

SUPPORTING STATEMENT
for the Paperwork Reduction Act Information Collection Submission for
Regulation AC
OMB Control No. 3235-0575

A. JUSTIFICATION

1. Necessity of Information Collection

In 1999, the Commission and Congress closely examined research analysts' conflicts of interest. There was particular concern that many investors who rely on analysts' recommendations may not know, among other things, that favorable research coverage could be used to market the investment banking services provided by an analyst's firm, and that an analyst's compensation may be based significantly on generating investment banking business. Moreover, news reports stated that some analysts had issued reports that did not reflect their true beliefs and communicated to institutional investors views that differed materially from those expressed in their research reports.

Regulation AC is intended to address these issues. It complements other rules governing conflicts of interest disclosure by research analysts, including NYSE Rule 472, FINRA Rules 2241 and 2242, and the anti-fraud provisions of the federal securities law.

Regulation AC requires that research reports published, circulated, or provided by a broker or dealer or covered person contain a statement attesting that the views expressed in each research report accurately reflect the analyst's personal views and whether or not the research analyst received or will receive any compensation in connection with the views or recommendations expressed in the research report. Regulation AC also requires broker-dealers to, on a quarterly basis, maintain records of research analyst statements regarding whether the views expressed in public appearances accurately reflected the analyst's personal views, and whether any part of the analyst's compensation is related to the specific recommendations or views expressed in the public appearance. Regulation AC also requires that research prepared by foreign persons be presented to U.S. persons pursuant to Securities Exchange Act Rule 15a-6 and that broker-dealers notify associated persons if they would be covered by the regulation. Regulation AC excludes the news media from its coverage.

2. Purpose and Use of Information Collection

Regulation AC focuses on core issues of analysts' integrity, their beliefs in their recommendations and the influence of compensation on their recommendations. It is important for an investor to know whether an analyst may be biased with respect to securities or issuers that are the subject of a research report. Further, in evaluating a research report, it is reasonable for an investor to want to know about an analyst's compensation. The information collections of Regulation AC further these purposes by making disclosures of these issues to investors. Without the information collection, the purposes of Regulation AC could not be met.

3. Consideration Given to Information Technology

The Commission is not aware of any technical obstacles to reducing the burden through the use of improved information technology.

4. Duplication

The information required by Regulation AC does not duplicate that required by any other federal regulation.

5. Effect on Small Entities

Regulation AC's requirements are closely related to information, procedures, and disclosures required by existing SRO rules, which apply to both large and small broker-dealers that publish or circulate research reports. The Commission believes that the requirements of Regulation AC are not unduly burdensome on small entities.

6. Consequences of Not Conducting Collection

Failing to collect this information would deprive investors of important information regarding whether an analyst potentially is biased with respect to securities or issuers that are the subject of each research report or public appearance, as well as information regarding an analyst's compensation with respect to recommendations or views expressed in each research report or public appearance. Regulation AC is reasonably designed to prevent acts and practices that are fraudulent, deceptive, or manipulative.

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

No assurance of confidentiality is provided.

11. Sensitive Questions

The information collection does not collect personally identifiable information, and information collected is not required to be provided to the Commission. The agency has determined that neither a PIA nor a SORN are required in connection with the collection of information.

12. Information Collection Burden

a. Certifications of Research Reports

The Commission believes that the average amount of time it takes a broker-dealer to include the required certifications and disclosures in each research report is one minute per report. The Commission estimates that approximately 3,551 broker-dealers publish a total of approximately 887,750 research reports per year (an average of 250 reports per broker-dealer). Therefore, the Commission estimates that the total annual burden in hours for all broker-dealers to comply with the research report certification and disclosure requirements is approximately 14,796 hours per year [(1 minute x 887,750 reports) / 60 minutes]. The Commission estimates that the hourly pay rate for a research analyst in 2021 is approximately \$509 per hour.¹ Therefore, the Commission estimates that the total annual internal cost of compliance for broker-dealers to comply with the research report certification and disclosure requirements is approximately \$7,531,164 per year [14,796 hours x \$509].

