

SUPPORTING STATEMENT
for the Paperwork Reduction Act Information Collection Submission for
Rule 15c3-1 – Net Capital Requirements for Brokers or Dealers
3235-0200

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

Rule 15c3-1¹ under the Securities Exchange Act of 1934 (“Exchange Act”)² is intended to ensure that broker-dealers registered with the Securities and Exchange Commission (“Commission”) at all times have sufficient liquid capital to protect the assets of customers and to meet their responsibilities to other broker-dealers.³ Rule 15c3-1 generally defines the term “net capital” as a broker-dealer’s net worth (assets minus liabilities), plus certain subordinated liabilities, less certain assets that are not readily convertible into cash (*e.g.*, fixed assets), and less a percentage (haircut) of certain other liquid assets (*e.g.*, securities).⁴

Rule 15c3-1 is an integral part of the Commission’s financial responsibility program for broker-dealers. In particular, Rule 15c3-1 facilitates the monitoring of the financial condition of broker-dealers by the Commission and the broker-dealer’s designated examining authority (“DEA”). If the information were not required to be collected, the Commission and the DEAs would not be able to monitor the financial condition of broker-dealers, exposing their customers and counterparties to increased risk.

On June 21, 2019, the Commission adopted amendments to Rule 15c3-1 to set forth net capital requirements for broker-dealers that also register as nonbank security-based swap dealers (“broker-dealer SBSs”), along with other changes that would apply to broker-dealers, including a special class of broker-dealer that are approved to use internal models to compute net capital (“ANC broker-dealers”).⁵ These amendments increased net capital requirements for ANC broker-dealers, and prescribed certain capital requirements for broker-dealers that are not SBSs to the extent they engage in security-based swap and swap activity.

¹ 17 CFR 240.15c3-1.

² 15 U.S.C. § 78a *et seq.*

³ *See Net Capital Rule*, Exchange Act Release No. 39455 (Dec. 17, 1997), 62 FR 67996 (Dec. 30, 1997).

⁴ *See* 17 CFR 240.15c3-1(c)(2).

⁵ *See Capital, Margin, and Segregation Requirements for Security-Based Swap Dealers and Major Security-Based Swap Participants and Capital and Segregation Requirements for Broker-Dealers*, Exchange Act Release No. 86175 (June 21, 2019), 84 FR 43872 (Aug. 22, 2019).

2. Purpose and Use of the Information Collection

Rule 15c3-1 is intended to help ensure that broker-dealers maintain at all times sufficient liquid resources to meet all liabilities, particularly the claims of customers, by requiring that broker-dealers maintain a minimum amount of net capital. A broker-dealer's minimum net capital requirement is the greater of: (1) a fixed minimum amount set forth in Rule 15c3-1 based on the types of business that the broker-dealer conducts;⁶ or (2) a financial ratio.⁷ Exchange Act Section 15(c)(3) and Rule 15c3-1 promulgated thereunder prohibit a broker-dealer from effecting transactions in securities while not in compliance with its minimum net capital requirement.

Various provisions of Rule 15c3-1 require that broker-dealers provide written notification to the Commission and/or their DEA under certain circumstances. For example, a broker-dealer carrying the account of an options market maker must file a notice with the Commission and the DEA of both the carrying firm and the market maker prior to effecting transactions in the account.⁸ In addition, the carrying firm must notify the Commission and the appropriate DEA if a market maker fails to deposit the required equity with the carrying broker-dealer relating to the market maker's account within the prescribed time period or if certain deductions and other amounts relating to the carrying firm's market maker accounts computed in accordance with Rule 15c3-1 exceeds 1,000% of the carrying broker-dealer's net capital.⁹ In addition, a broker-dealer electing to compute its net capital using the alternative method under paragraph (a)(1)(ii) of Rule 15c3-1 must notify its DEA of the election in writing, and thereafter must continue to compute its net capital in this manner unless a change is approved upon application to the Commission.¹⁰

There are also certain recordkeeping requirements under Rule 15c3-1. For example, a broker-dealer must keep a record of who is acting as an agent in a securities loan transaction and records with respect to obtaining DEA approval prior to withdrawing capital within one year of a contribution.¹¹ These records help the Commission and its staff, as well as DEAs, facilitate the monitoring of the financial condition of broker-dealers.

