

**SUPPORTING STATEMENT**  
**For the Paperwork Reduction Act Information Collection Submission for**  
**Rule 13h-1 (Large Trader Reporting Rule)**  
**OMB Control No. 3235-0682**

**A. Justification**

**1. Necessity of Information Collection**

Rule 13h-1 and Form 13H under Section 13(h) of the Securities Exchange Act of 1934 (“Exchange Act”) established a large trader reporting system. The system is intended to assist the Commission in identifying and obtaining certain baseline trading information about traders that conduct a substantial amount of trading activity, as measured by volume or market value, in the U.S. securities markets. A “large trader” is defined as a person whose transactions in national market system (“NMS”) securities equal or exceed (i) two million shares or \$20 million during any calendar day, or (ii) 20 million shares or \$200 million during any calendar month. The large trader reporting system is designed to facilitate the Commission’s ability to assess the impact of large trader activity on the securities markets, to reconstruct trading activity following periods of unusual market volatility, and to analyze significant market events for regulatory purposes. It also enhances the Commission’s ability to detect and deter fraudulent and manipulative activity and other trading abuses, and provides the Commission with a valuable source of useful data to study markets and market activity.

The identification, recordkeeping, and reporting system provides the Commission with a mechanism to identify large traders and obtain additional information on their trading activity. Specifically, Rule 13h-1 under the Exchange Act (“Rule”) requires large traders to identify themselves to the Commission and make certain disclosures to the Commission on Form 13H. Upon receipt of Form 13H, the Commission issues a unique identification number to the large trader,<sup>1</sup> which the large trader then provides to its registered broker-dealers (“BDs”). BDs are required to maintain transaction records for each large trader, and are required to report that information to the Commission upon request. In addition, BDs are required to adopt procedures to monitor their customers for activity that would trigger the identification requirements of the rule.

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

The information collection is necessary to enhance the Commission’s ability to identify large market participants, collect information on their trading, and analyze their trading activity. This information allows the Commission to more effectively and efficiently monitor the impact of large trader activity on the securities markets.

**3. Consideration Given to Information Technology**

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<sup>1</sup> The unique identification number is called a Large Trader Identification Number or “LTID.”

Rule 13h-1 requires large traders to self-identify to the Commission and inform their broker-dealers of their unique identification number and all accounts to which it applies. In addition, the rule imposes recordkeeping, reporting, and monitoring requirements on registered broker-dealers. The Commission believes that Rule 13h-1 enhances the Commission's ability to obtain electronic data concerning the trading activity of large traders in an efficient manner utilizing existing electronic reporting systems including the Commission's EDGAR system for the submission of Form 13H. Moreover, the Commission believes that improvements in telecommunications and data processing technology reduce any burdens associated with Rule 13h-1.

#### **4. Duplication**

Pursuant to Rule 17a-25,<sup>2</sup> the Commission collects transaction data from registered broker-dealers through the Electronic Blue Sheets ("EBS") system to support its regulatory and enforcement activities. The Commission uses the EBS system to obtain securities transaction information to: (1) assist in the investigation of possible federal securities law violations, primarily involving insider trading or market manipulation; and (2) conduct market reconstructions. The Rule supplements the existing EBS system by adding two fields to the system: the time of the trade and the LTID number of the person exercising investment discretion over the trade. These two fields make investigations and market reconstructions easier to conduct.

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

The rule requirements have minimal, if any, effect on small entities. Among other things, the rule applies to "large traders," which is a term that implicates persons and entities with the resources and capital necessary to transact securities in substantial volumes relative to overall market volume in publicly traded securities. The Commission does not believe that any small entities are engaged in the business of trading in NMS securities in a volume that approaches the threshold levels. Additionally, for purposes of determining whether a person effects the requisite amount of transactions in NMS securities to meet the definition of "large trader," paragraph (a)(6) of the rule excludes a limited set of transactions from the term "transaction" and the requirements of the rule to exempt certain small or infrequent traders who might trigger identification based on a single transaction.<sup>3</sup>

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<sup>2</sup> See 17 CFR 240.17a-25.

