

**SUPPORTING STATEMENT**  
**for the Paperwork Reduction Act Information Collection Submission for**  
**Rule 17a-5(c): Customer Financial Statements for Brokers and Dealers**  
**OMB Number 3235-0199**

**A. JUSTIFICATION**

**1. Information Collection Necessity**

Under Section 17(e)(1)(B) of the Securities Exchange Act of 1934 (“Exchange Act”), every registered broker-dealer must send its customers annually its certified balance sheet and such other financial statements and information concerning its financial condition as the Securities and Exchange Commission (“Commission”) prescribes.

Paragraph (c) of Rule 17a-5 under the Exchange Act (“Rule”)<sup>1</sup> requires that each broker-dealer that carries customer accounts file with the Commission and each national securities exchange and registered national securities organization of which it is a member, and send to its customers:

- (a) Audited financial statements within 105 days after the end of the fiscal year of the broker-dealer. The statements may be furnished 30 days after that time limit has expired if the broker-dealer sends them with the next mailing of quarterly customer account statements; and
- (b) Unaudited financial statements dated 6 months from the date of the audited statements not later than 65 days after the date of the unaudited statements. The statements may be furnished 70 days after that time limit has expired if the broker-dealer sends them with the next mailing of quarterly customer account statements.

Under the Rule, the audited statements must contain:

- (i) A Statement of Financial Condition with appropriate notes prepared in accordance with U.S. generally accepted accounting principles (“GAAP”);
- (ii) A footnote containing, among other things, a statement of the amount of the broker-dealer’s net capital and its required net capital, computed in accordance with Exchange Act Rule 15c3-1;
- (iii) A statement that the Statement of Financial Condition of the broker-dealer’s most recent financial report is available for examination at the principal office of the broker-dealer and at the regional office of the Commission for the region in which the broker-dealer has its principal place of business; and

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<sup>1</sup> 17 CFR 240.17a-5.

- (iv) If, in connection with the most recent annual reports of the broker-dealer under paragraph (d) of Rule 17a-5, the report of the independent public accountant identifies one or more material weaknesses, a statement that one or more material weaknesses have been identified and that a copy of such report is available for inspection at principal office of the Commission and at the regional office of the Commission for the region in which the broker-dealer has its principal place of business.

The unaudited statements must contain the information specified in (i) and (ii) above.

Under paragraph (c)(5) of Rule 17a-5, a broker-dealer is not required to send the audited and unaudited statements to its customers if, at the times it would be required to send the audited and unaudited statements, the broker-dealer sends to its customers a financial disclosure statement that includes, as applicable, the information described in items (ii), (iii), and (iv) above, and information on how to obtain the audited and unaudited statements via a toll-free number or on the broker-dealer's website. A broker-dealer that elects to take advantage of the exemption must publish its statements on its website when it otherwise would have had to send the statements in a prescribed manner, and must maintain a toll-free number that customers can call to request a copy of the statements. If a customer requests a copy of the statements, the broker-dealer must send them promptly at no cost to the customer.

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

The purpose of the Rule is to ensure that customers of broker-dealers are provided with information concerning the financial condition of the firm that may be holding the customers' cash and securities. The Commission, when adopting the Rule in 1972, stated that the goal was to "directly" send a customer essential information so that the customer could "judge whether his broker or dealer is financially sound." The Commission adopted the Rule in response to the failure of several broker-dealers holding customer funds and securities in the period between 1968 and 1971.

Information regarding the broker-dealer's financial condition, which includes information regarding the broker-dealer's net capital and its required net capital, is "essential information" customers need in order to gauge whether the broker-dealer is sufficiently financially sound to be entrusted with their securities and cash. The purpose of the net capital requirements is to ensure that broker-dealers have sufficient liquid assets (those assets that can be readily converted into cash) in excess of liabilities to promptly satisfy the firm's liabilities, including those to customers in the event of the failure of the broker-dealer.