Appendix C to Rule 15c3-1 requires broker-dealers that consolidate their financial statements with a subsidiary or affiliate, under certain circumstances, to submit to their DEA an opinion of counsel.¹² The opinion of counsel must state, among other things, that the broker-dealer may cause that portion of the net assets of a subsidiary or affiliate related to its ownership interest in the entity to be distributed to the broker-dealer within 30 calendar days.¹³

⁶ See 17 CFR 240.15c3-1(a)(2)–(9).

⁷ See 17 CFR 240.15c3-1(a)(1)(i)–(iii).

⁸ See 17 CFR 240.15c3-1(a)(6)(vi).

⁹ See 17 CFR 240.15c3-1(a)(6)(iv)(B); 17 CFR 240.15c3-1(a)(6)(v).

¹⁰ See 17 CFR 240.15c3-1(a)(1)(ii).

¹¹ See 17 CFR 240.15c3-1(c)(2)(iv)(B); 17 CFR 240.15c3-1(c)(2)(i)(G)(2).

¹² See 17 CFR 240.15c3-1c(b)(1).

¹³ See 17 CFR 240.15c3-1c(b)(2).

Appendix E to Rule 15c3-1 provides an alternative method for determining certain net capital charges for certain broker-dealers (“alternative net capital firms” or “ANC firms”).¹⁴ Appendix G to Rule 15c3-1 requires the holding company of an ANC firm that has a principal regulator to file certain periodic reports with the Commission, preserve certain records, and notify the Commission of certain events. The notification provisions of Appendix G are designed to give the Commission advance warning of situations that may pose material financial and operational risks to the broker-dealer and its holding company. These provisions are integral to Commission supervision of broker-dealers that use Appendix E.

3. Consideration Given to Information Technology

The method of computing net capital varies by size and complexity of a broker-dealer. Most large broker-dealers subject to Rule 15c3-1 utilize automated systems for computing their net capital and minimum requirements. Smaller broker-dealers with simple balance sheets may compute their net capital on a manual basis. The information collections however do not require that respondents use any specific information technology system either to prepare or submit information collections under Rule 15c3-1, as amended.

4. Duplication

The information collection does not duplicate any existing information collection.

5. Effects on Small Entities

Small entities may be affected to the extent they are required to maintain a minimum amount of net capital under Rule 15c3-1. However, there are different requirements for small entities subject to Rule 15c3-1. Most of these entities are not affected by the information collection provisions of Rule 15c3-1. The broker-dealer SBSs subject to the information collections under the rule are not expected to be small entities.

6. Consequences of Not Conducting Collection

If the required activities were not required to be collected, or were required to be conducted less frequently, the Commission and the DEAs would not be able to monitor the financial condition of broker-dealers, exposing their customers and counterparties to increased risk and lessening the protection afforded to the public.

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

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

8. Consultations Outside the Agency

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

¹⁴ See 17 CFR 240.15c3-1e.

9. Payment or Gift

No payments or gifts have been provided to respondents.

10. Confidentiality

The Commission regards information obtained pursuant to the filings and notices required by Rule 15c3-1 to be confidential. Such information is of a financial nature and generally is not disclosed to the public. The statutory basis for the Commission's refusal to disclose such information to the public is the exemption contained in section (b)(4) of the Freedom of Information Act, 5 U.S.C. 552, which provides that the requirement of public dissemination does not apply to commercial or financial information which is privileged or confidential.

11. Sensitive Questions

The collections of information in the amendments to Rule 15c3-1 facilitate the monitoring of the financial condition of broker-dealers by the Commission and its staff. No information of a sensitive nature, including social security numbers, will be required under this collection of information. The information collection does not collect personally identifiable information (PII).¹⁵ The agency has determined that a system of records notice (SORN) and privacy impact assessment (PIA) are not required in connection with the collection of information.

12. Burden of Information Collection

The Commission estimates the hour burdens of the requirements associated with Rule 15c3-1 as follows.

Notices: Based on the number of notices filed under Rule 15c3-1 in 2019, the Commission estimates that broker-dealers annually file approximately 844 notices under Rule 15c3-1 and that a broker-dealer will spend approximately 30 minutes preparing and filing these notices. Therefore, the Commission estimates a total annual reporting burden of approximately 422 hours.¹⁶

Disclosures and Agreements: Paragraph (c)(2)(iv)(B) of Rule 15c3-1 requires a broker-dealer to make disclosures to, and obtain certain agreements from, securities lending principals in situations where the firm participates in the settlement of a securities lending transaction but wants to be deemed an agent for purposes of Rule 15c3-1. The Commission estimates that 5% of the 111 broker-dealers, or approximately 6 firms, engaged in securities lending will need to

¹⁵ 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.