<sup>3</sup> Further, the Commission has exempted by order certain additional transactions from the rule's definition of "transaction" for the purpose of determining whether a person is a large trader. See Securities Exchange Act Release No. 66839 (April 20, 2012), 77 FR 25007 (April 26, 2012). In addition, the Commission provided exemptive relief to certain equity option traders by allowing them to value equity options trades by an alternative "premium paid" method when calculating whether they met the Rule's identifying activity level. See Securities Exchange Act Release No. 76322 (October 30, 2015), 80 FR 68590 (November 5, 2015). In effect, this exemptive relief also may exclude as large traders certain infrequent traders who

In addition, the rule applies to registered broker-dealers that serve large trader customers. Given the considerable volume in which a large trader effects transactions, registered broker-dealers servicing large trader customers or broker-dealers that are large traders themselves are larger entities that have systems and capacities capable of handling the trading associated with such accounts. For these reasons, the Commission estimates that no small entities are affected by the rule.

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

Large trader self-identification on Form 13H is collected with mandatory annual updates and more frequent quarterly updates as necessary. Large trader trading data is collected by the Commission from broker-dealers on an as-needed basis. The collection of this information facilitates the Commission's ability to identify large traders, assess the impact of large trader activity on the securities markets, reconstruct their trading activity, and analyze significant market events for regulatory purposes. Not collecting this information would undermine the purposes of the rule.

## **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.

## **9. Payment or Gift**

Not applicable.

## **10. Confidentiality**

The information collection under the Rule is considered confidential subject to the limited exceptions provided by the Freedom of Information Act.<sup>4</sup>

## **11. Sensitive Questions**

The information collection collects personally identifiable information that may include social security number, taxpayer ID, name, job title, work address, telephone

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might trigger identification based on a single transaction or equity options traders whose options transactions are unlikely to have a material impact either on the options market or the underlying equities markets for the purposes of the Rule.

<sup>4</sup> See 5 U.S.C. 552 and 15 U.S.C. 78m(h)(7).

number, email address, and fax number. In accordance with Section 208 of the E-Government Act of 2002, the EDGAR PIA will cover this collection of records. This information collection constitutes a system of record for purposes of the Privacy Act and is covered under System of Records Notice (SORN) SEC-70, SEC's Division of Trading and Market Records.

## 12. Information Collection Burden

The "collection of information" contained in the Rule applies to large traders and registered broker-dealers. The Commission estimates that the total annual information collection burden under the Rule will be approximately 185,200 hours per year as set forth in the chart below. A more detailed description of each requirement and the burden estimate is immediately below the chart.

| Summary of Estimated Annual Time Burdens       |                                  |   |                    |                      |
|--|----------------------------------|---|--------------------|----------------------|
|  | A                                | B   | C                  | A*B*C                |
| Requirement                                    | Number of Respondents (per year) | Number of Responses per Respondent (per year) | Hours per Response | Total Hours Per Year |
| Initial Form 13H (applicable to large traders) | 1,175                            | 1   | 20                 | 23,500               |
| Form 13H Updates (applicable to large traders) | 9,750                            | 2   | 3                  | 58,500               |
| BD Recordkeeping and Reporting                 | 480                              | 100   | 2                  | 96,000               |
| BD Monitoring                                  | 480                              | 1   | 15                 | 7,200                |
| <b>ANNUAL AGGREGATE BURDEN</b>                 |                                  |   |                    | <b>185,200</b>       |

### a. Large Trader Burden

Under the Rule, a large trader is required to identify itself to the Commission by filing an initial Form 13H and identify itself to each BD through which it effects transactions in NMS securities. Additionally, each large trader must submit an annual update (Forms 13H-A), as well as updates on a quarterly basis if necessary to correct information that becomes inaccurate (Forms 13H-Q).

### Initial Form 13H

The burden for a respondent to comply with the initial Form 13H requirements of the Rule is approximately 20 burden hours,<sup>5</sup> and the initial internal cost of compliance per respondent is approximately \$6,079.<sup>6</sup> These figures include the time it takes a respondent to calculate whether its trading activity qualifies it as a large trader, become an EDGAR filer (if necessary),<sup>7</sup> complete the initial Form 13H with all required information, obtain a LTID from the Commission, and inform its registered broker-dealers of its LTID and the accounts to which it applies. The Commission notes that the actual burden for a large trader may vary widely depending on the size of its organization, if any, and the number of broker-dealers with which it has an account.