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

On May 9, 1996, the Commission issued an interpretive release (Securities Exchange Act Release No. 37182, 61 FR 24644) regarding, among other things, the use of electronic media by broker-dealers in satisfying their requirements under the Rule. This interpretive release reduces the printing and mailing burden on broker-dealers by allowing them to deliver the financial statements required by the Rule to their customers through electronic media.

Under the exemption of paragraph (c)(5) of Rule 17a-5, a broker-dealer can take advantage of the Internet as an alternative method of delivery to its customers of its full Statement of Financial Condition.

#### **4. Duplication**

Not applicable. No other rule requires brokers or dealers to send such information to their customers.

#### **5. Effects on Small Entities**

Firms that carry customer accounts are required to comply with this Rule. There are approximately 163 such firms.<sup>2</sup> Of these firms, approximately three are small businesses.<sup>3</sup> The complexity and length of financial statements generally varies proportionately with the volume and complexity of the broker-dealer's business. Additionally, the number of financial statements that a broker-dealer must send to its customers is directly proportional to the number of customers of the broker-dealer. Therefore, small businesses should not experience additional or disproportionate burdens as a result of complying with the Rule.

It would not be appropriate to provide small firms with an exemption from the Rule because customers must have financial information to evaluate the financial soundness of a broker-dealer that may be holding their cash and securities.

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

If the required collection were eliminated, the protections afforded to the public would be lessened. If the required collection were conducted less frequently, the financial information would become outdated.

#### **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.

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<sup>2</sup> Commission staff calculated this estimate based upon information submitted by broker-dealers in 2021 on Part II of Form X-17A-5.

<sup>3</sup> Paragraph (c) of Exchange Act Rule 0-10 (17 CFR 240.0-10) provides that for purposes of the Regulatory Flexibility Act, a small entity when used with reference to a broker-dealer means a broker-dealer that had total capital (net worth plus subordinated liabilities) of less than \$500,000. Commission staff calculated this estimate based upon information submitted by broker-dealers in 2021 on Part II of Form X-17A-5.

## **9. Payment or Gift**

No payments or gifts were provided to respondents.

## **10. Confidentiality**

The information is not confidential.

## **11. Sensitive Questions**

The information collection does not collect Personally Identifiable Information. The agency has determined that neither a Privacy Impact Assessment nor a System of Records Notice are required in connection with the collection of information.

## **12. Information Collection Burden**

Since the time of the previous calculation of the Paperwork Reduction Act (“PRA”) burden in 2017, the Commission’s estimate of the number of broker-dealers that carry customer accounts has increased from 162 to 163,<sup>4</sup> the Commission’s estimate of the number of public customer accounts has increased from 132 million to 186 million,<sup>5</sup> and the Commission’s estimate of the number of broker-dealers that take advantage of the exemption of paragraph (c)(5) of Rule 17a-5 has remained steady at 129.<sup>6</sup>

Broker-dealers taking advantage of the exemption of paragraph (c)(5) of Rule 17a-5 send the financial disclosure statement, instead of their full balance sheet, twice a year. Some broker-dealers print the financial disclosure statement, which is typically about one paragraph in length, on a separate page and include it with the quarterly account statement, and some broker-dealers print it directly on the quarterly account statement. The Commission believes that the time burden for sending the semi-annual financial disclosure statement with quarterly customer account statements for broker-dealers taking advantage of the exemption should be calculated on a per-broker-dealer basis. Sending the financial disclosure statement will likely involve drafting the statement and making programming adjustments to the computer system that generates the account statements. The cost of sending the statement should not, therefore, depend on the number of account statements sent.

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<sup>4</sup> Commission staff calculated this estimate based upon information submitted by broker-dealers in 2021 in Form X-17A-5 Part II.

<sup>5</sup> Commission staff calculated this estimate based upon information submitted by broker-dealers in 2020 in Form X-17A-5 Schedule 1.