¹⁶ 844 notices x (30 minutes / 60 minutes) = 422 hours.

modify their standard agreements.¹⁷ The Commission estimates each of these firms will spend approximately 20 hours of employee resources updating their standard agreement template. Therefore, the Commission estimates that the total one-time recordkeeping burden will be approximately 120 hours or 40 hours per year when annualized over three years.¹⁸

Capital Withdrawal Liability: Paragraph (c)(2)(i)(G)(2) of Rule 15c3-1 requires that a broker-dealer treat as a liability any capital contribution that is intended to be withdrawn within one year of its contribution. The amendment also includes the presumption that capital withdrawn within one year of contribution is presumed to have been intended to be withdrawn within one year, unless the broker-dealer receives permission in writing for the withdrawal from its DEA. The Commission estimates that 84 broker-dealers will seek to obtain permission from their DEA in writing to withdraw capital within one year of its contribution, and that it will take a broker-dealer approximately one hour to prepare and submit the request to its DEA to withdraw capital. Therefore, the Commission estimates that the total annual reporting burden will be approximately 84 hours.¹⁹

Computations for ANC Firms: With respect to Appendices E and G of Rule 15c3-1, the following estimates are based on the assumption that 10 broker-dealers will ultimately compute deductions for market risk under Appendix E. Currently, there are 5 ANC firms, and the Commission expects that 5 additional firms will apply to compute deductions for market risk under Appendix E.²⁰ The Commission estimates that each new broker-dealer that applies will incur a one-time recordkeeping burden of approximately 1,000 hours to create and compile the various documents to be included with the application and to work through the application process, with an aggregate one-time recordkeeping burden of approximately 5,000 hours or an annualized burden of approximately 1,667 hours per year.²¹

Reviewing and Backtesting: The Commission estimates that an ANC firm using Appendices E and G to Rule 15c3-1 spends approximately 5,600 hours per year to review and update the models it uses to assess market and credit risk and approximately 160 hours each quarter, or approximately 640 hours per year, to back test the models. Consequently, the Commission estimates that the total annual recordkeeping burden associated with reviewing and

¹⁷ The number of 111 broker-dealers was obtained by reviewing broker-dealer Financial and Operational Combined Single (or “FOCUS”) Reports for the third-quarter of 2019 and then calculating how many firms reported a value greater than zero for securities loaned to or borrowed from brokers or dealers and clearing organizations (line items 780, 1510, and 1520).

¹⁸ 6 broker-dealers x 20 hours per firm = 120 hours. The three-year annualized number for this one time burden is 40 hours (120 hours / 3 years = 40), or 6.67 hours per firm.

¹⁹ 84 broker-dealers x 1 hour = 84 hours.

²⁰ The Commission expects that these 5 firms will register as ANC firms over the next three years. However, until their registrations are complete, these firms will not be subject to the annual burdens discussed throughout Item 12. Therefore, the Commission has taken this fact into consideration in its calculations by assuming that, on average, these firms will not register until year two and will thus have no burdens in the first of the next three years. Consequently, the average yearly burden for these new firms is reduced by 1/3 by multiplying the average yearly burden for existing firms by .66666667.

²¹ The three-year annualized number for this one-time burden is 333.33 per firm (1,000 hours / 3 years = 333.33), or 1,666.65 hours rounded up to 1,667 for the industry (333.33 hours x 5 firms).

back testing mathematical models for the 5 existing ANC firms will be approximately 31,200 hours,²² and approximately 20,800 hours²³ for the 5 broker-dealers expected to become ANC firms, resulting in an aggregate annual recordkeeping burden of approximately 52,000 hours.²⁴

Appendix G Monthly Reports: The Commission estimates that the average amount of time necessary to prepare and file the monthly reports required by Appendix G will be approximately 8 hours per month, or 96 hours per year, for a total of 480 hours per year for all 5 existing ANC firms. The Commission estimates that the average amount of time necessary to prepare and file the quarterly reports will be approximately 16 hours per quarter, or 64 hours per year, for a total of 320 hours per year for all 5 existing ANC firms. The Commission estimates that the average amount of time necessary to prepare and file the annual audit reports will be approximately 200 hours per year for a total of 1000 hours per year for all 5 existing firms. Consequently, the Commission estimates that the total annual reporting burden of Appendix G for the 5 existing ANC firms will be approximately 1,800 hours.²⁵ The total annual reporting burden for the 5 broker-dealers expected to become ANC firms will be approximately 1,200 hours (320+213+667),²⁶ resulting in an aggregate annual reporting burden of approximately 3,000 hours.²⁷