Based on the Commission's experience collecting initial Forms 13H in previous years, the Commission estimates that approximately 1,175 large traders per year will be required to identify themselves for the first time under the Rule.

Accordingly, the Commission estimates that the aggregate time burden for large traders initially filing Form 13H is approximately 23,500 burden hours per year, and that the aggregate internal cost of compliance of large traders initially filing Form 13H is approximately \$7,142,825 per year.<sup>8</sup>

### Form 13H Updates

On an ongoing basis, annually, each respondent may have to file interim updates (Forms 13H-Q) and must submit one Form 13H-A. The Commission estimates that the ongoing annual time burden for a respondent to fulfill these reporting obligations is approximately 6 hours per year.<sup>9</sup> The estimated annual internal cost of compliance for a

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<sup>5</sup> This burden estimate is based on the Commission's experience administering the Rule, and is calculated as follows: (Compliance Manager at 3 hours) + (Compliance Attorney at 7 hours) + (Paralegal at 10 hours) = 20 burden hours.

<sup>6</sup> The Commission calculated this cost estimate as follows: (Compliance Manager at \$313 per hour for 3 hours) + (Attorney at \$420 per hour for 7 hours) + (Paralegal at \$220 per hour for 10 hours) = \$6,079.

<sup>7</sup> All Forms 13H must be filed through the Commission's EDGAR system. Some persons already are EDGAR filers when they reach the large trader registration threshold, but those who are not must become EDGAR filers.

<sup>8</sup> The Commission calculated the aggregate annual burden estimate as follows: 20 initial burden hours per year x 1,175 respondents = 23,500 total initial burden hours per year. The Commission calculated the aggregate annual cost estimate as follows: \$6,079 (cost per initial filing) x 1,175 respondents per year = \$7,142,825 total annual initial internal costs of compliance for initial filings.

<sup>9</sup> This burden estimate is calculated as follows: (Compliance Manager at 2 hours) + (Compliance Attorney at 2 hours) + (Paralegal at 2 hours) = 6 burden hours. The Commission notes that, while this estimate is based on the Commission's experience administering the Rule, the number of quarterly filings is highly variable

respondent to comply with the ongoing requirements of the rule is approximately \$1,906 per year.<sup>10</sup> These estimates are based on the varied characteristics of large traders and the nature and scope of the items that are disclosed on Form 13H that would require updating.

Based on the Commission's experience collecting all types of Forms 13H in previous years, the Commission estimates that approximately 9,750 large traders per year will be required to file Forms 13H-A and 13H-Q. Correspondingly, the Commission estimates that, for the Form 13H updates, the aggregate annual time burden will be approximately 58,500 hours per year,<sup>11</sup> and that the aggregate annual internal cost of compliance will be approximately \$18,583,500 per year.<sup>12</sup>

**b. BD Burden**

Under the Rule, BDs are required to comply with recordkeeping, reporting, and monitoring requirements. The Commission estimates that 480 BDs will be subject to such requirements.

BD Recordkeeping and Reporting

The Commission believes that BDs that either have a client base that includes large traders and Unidentified Large Traders<sup>13</sup> or that are themselves large traders, already have modified their existing systems to capture and maintain the additional two data elements that were not previously required under Rule 17a-25 under the Exchange Act. Therefore, the Commission believes that all BDs subject to the Rule have already incurred the one-time, initial burden for a registered broker-dealer to conduct system development, including re-programming and testing of the systems to comply with the rule. Accordingly, the Commission projects that there will be no initial burden to comply with the recordkeeping requirement. Similarly, because BDs already are required to keep almost all of the

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and difficult to predict because: (1) a Form 13H-Q must be filed to update information in the form; and therefore (2) the number of Forms 13H-Q that a large trader files in a year depends entirely on the large trader's particular circumstances each year.

<sup>10</sup> The Commission calculated this cost estimate as follows: (Compliance Manager at \$313 per hour for 2 hours) + (Attorney at \$420 per hour for 2 hours) + (Paralegal at \$220 per hour for 2 hours) = \$1,906.