Rule 501 of Regulation AC, which applies to research reports, may also impose requirements on certain entities if they are associated with a broker-dealer and meet the definition of “covered person.” The Commission estimates that approximately 2,368 SEC registered investment advisers are associated with a broker-dealer. The Commission believes that not all of these entities write research reports, and that those who do write research reports write relatively few. Of those investment advisers that are associated with a broker-dealer and that write research reports, we do not believe that all of them will meet the definition of a “covered person.” As a conservative estimate, however, if all SEC registered investment advisers are covered persons and on average publish as many research reports per year as the average broker-dealer (250 research reports), the estimated total number of research reports published by SEC registered investment advisers who are associated with a broker-dealer is approximately 592,000 [250 x 2,368]. Therefore, the Commission estimates that the total annual analyst certification burden in hours for these investment advisers is approximately 9,867 hours [(1 minute x 592,000 research reports) / 60 minutes]. The Commission estimates that the annual internal cost of compliance associated with the research report certification and disclosure

¹ The \$509 /hour figure for a research analyst is from SIFMA’s *Management & Professional Earnings in the Securities Industry 2013*, modified by Commission staff to account for an 1800-hour work-year and inflation, and multiplied by 5.35 to account for bonuses, firm size, employee benefits and overhead.

requirements for SEC registered investment advisers is approximately \$5,022,303 per year [9,867 hours x \$509].

Therefore, the total annual number of responses for the research report certification and disclosure requirements is approximately 1,479,750 [887,750 research reports per year published by broker-dealers + 592,000 research reports per year published by SEC registered investment advisers who are associated with a broker-dealer]. The total annual burden in hours of complying with the research report certification and disclosure requirements is approximately 24,663 hours [14,796 hours for broker-dealer compliance + 9,867 hours for “covered person” compliance]. This burden is a reporting burden. The total annual internal cost of compliance associated with the research report certification and disclosure requirements is approximately \$12,553,467 [\$7,531,164 for broker-dealer compliance + \$5,022,303 for “covered person” compliance].

b. Quarterly Statements on Public Appearances

The Commission estimates that 5,538 research analysts are employed in the U.S. and that the average amount of time it takes a research analyst to prepare the quarterly statements regarding public appearances is ten minutes per analyst. The Commission believes that, on average, approximately 17,999 public appearances by research analysts occur per quarter, or about 71,994 appearances per year (an average of approximately 13 appearances per analyst). The Commission believes that using the total number of persons who hold active FINRA research analyst licenses to estimate the number of research analysts who might have to make quarterly statements on public appearances overestimates the number of potential respondents. However, the Commission is taking a conservative approach to its costs estimates; with those qualifications, the Commission estimates that the total annual burden in hours of complying with the quarterly statements on public appearances requirement is approximately 11,999 hours per year [(10 minutes x 71,994 appearances) / 60 minutes]. This is a recordkeeping burden. The Commission estimates that the total annual internal cost of compliance associated with the quarterly statements on public appearances requirement is approximately \$6,107,491 [11,999 hours x \$509].

c. Notifications of Associated Persons

Rule 504 of Regulation AC requires a broker-dealer to notify its associated persons that issue research reports as to whether associated persons would meet the definition of “covered persons” under Regulation AC, and therefore, be subject to the rule. For PRA purposes, the below calculations represent the Commission’s estimates of the amount of time that would be required for broker-dealers to comply with Rule 504. The Commission estimates that there are approximately 2,368 investment advisers that are associated with at least one broker-dealer. The Commission estimates that it takes approximately one hour per year for each of the approximately 2,368 broker-dealers that have associated investment advisers to determine whether it maintains and enforces