<sup>6</sup> The Commission estimates that the number of broker-dealers that take advantage of the exemption of paragraph (c)(5) of Rule 17a-5 has decreased in approximately the same proportion as the number of broker-dealers that carry customer accounts has decreased. Since the number of carrying broker-dealers has remained relatively steady (increasing from 162 to 163) since the previous PRA submission in 2017, the staff estimates that the number of carrying broker-dealers taking advantage of the exemption of paragraph (c)(5) of Rule 17a-5 similarly has remained steady at 129 broker-dealers that take advantage of the exemption.

The Commission previously estimated that each broker-dealer that takes advantage of the exemption would spend approximately 40 hours every six months to send the financial disclosure statement to its customers, for a total of approximately 10,320 hours (129 broker-dealers \* 2 mailings \* 40 hours = 10,320 hours). To the best knowledge of the Commission, there have been no significant developments, innovations, or changes in the practices of broker-dealers since the time of the last PRA burden estimate which would alter the 40 hour estimate. **The Commission continues to estimate that this burden is approximately 10,320 hours (129 broker-dealers \* 2 mailings \* 40 hours = 10,320 hours).** As in the previous PRA filing, the Commission does not expect that broker-dealers will incur additional costs for postage and printing to send the financial disclosure statement, as the statement will be sent with a quarterly mailing of customer account statements. This is an ongoing third party disclosure burden.

The Commission previously estimated that broker-dealers that take advantage of the exemption would spend a total of 123 hours per year sending balance sheets to customers who request them via a toll-free number. The burden was calculated by multiplying the estimated number of annual requests, 737, by the estimated average amount of time required to process each request (10 minutes). **The Commission estimates that the number of annual requests will remain at approximately 737<sup>7</sup> and that the burden remains at 123 hours (737 annual requests times 10 minutes).** This is an ongoing third party disclosure burden.

In addition to the burden of sending the financial disclosure statements and balance sheets to customers, **the Commission previously estimated, and continues to estimate, that broker-dealers that take advantage of the exemption will incur a total of approximately 43 hours per year in reporting burden to send the balance sheet to the Commission.** The 43 hours burden was calculated by multiplying the number of exempt broker-dealers (129), the frequency of sending the balance sheets (twice per year), and the estimated average amount of time required to send each balance sheet (10 minutes). This is an ongoing reporting burden. The Commission also estimated that the 129 broker-dealers would spend a total of approximately 431 hours per year sending the balance sheet to each national securities exchange and registered national securities association of which it is a member. The Commission estimated that out of a total of 25 national securities exchanges and associations, each broker-dealer is a member of approximately 13 exchanges and organizations.<sup>8</sup> The 431 hours burden was calculated by multiplying the number of exempt broker-dealers (129), the number of estimated securities exchanges and organizations of which each broker-dealer is a member (10), the frequency of sending the balance sheets (twice per year), and the estimated average amount of time required to send each balance sheet (10 minutes). The Commission continues to estimate that these broker-dealers will spend approximately 43 hours per year to send the balance sheet to the Commission (129 broker-dealers \* 2 times per year \* 10 minutes = 43.1 hours). **The Commission also estimates that these broker-dealers will spend approximately 431 hours per year to send**

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<sup>7</sup> The Commission estimates that the number of annual requests has remained steady in roughly the same proportion as the number of broker-dealers that carry customer accounts has remained steady. Therefore, the staff estimates that the number of annual requests has remained steady at 737 requests annually.

<sup>8</sup> There are a total of 24 national securities exchanges and one national securities association registered with the Commission. The Commission estimates that the average broker-dealer taking advantage of the exemption is a member of approximately half of the registered national securities exchanges (12), and is a member of the Financial Industry Regulatory Authority.

**the balance sheet to each national securities exchange and registered national securities organization of which it is a member (129 broker-dealers \* 10 securities exchanges and organizations \* 2 times per year \* 10 minutes = 431 hours).** This is an ongoing third-party disclosure burden.