Appendix G Recordkeeping: The Commission expects that any additional burden associated with the requirements of Appendix G relating to preserving records will be minimal because a prudent firm that manages risk on a group-wide basis will make and preserve these records in the ordinary course of its business. The Commission estimates that the average one-time burden of making and preserving these records will be approximately 40 hours and that the average annual burden will be approximately 290 hours. Consequently, the Commission estimates that the annual recordkeeping burden for the 5 existing ANC firms will be approximately 1,450 hours.²⁸ The Commission estimates that the total one-time and annual recordkeeping burden for the 5 broker-dealers expected to become ANC firms will be approximately 200 hours (approximately 67 hours per year when annualized over three years)²⁹

²² (5,600 hours + 640 hours) x 5 broker-dealers = 31,200 hours.

²³ (Y1: 0 hours) + (Y2: 5,600 hours + 640 hours = 6,240 hours) + (Y3: 5,600 hours + 640 hours = 6,240 hours) = 12,480 hours / 3 years = 4,160 x 5 ANC broker-dealers = 20,800 hours.

²⁴ 31,200 hours + 20,800 hours = 52,000 hours.

²⁵ (96 hours + 64 hours + 200 hours) x 5 ANC broker-dealers = 1,800 hours.

²⁶ (Y1: 0 hours) + (Y2: 96 hours + 64 hours + 200 hours = 360 hours) + (Y3: 96 hours + 64 hours + 200 hours = 360 hours) = 720 hours / 3 years = 240 hours x 5 broker-dealers = 1,200 hours.

²⁷ 1,800 hours + 1,200 hours = 3,000 hours.

²⁸ 290 hours x 5 broker-dealers = 1,450 hours.

²⁹ 40 hours x 5 broker-dealers = 200 hours. The three-year annualized number for this one-time burden is 66.666, rounded to 66.67 hours (200 hours / 3 years = 66.666, rounded to 67 hours).

and 967 hours,³⁰ respectively. Therefore, Commission estimates an aggregate annualized recordkeeping burden of approximately 2,484 hours.³¹

Appendix G Notification Provision: The Commission estimates that ANC firms will spend a total of approximately one hour per year to comply with the notification provisions of Appendix G, resulting in a total annual reporting burden of approximately 5 hours³² for the 5 existing ANC firms, and approximately 3.35 hours rounded down to 3³³ for the 5 broker-dealers expected to become ANC firms, resulting in an aggregate reporting burden of approximately 8 hours.³⁴

Appendix G Updating Risk Management Profile: The Commission also estimates that each broker-dealer will spend approximately 250 hours per year reviewing and updating its risk management control system, resulting in an aggregate annual recordkeeping burden of approximately 1,250 hours for the 5 existing ANC firms,³⁵ and approximately 833 hours for the 5 broker-dealers expected to become ANC firms³⁶ totaling approximately 2,083 hours.³⁷

Creating Procedures to Determine Creditworthiness to Avoid 15% Haircut: A broker-dealer is required to take a 15% haircut on its proprietary positions in commercial paper, nonconvertible debt, and preferred stock unless the broker-dealer establishes, documents, maintains, and enforces written policies and procedures for determining creditworthiness.³⁸ The staff estimates that approximately 351 broker-dealers will establish, document, maintain, and enforce policies and procedures that are reasonably designed to determine whether a security or a money market instrument has a minimal amount of credit risk.³⁹ If the security or money market

³⁰ (Y1: 0 hours) + (Y2: 290 hours) + (Y3: 290 hours) = 580 hours / 3 years = 193.33 hours x 5 broker-dealers = 966.65 hours rounded up to 967.

³¹ 1,450 hours (5 ANC firms) + 67 hours (5 broker-dealers expected to become ANC firms) + 967 hours (5 broker-dealers expected to become ANC firms) = 2,484 hours.

³² 1 hour x 5 broker-dealers = 5 hours.

³³ (Y1: 0 hours) + (Y2: 1 hour) + (Y3: 1 hour) = 2 hours / 3 years = .67 hours x 5 broker-dealers = 3.35 hours.

