (4000)	Decrease in the number of broker-dealers subject to this rule

16. Information Collection Planned for Statistical Purposes

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

17. Approval to Omit OMB Expiration Date

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

18. Exceptions to Certification for Paperwork Reduction Act Submissions

This collection complies with the requirements in 5 CFR 1320.9.

B. COLLECTIONS OF INFORMATION EMPLOYING STATISTICAL METHODS

This collection does not involve statistical methods.