<sup>11</sup> The Commission calculated this estimate as follows: 6 burden hours per large trader per year (see supra note 9, and accompanying text) x 9,750 large traders = 58,500 hours.

<sup>12</sup> The Commission calculated this estimate as follows: 9,750 large traders x \$1,906 (estimated annualized internal cost of compliance per large trader) = \$18,583,500.

<sup>13</sup> Rule 13h-1(a)(9) defines the term "Unidentified Large Trader" to mean each person who has not complied with the identification requirements of paragraphs (b)(1) and (b)(2) of the rule that a registered broker-dealer knows or has reason to know is a large trader.

information required by Rule 13h-1 for all of their customers pursuant to Rule 17a-25 under the Exchange Act, the Commission believes that BDs will not incur any ongoing annual expense for the recordkeeping requirement.<sup>14</sup>

The Rule requires registered broker-dealers to report large trader transactions to the Commission upon request. The Commission believes that the provision of this information does not involve any substantive or material change in the burden that already exists as part of registered broker-dealers providing transaction information to the Commission in the normal course of business, particularly in connection with the existing EBS system.<sup>15</sup> Although the information must be available to report on a next-day basis (versus the 10 business day period that is generally associated with an EBS request for data<sup>16</sup>), the electronic recordkeeping and transmission system already is in place to report the information. Therefore, the Commission believes that the provision of such information to the Commission results in minimal additional burden.

Although it is difficult to predict with certainty the Commission's future needs to obtain large trader data, taking into account the Commission's need for data to be used in market reconstruction purposes and investigative matters, the Commission estimates that it may send 100 requests specifically seeking large trader data per year to each of the estimated 480 BDs. The Commission estimates that it takes a BD 2 hours to comply with each request,<sup>17</sup> considering that the BD needs to run the database query of its records, download the data file, and transmit it to the Commission. Accordingly, the Commission estimates that the annual reporting hour burden per BD is approximately 200 hours per year (100 requests x 2 burden hours per request = 200 burden hours). The Commission estimates that the internal cost of compliance with the reporting requirement for each affected BD will be approximately \$440 per request.<sup>18</sup> Therefore, the Commission estimates that the annual reporting internal cost of compliance per BD will be approximately \$44,000 (100 requests per year x \$440 per request = \$44,000). Thus, the annual aggregate annual

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<sup>14</sup> The Commission believes that the two additional fields do not result in any ongoing annualized expense beyond what broker-dealers already incur under Rule 17a-25 and the existing EBS system.

<sup>15</sup> See 17 CFR 240.17a-25.

<sup>16</sup> See Securities Exchange Act Release No. 44494 (June 29, 2001), 66 FR 35836 (July 9, 2001) (File No. S7-12-00) (Rule 17a-25 adopting release).

<sup>17</sup> The Commission estimates the burden on each affected broker-dealer as 2 burden hours (Paralegal at 2 hours).

<sup>18</sup> This estimate was calculated as follows: 2 hours (time to respond to each request) x \$220 (Paralegal hourly rate) = \$440 per request.

reporting burden will be approximately 96,000 hours per year,<sup>19</sup> and the annual aggregate annual reporting internal cost of compliance will be approximately \$21,120,000 per year.<sup>20</sup>

### BD Monitoring

To help ensure compliance by large traders with the self-identification requirements of the Rule, the rule requires a BD to monitor whether its customer's transactions reach the self-identification threshold and, where that threshold is reached, to inform that customer of the self-identification requirements of the Rule.

The Commission believes that BDs have already incurred the one-time, initial burden to comply with the monitoring requirements by establishing a compliance system to detect Unidentified Large Traders and inform them of their potential responsibilities under the Rule. Therefore, the Commission believes that there is no initial burden and no initial internal cost of compliance associated with the monitoring requirement.