³⁴ 5 hours (5 ANC firms) + 3.35 hours (5 broker-dealers expected to become ANC firms) = 8.35 hours rounded down to 8.

³⁵ 250 hours x 5 broker-dealers = 1,250 hours.

³⁶ (Y1: 0 hours) + (Y2: 250 hours) + (Y3: 250 hours) = 500 hours / 3 years = 166.67 hours x 5 broker-dealers = 833.35 hours.

³⁷ 1,250 hours (5 ANC firms) + 833.35 hours (5 broker-dealers expected to become ANC firms) = 2,083.35 hours rounded down to 2,083.

³⁸ *Removal of Certain References to Credit Ratings under the Securities Exchange Act of 1934*, Exchange Act Release No. 71194 (Dec. 27, 2013), 79 FR 1522 (Jan. 8, 2014).

³⁹ The number of 351 broker-dealers was obtained by reviewing broker-dealer FOCUS Reports for the third-quarter of 2016 and then calculating how many firms reported holding proprietary debt positions. For FOCUS Part II filers, the balances examined were “Bankers Acceptances” (line item 370) and “Corporate Obligations” (line item 400). For FOCUS CSE filers, the balances examined were: “Money Market Instruments” (line item 8240), “Private Label Mortgage Backed Securities” (line item 8250), “Other Asset Backed Securities” (line item 8260) and “Corporate Debt” (line item 8270). For Part IIA filers, the balance examined was “Debt Securities” (line item 419). Broker-dealers that hold preferred stock also may hold

instrument has a minimal amount of credit risk, the broker-dealer can take haircuts on the security or money market instrument pursuant to paragraphs (c)(2)(vi)(E), (c)(2)(vi)(F)(1), (c)(2)(vi)(F)(2) and (c)(2)(vi)(H) of Rule 15c3-1. The staff estimates that, on average, broker-dealers will spend 25 hours developing policies and procedures or revising their current policies and procedures for evaluating creditworthiness for the purposes of Rule 15c3-1, resulting in an aggregate one-time recordkeeping burden of 8,775 hours or approximately 2,924 hours when annualized over three years.⁴⁰

Reviewing Procedures to Determine Creditworthiness to Avoid 15% Haircut: The staff also estimates that, on average, each broker-dealer will spend an additional 10 hours a year reviewing and adjusting its own standards for evaluating creditworthiness. Therefore, the Commission estimates that the total recordkeeping burden to the industry will be approximately 3,510 hours per year.⁴¹ Consequently, the Commission estimates that the total annual burden associated with evaluating creditworthiness under Rule 15c3-1 will be approximately 6,434 hours.⁴²

Risk Management Control System: All broker-dealer SBSBs must comply with certain requirements of Rule 15c3-4.⁴³ 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. Currently, there are 10 ANC broker-dealers expected to register as broker-dealer SBSBs, and 6 additional broker-dealers are expected to register as SBSBs that do not use models. Because ANC broker-dealers are currently subject to Rule 15c3-4, only those 6 broker-dealer SBSBs not expected to use internal models to compute net capital will have additional hour burdens and costs associated with complying with Rule 15c3-4. The Commission staff estimates that each of these firms will spend 2,000 hours to establish a risk management control system, and 250 hours per year to review and update that system.⁴⁴ This results in an estimated industry-wide one-time hour burden of approximately 12,000 recordkeeping hours,⁴⁵ and an estimated industry-wide annual

positions in debt securities. However, because preferred stock is not a separate line item on the FOCUS Report, broker-dealers that hold only preferred stock and no other debt securities are not included in this estimate.

⁴⁰ 351 broker-dealers x 25 hours = 8,775 hours. $25 \div 3 = 8.33$. $351 \times 8.33 = 2,923.83$ rounded up to 2,924.

⁴¹ 351 broker-dealers x 10 hours = 3,510 hours. The Commission estimates that broker-dealers will use a controller to do this work.

⁴² See *supra* note 40. 2,924 hours + 3,510 hours = 6,434 hours.

⁴³ See paragraph (a)(10)(ii) of Rule 15c3-1, as amended.

⁴⁴ 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.