The Commission previously estimated that 33 broker-dealers carrying approximately 27 million customer accounts did not take advantage of the exemption and that it would take approximately 10 seconds to send a balance sheet to a customer for a total third-party disclosure burden of 150,120 hours per year. **The Commission now estimates that 34 broker-dealers (163 - 129 = 34) carrying approximately 39 million customer accounts (34/163 \* 186 million = approximately 39 million) will incur approximately 216,982 hours per year in third party reporting burden to send the balance sheets to their customers (39 million customer accounts \* two balance sheets per year \* ten seconds = 216,982 hours).** This is an on-going third-party disclosure burden.

In addition, the Commission previously estimated that 33 broker-dealers did not take advantage of the exemption and that each broker-dealer would spend approximately 10 minutes sending its balance sheet to each national securities exchange and registered national securities organization of which it is a member for a total third-party disclosure burden of 110 hours (as stated above, the Commission estimated that each broker-dealer is a member of approximately 10 national securities exchanges and organizations). **The Commission now estimates that the 34 broker-dealers that do not take advantage of the exemption will spend approximately 114 hours per year to send the balance sheets to these exchanges and organizations (34 \* 10 \* two balance sheets per year \* 10 minutes = 114 hours).** This is a third party disclosure burden.

The Commission previously estimated that each of the 33 broker-dealers not taking advantage of the exemption would also spend approximately 10 minutes sending its balance sheet to the Commission for a reporting burden of 11 hours per year. **The Commission now estimates that the 34 broker-dealers that do not take advantage of the exemption will incur approximately 11 hours per year in reporting burden to send the balance sheets to the Commission (33 \* two balance sheets per year \* 10 minutes = 11 hours).**

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

The Commission does not expect that respondents will have to incur capital or start-up costs or operation and maintenance and purchase of services costs to comply with the Rule.

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

There are no costs to the federal government associated with this rule.

## 15. Changes in Burden

Since the time of the last submission, there has been modest increase in the Commission's estimate of the number of broker-dealers that carry customer accounts, from 162 to 163, and an increase in the total number of public customer accounts, from 132 million to 186 million. Further, the Commission previously estimated that 129 broker-dealers took advantage of the exemption of paragraph (c)(5) of Rule 17a-5 and that 33 broker-dealers carrying approximately 27 million customer accounts did not take advantage of the exemption. The Commission now estimates that 129 broker-dealers take advantage of the exemption and that 34 broker-dealers carrying 39 million customer accounts do not take advantage of the exemption.

As a result of these changed estimates, the total burden has changed from 161,158 hours (10,320 + 123 + 43 + 431 + 150,120 + 110 + 11 = 161,158) to 228,024 hours (10,320 + 123 + 43 + 431 + 216,982 + 114 + 11 = 228,024), an increase of 66,866 hours.

IC Title	Annual No. of Responses			Annual Time Burden (Hrs.)		
	<i>Previously approved</i>	<i>Requested</i>	<i>Change</i>	<i>Previously approved</i>	<i>Requested</i>	<i>Change</i>
<b>Broker-Dealers taking advantage of exemption</b>						
Sending financial disclosure statements to customers	258	258	0	10,320	10,320	0
Sending balance sheets to customers	737	737	0	123	123	0
Sending financial disclosure statements to SEC	258	258	0	43	43	0
Sending balance sheets to SROs	2,580	2580	0	431	431	0
<b>Broker-Dealers not taking advantage of exemption</b>						
Sending financial statements to customers	54,000,012	55,636,376	1,636,364	150,120	216,982	66,862
Sending balance sheets to SROs	660	680	20	110	114	4
Sending balance sheets to SEC	66	68	2	11	11	0
Total for all ICs	54,004,571	55,640,957	1,636,386	161,158	228,024	66,866

## 16. Information Collections 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. COLLECTION OF INFORMATION EMPLOYING STATISTICAL METHODS**

This collection does not involve statistical methods.