written policies and procedures reasonably designed to prevent the broker or dealer or any of its controlling persons, officers, or employees from influencing the activities of research analysts and the content of research reports prepared by associated persons. The Commission estimates that it takes approximately thirty minutes per year for each broker-dealer to determine whether its associated persons have any officers or employees in common with the broker or dealer who can influence the activities of research analysts or the content of research reports and, if so, the identity of those persons. The Commission estimates that it takes fifteen minutes per year for each broker-dealer to draft and provide the required notification to its associated persons. Therefore, the Commission estimates that the annual burden for broker-dealers of complying with the notifications of associated persons requirement is approximately 4,144 hours [(2,368 x 105 minutes) / 60]. This is a third-party disclosure burden. The Commission expects that a compliance officer will likely be the employee primarily charged with making the necessary determinations, and drafting and providing the required notification. The Commission estimates that the hourly pay rate for a compliance officer in 2021 is approximately \$546 per hour.² The Commission estimates that the annual internal cost of compliance associated with the notifications of associated persons requirement in dollars would be approximately \$2,262,624 [4,144 hours x \$546].

d. Total Reporting Burden

The Commission estimates that the total annual number of respondents is approximately 5,538 [estimated number of research analysts employed in the U.S.].³ The Commission estimates that the total annual number of responses is approximately 1,554,112 [1,479,750 responses for the research report certification and disclosure requirements + 71,994 responses for the quarterly statements on public appearances requirement + 2,368 responses for the notifications of associated persons requirement].

The Commission estimates that the regulation results in a total annual burden of approximately 40,806 hours [24,663 hours for the certifications of research reports requirements + 11,999 hours for the quarterly statements on public appearances requirement + 4,144 hours for the notifications of associated persons requirement]. Therefore, the Commission estimates that the regulation results in a total annual internal cost of compliance of approximately \$20,923,582 [\$12,553,467 for the certifications of research reports requirements + \$6,107,491 for the quarterly statements on public appearances requirement + \$2,262,624 for the notifications of associated persons requirement].

² The \$546 /hour figure for a compliance officer is from SIFMA's *Management & Professional Earnings in the Securities Industry 2013*, modified by Commission staff to account for an 1800-hour work-year and inflation, and multiplied by 5.35 to account for bonuses, firm size, employee benefits and overhead.

³ The Commission has used the total number of research analysts estimated to be employed in the U.S. to estimate the total number of respondents under the rules. This figure serves as the best indicator of the total number of respondents since the event triggering Regulation AC responsibilities, the creation of research reports, is performed by research analysts.

Summary of Hourly Burdens

Regulation AC	Burden Type	Number of Respondents	Number of Annual Responses Per Respondent	Time Per Response (Min)	Total Burden Per Burden Type (Hours)
Certifications of Research Reports	Reporting	5,919	250	1	24,663
Quarterly Statements on Public Appearances	Recordkeeping	5,538	13	10	11,999
Notifications of Associated Persons	Third-party disclosure	2,368	1	105	4,144
<i>Total Aggregate Burden</i>					<i>40,806</i>

13. Costs to Respondents

Not applicable; (a) it is not anticipated that respondents will have to incur any capital and start-up costs to comply with Regulation AC; (b) it is not anticipated that the respondents will have to incur any additional operational or maintenance costs to comply with the rule.

14. Costs to Federal Government

The government does not experience significant costs based on the recordkeeping required pursuant to Regulation AC. The information collected by the respondents may be reviewed only pursuant to an investigation, not as a matter of routine.

15. Changes in Burden

The increase in hour burden from 38,356 hours to 40,806 hours reflects an increase in the Commission's estimate of the number of broker-dealers (from 2,628 to 3,551), a decrease in the estimate of the number of investment analysts (from 5,935 to 5,538), a decrease in the estimate of the number of registered investment advisers associated with a broker-dealer (from 2,459 to 2,368), and an increase in the total annual number of responses from 1,351,364 to 1,554,112.

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.