⁴⁵ 6 non-model broker-dealer SBSBs x 2,000 hours = 12,000 hours. For purposes of this supporting statement, this one-time burden annualized over the three-year approval period is 4,000 hours ($12,000 / 3 = 4,000$), with an average hour burden per broker-dealer of 666.67 hours ($4,000 / 6$ broker-dealers = 666.67). Also note that this number is incremental to the current collection of information for Rule 15c3-1 with regard to complying with the provisions of Rule 15c3-4 and, therefore, excludes the 10 respondents included in the collection of information for that provision of the rule.

hour burden of approximately 1,500 recordkeeping hours per year.⁴⁶ Therefore, the Commission estimates an aggregate annualized recordkeeping burden of approximately 5,500 hours.⁴⁷

Industry Sector Classification: With respect to documenting an industry sector classification system with respect to credit default swap haircuts under paragraph (c)(2)(vi)(P)(I)(iii) of Rule 15c3-1, as amended, the Commission staff expects that 6 broker-dealer SBSBs not using models will each spend 1 hour per year complying with this requirement.⁴⁸ This results in an industry-wide total annual recordkeeping hour burden of approximately 6 hours.⁴⁹

Account Control Agreements - Outside Counsel Review: A broker-dealer and a broker-dealer 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 broker-dealer for purposes of the capital in lieu of margin charge provisions of the rule if certain conditions are met.⁵⁰ More specifically, Rule 15c3-1, as amended, 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 broker-dealer 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 broker-dealer 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 16 broker-dealer 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. This results in an annual third-party hour burden of 3,200 hours.⁵¹

Account Control Agreements - Opinion of Counsel: Furthermore, the Commission staff estimates 16 broker-dealer SBSBs will need to maintain written documentation of their legal analysis of the account control agreement. Based on staff experience, the Commission estimates that broker-dealer 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 broker-dealer SBSB approximately 20 hours to conduct a written "in house" analysis, resulting in an industry-wide one-time burden of 160 hours.⁵² Therefore, the Commission estimates an aggregate annualized recordkeeping burden of approximately 53 hours.⁵³

⁴⁶ 6 non-model broker-dealer SBSBs x 250 hours/year = 1,500 hours/year.

⁴⁷ 4,000 hours + 1,500 hours = 5,500 hours.

⁴⁸ The Commission staff expects that these firms would utilize third party systems, resulting in reduced hours and costs.

⁴⁹ 6 non-model broker-dealer SBSBs x 1 hour/year = 6 hours/year.

⁵⁰ See paragraph (c)(2)(xv)(C)(3) of Rule 15c3-1, as amended.

⁵¹ 16 broker-dealer SBSBs x 100 agreements x 2 hours = 3,200 hours.

⁵² (8 broker-dealer SBSBs) x 20 hours = 160 hours.

⁵³ (20 hours/3) x 8 broker-dealer SBSBs = 53.33 rounded down to 53.

Total Industry Annual Hour Burden with 2019 Amendments: Therefore, the total estimated yearly ongoing hour burden to comply with Rule 15c3-1 will be approximately 76,981 hours.⁵⁴

Nature of Information Collection Burden	Type of Burden	Total Number of Respondents	Total Number of Responses Per Year	Initial Burden Per Response Per Year Per Respondent	Ongoing Burden Per Response Per Year Per Respondent	Total Annualized Burden Per Year Per Respondent	Total Annualized Reporting Burden For All Respondents	Small Business Entities Affected
Rule 15c3-1: Notices	Reporting	844	1	0	0.5	0.5	422	272
Paragraph (c)(2)(iv)(B): Disclosures and Agreements	Recordkeeping	6	1	6.67	0	6.67	40	0
Paragraph (c)(2)(i)(G)(2): Capital Withdrawal Liability	Reporting	84	1	0	1	1	84	27
Appendix E computations for ANC firms	Recordkeeping	5	1	333.33	0	333.33	1,667	0
Reviewing and back testing models for existing ANC firms	Recordkeeping	5	1	0	6,240	6,240	31,200	0
Reviewing and back testing models for new ANC firms	Recordkeeping	5	1	0	4,160	4,160	20,800	0
Appendix G monthly reports for existing ANC firms	Reporting	5	12	0	8	96	480	0
Appendix G quarterly reports for existing ANC firms	Reporting	5	4	0	16	64	320	0
Appendix G annual reports for existing ANC firms	Reporting	5	1	0	200	200	1,000	0
Appendix G monthly reports for new ANC firms	Reporting	5	12	0	5.33	64	320	0
Appendix G quarterly reports for new ANC firms	Reporting	5	4	0	10.67	42.67	213	0
Appendix G annual reports for new ANC firms	Reporting	5	1	0	133.33	133.33	667	0
Appendix G recordkeeping for existing ANC firms	Recordkeeping	5	1	0	290	290	1,450.00	0
Appendix G recordkeeping for new ANC firms (initial)	Recordkeeping	5	1	13.33	0	13.33	67	0
Appendix G recordkeeping for new ANC firms (ongoing)	Recordkeeping	5	1	0	193.33	193.33	967	0
Appendix G notification provision for existing ANC firms	Reporting	5	1	0	1	1	5	0
Appendix G notification provision for new ANC firms	Reporting	5	1	0	0.67	0.67	3	0