Based on the Commission's understanding of BDs' monitoring procedures, the Commission estimates that the ongoing annual burden on a BD for the monitoring requirements of the rule is approximately 15 hours per year. The Commission estimates that the ongoing annual internal cost of compliance for monitoring per BD is approximately \$6,300 per year.<sup>21</sup> Accordingly, the Commission estimates that the aggregate ongoing annual time burden and aggregate ongoing annual internal cost of compliance associated with the monitoring requirements will be approximately 7,200 burden hours per year and \$3,024,000 per year, respectively.<sup>22</sup>

### **13. Costs to Respondents**

The Commission believes that compliance with the rule does not require any capital or start-up costs, or any recurring annual external operating and maintenance costs separate from the wages, salaries, or fees represented in the estimated hourly burdens discussed above.

### **14. Costs to Federal Government**

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<sup>19</sup> This estimate was calculated as follows: 200 hours (annual burden hours per BD per year) x 480 BDs = 96,000 aggregate burden hours per year for BDs.

<sup>20</sup> This estimate was calculated as follows: \$44,000 (annual internal cost of reporting compliance per BD per year) x 480 BDs = \$21,120,000 (aggregate internal cost of reporting compliance per year).

<sup>21</sup> This estimate was calculated as follows: \$420 (Attorney rate per hour) x 15 hours (# of burden hours per BD per year) = \$6,300 (annual internal cost of compliance per BD).

<sup>22</sup> The Commission calculated these estimates as follows: 15 burden hours per BD per year x 480 BDs = 7,200 hours (aggregate annual burden); \$6,300 (ongoing annual internal cost of monitoring per BD) x 480 BDs = \$3,024,000 (ongoing aggregate annual internal cost of monitoring).



There are no costs to the federal government.

## 15. Changes in Burden

The Commission projects that the estimated time burden will increase by approximately 67,300 hours as set forth in the chart below. An explanation of these changes is provided immediately below the chart.

| Summary of Changes in Burden   |                             |   |                          |                                 |
|--------------------------------|-----------------------------|---|--------------------------|---------------------------------|
|                                | Total Annual Burden (hours) | Total Annual Burden Previously Approved (hours) | Change in Burden (hours) | Reason(s) for Change            |
| Initial Form 13H               | 23,500                      | 12,000  | 11,500                   | Increased number of respondents |
| Form 13H Updates               | 58,500                      | 41,400  | 17,100                   | Increased number of respondents |
| BD Recordkeeping and Reporting | 96,000                      | 60,000  | 36,000                   | Increased number of respondents |
| BD Monitoring                  | 7,200                       | 4,500   | 2,700                    | Increased number of respondents |

The estimated number of respondents filing an Initial Form 13H is increasing from 600 to 1,175, and this accounts for the projected increased burden (11,500 additional hours). The estimated number of responses per respondent per year, as well as the estimated hours per response, are not changing.

The estimated number of respondents filing Form 13H updates is increasing from 6,600 to 9,750, and this accounts for all of the projected increased burden (17,100 hours). The estimated number of responses per respondent per year, as well as the estimated hours per response, are not changing.

The estimated number of BDs subject to the recordkeeping and reporting requirements of the Rule is increasing from 300 to 480. The increased estimate of BDs (an additional 180 BDs) results in an increased estimate of the aggregate annual reporting burden. The estimated aggregate annual burden to comply with the reporting requirement of the Rule is increasing from 60,000 hours to 96,000 hours. This increase of 36,000 hours is due solely to the increase in the number of BDs affected by the requirement (again, an additional 180 BDs). Neither the estimated number of requests nor the estimated burden per request is changing.

Lastly, with respect to the monitoring requirement, the Commission is increasing its estimate of the aggregate annual burden from 4,500 hours to 7,200 hours. The estimated 2,700 hour increase results solely from the increased number of BDs (again, an additional 180 BDs). The estimated ongoing annual burden per BD is not changing.

**16. Information Collection Planned for Statistical Purposes**

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

**17. Approval to Omit OMB Expiration Date**

We request authorization to omit the expiration date on the electronic version of the form. Including the expiration date on the electronic version of the form will result in increased costs because the need to make changes to the form may not follow the application's scheduled version release dates. The OMB control number will be displayed.

**18. Exceptions to Certification for Paperwork Reduction Act Submissions**

This collection complies with the requirements in 5 CFR 1320.9.

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

This collection does not involve statistical methods.