⁵⁴ 422 + 40 + 84 + 1,667 + 31,200 + 20,800 + 480 + 320 + 1,000 + 320 + 213 + 667 + 1,450 + 67 + 967 + 5 + 3 + 1,250 + 833 + 2,924 + 3,510 + 5,500 + 6 + 3,200 + 53 = 76,981 hours.

Appendix G updating risk management profile for existing ANC firms	Recordkeeping	5	1	0	250	250	1,250	0
Appendix G updating risk management profile for new ANC firms	Recordkeeping	5	1	0	166.67	166.67	833	0
Creating procedures to determine creditworthiness to avoid 15% haircut	Recordkeeping	351	1	25	8.33	8.33	2,924	139
Reviewing procedures to determine creditworthiness to avoid 15% haircut	Recordkeeping	351	1	0	10	10	3,510	139
*Rule 15c3-4: Risk management control system	Recordkeeping	6	1	666.67	250	916.67	5,500	0
*15c3-1(c)(2)(vi)(O)(I)(iii): Industry sector classification	Recordkeeping	6	1	0	1	1	6	0
*15c3-1(c)(2)(xiv): Account control agreements – Outside Counsel Review	Third-Party	16	100	0	2	200	3,200	0
*15c3-1(c)(2)(xiv): Account control agreements – Opinion of Counsel	Recordkeeping	8	1	20	0	6.67	53	0
Totals							76,981	

* This burden was approved by OMB on December 9, 2019.

13. Costs to Respondents

Opinion of Counsel: Approximately 41 broker-dealers file consolidated financial reports, of which approximately 10 obtain an opinion of counsel under Appendix C of Rule 15c3-1. The Commission estimates that the approximate cost to broker-dealers to obtain an opinion of counsel to file the consolidated financial reports as required under Appendix C of Rule 15c3-1 will be \$8,000. This figure is based on an estimate of 20 hours per opinion for an outside counsel at \$400 per hour.⁵⁵ The total costs for all respondents will be approximately \$80,000.⁵⁶

Risk Management Control System: Nonbank SBSBs may incur start-up costs to comply with the provisions of Rule 15c3-4 incorporated into the amendments to Rule 15c3-1, including information technology costs. The information technology systems of the six broker-dealer SBSBs that are not ANC broker-dealers may be in varying stages of readiness to enable these firms to meet the requirements of the new rules so the cost of modifying their information technology systems could vary significantly. Based on the estimates for similar collections of information,⁵⁷ it is expected that a broker-dealer SBSB that is not an ANC broker-dealer will incur an average of approximately \$16,000 for initial hardware and software expenses, and an average ongoing cost of \$20,500, for a total industry-wide initial cost of \$96,000, and ongoing cost of \$123,000.⁵⁸ These estimates for the initial and ongoing costs result in total costs for all

⁵⁵ \$400 x 20 hours = \$8,000.

⁵⁶ 10 opinions x \$8,000 = \$80,000.

⁵⁷ See e.g., *Risk Management Controls for Brokers or Dealers with Market Access*, Exchange Act Release No. 63421 (Nov. 3, 2010), 75 FR 69792, 69814 (Nov. 15, 2010).

⁵⁸ (16 broker-dealer SBSBs – 10 ANC broker-dealers) x \$16,000 = \$96,000. The annualized amount per year/ per respondent would be \$16,000/3 = \$5,333.33; 6 non-broker-dealer/non- ANC SBSBs x \$20,500 = \$123,000.

respondents of \$155,000.⁵⁹

Account Control Agreements - Outside Counsel Review: Finally, as discussed in Item 12 above, a broker-dealer 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 broker-dealer 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 broker-dealer 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. The Commission staff estimates that 16 broker-dealer SBSBs 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. This results in a one-time cost burden of \$128,000 for the 16 broker-dealer SBSBs, annualized to approximately \$42,667 per year.⁶⁰

Account Control Agreements – Opinion of Counsel: In addition, the Commission estimates that 16 broker-dealer SBSBs will need to maintain written documentation of their legal analysis of the account control agreement. Based on staff experience, the Commission estimates that broker-dealer 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 the approximate cost to obtain an opinion of counsel will be \$8,000, resulting in a one-time cost burden of \$64,000 for these 8 entities. This results in an annualized cost of approximately \$21,333 for the industry.⁶¹

Total Industry Annual Cost Burden: Therefore, the resulting estimated total yearly ongoing cost burden to comply with Rule 15c3-1 will be approximately \$299,000.⁶²

⁵⁹ $(\$5,333.33 \times 6 \text{ broker-dealer SBSBs}) + \$123,000 = \$154,999.98$, rounded to \$155,000.

⁶⁰ $16 \text{ broker-dealer SBSBs} \times \$400 \text{ per hour} \times 20 \text{ hours} = \$128,000$. The annualized amount per year/ per respondent would be $\$8,000/3 = \$2,666.67$, or a total of \$42,666.72 ($\$2,666.67 \times 16 \text{ broker-dealer SBSBs}$) rounded up to \$42,667.

⁶¹ $8 \text{ broker-dealer SBSBs} \times \$8,000 = \$64,000$. The annualized amount per year/ per respondent would be $\$8,000/3 = \$2,666.67$, or a total of \$21,333.36 ($\$2,666.67 \times 8 \text{ broker-dealer SBSBs}$) rounded down to \$21,333.

⁶² $\$80,000 + \$155,000 + \$42,667 + \$21,333 = \$299,000$.

Nature of Information Collection Burden	Type of Burden	Total Number of Respondents	Total Number of Responses Per Year	Initial Burden Per Response Per Year Per Respondent	Ongoing Burden Per Response Per Year Per Respondent	Total Annualized Burden Per Year Per Respondent	Total Annualized Burden For All Respondents	Small Business Entities Affected
Opinion of counsel to file consolidated financial reports under Appendix C	Reporting	10	1	\$0.00	\$8,000.00	\$8,000.00	\$80,000.00	0
*15c3-1 Risk Management Control System	Recordkeeping	6	1	\$5,333.33	\$20,500.00	\$25,833.33	\$155,000.00	0
* 15c3-1 Account Control Agreements – Outside Counsel Review	Recordkeeping	16	1	\$2,666.67	\$0.00	\$2,666.67	\$42,667	0
*15c3-1 Account Control Agreements – Opinion of Counsel	Recordkeeping	8	1	\$2,666.67	\$0.00	\$2,666.67	\$21,333	0
Totals							\$299,000	

* This burden was approved by OMB on December 9, 2019.

14. Costs to Federal Government

Not applicable. Rule 15c3-1 will not result in any costs to the federal government beyond normal full-time employee labor costs, nor does Rule 15c3-1 require the Commission to hire any new employees or reallocate existing employees to ensure compliance with the rule.

15. Changes in Burden

The change in burden between this supporting statement and the supporting statement uploaded on August 13, 2019⁶³ is due to the following: The estimated number of Rule 15c3-1 notices filed decreased from 902 to 844 and the estimated number of capital withdrawal requests filed decreased from 90 to 84. This caused the burden associated with 15c3-1 notices to decrease from 451 hours to 422 hours and the burden associated with capital withdrawal requests to decrease from 90 hours to 84 hours. Additionally, fewer firms are filing consolidated financial reports, resulting in the number of firms filing an opinion of counsel under Appendix C of Rule 15c3-1 decreasing from approximately 20 to approximately 10. This caused the cost burden associated with opinions of counsel to decrease from \$160,000 per year to \$80,000 per year. The burden associated with reviewing procedures to determine creditworthiness increased from 1,169 hours per year to 3,510 hours per year because this burden was erroneously annualized in prior submissions. Therefore, the aggregate hour burden estimate increased from approximately 74,675 hours to approximately 76,981 hours and the aggregate cost burden estimate decreased from approximately \$379,000 to approximately \$299,000.

16. Information Collection Planned for Statistical Purposes

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

17. OMB Expiration Date Display Approval

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

18. Exceptions to Certification for Paperwork Reduction Act Submissions

⁶³ See Rule 15c3-1 Supporting Statement (Aug. 13, 2019), available at <https://www.reginfo.gov/public/do/DownloadDocument?objectID=93994701>.

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.