

**SUPPORTING STATEMENT  
for the Paperwork Reduction Act  
Information Collection Submission for  
Rule 15g-2  
OMB Control #: 3235-0434**

**A. JUSTIFICATION**

**1. Necessity of Information Collection**

Section 15(c)(2) of the Securities Exchange Act of 1934 (“Exchange Act”) authorizes the Commission to promulgate rules that prescribe means reasonably designed to prevent fraudulent, deceptive, or manipulative acts or practices in connection with over-the-counter securities (“OTC”) transactions. Pursuant to this authority, on July 7, 2005, the Commission amended Exchange Act Rule 15g-2 (the “Rule”) to provide an explicit “cooling-off period” to replace the implicit period that customers traditionally have had when the disclosure documents required by the penny stock rules are provided by postal mail rather than electronically.<sup>1</sup>

Rule 15g-2(a) prohibits a broker-dealer from effecting a transaction in a penny stock with or for the account of a customer unless the broker-dealer distributes to the customer, prior to effecting a transaction in a penny stock, a disclosure document, as set forth in Schedule 15G, and receives a signed and dated acknowledgement of receipt of that document from the customer in tangible form. The document (“penny stock disclosure document”), which must contain the information set forth in Schedule 15G, gives several important warnings to investors concerning the penny stock market, and cautions investors against making a hurried investment decision. Rule 15g-2 requires broker-dealers to provide their customers with a penny stock disclosure document, as set forth in Schedule 15G under the Exchange Act, prior to each customer's first non-exempt transaction in a penny stock.

The 2005 amendments to Rule 15g-2(b) impose a uniform waiting period of two business days that can be satisfied by waiting two days after sending the penny stock disclosure document required by the rule electronically or by mail or some other paper-based means. As amended, the rule prohibits a broker-dealer from effecting a transaction in a penny stock for or with the account of a customer unless, prior to effecting the transaction, the broker-dealer distributes to the customer a penny stock disclosure document, and has obtained from the customer a signed and dated acknowledgement of receipt of that document. The amendments to Rule 15g-2 were designed to preserve parity between electronic and paper communications in the context of the disclosure requirements of the penny stock rules.

Rule 15g-2(c) requires broker-dealers to maintain a copy of the customer’s written acknowledgement for at least three years following the date on which the risk disclosure document was provided to the customer, the first two years in an accessible place. Lastly, Rule 15g-2(d) requires a broker-dealer, upon request of a customer, to furnish the customer with a copy of certain information set forth on the Commission’s website.

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<sup>1</sup> See Securities Exchange Rel. No. 51983 (July 7, 2005) 70 FR 40613 (July 13, 2005).

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

In adopting Rule 15g-2, the Commission sought to combat the unscrupulous, high-pressure sales tactics of certain broker-dealers by imposing objective and readily reviewable requirements that discipline the process by which new customers are induced to purchase low-priced stocks. The requirements were intended to assist investors in protecting themselves from fraudulent sales practices, and also to reinforce a broker-dealer's suitability obligations, which are long-standing obligations under self-regulatory organization ("SRO") rules.

An essential aspect of high-pressure "boiler-room" operations is the constant solicitation of new, and often unsophisticated, customers. The Rule disciplines this process by establishing account opening procedures that must be followed before penny stocks are recommended to unsophisticated new customers. The penny stock disclosure document gives several important warnings to investors concerning the penny stock market, and cautions investors against making a hurried investment decision. Among other things, the penny stock disclosure document points out that salespersons are not impartial advisors, that investors should compare information from the salesperson with other information on the penny stock, and that investors in penny stocks should be prepared for the possibility of losing their whole investment. As a result of these procedures, the customer has an opportunity to review the determination and decide whether the broker-dealer has made a good faith attempt to consider the customer's financial situation, investment experience and investment objectives.

The consequences of not requiring the information specified in the Rule would be a substantial weakening of the Rule's effectiveness. The Commission believes that certain broker-dealers engaging in abusive sales practices in connection with penny stocks may choose to ignore the requirements of the Rule. The Rule therefore requires records to be kept that indicate their compliance with each of its provisions. This documentation enables regulatory authorities to review a broker-dealer's compliance with the Rule, and provides the basis for simple and direct enforcement actions against broker-dealers that fail to comply.

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

No specific consideration was given to using information technology to reduce this burden. However, a majority of broker-dealers do use technology to comply with the rule.

## **4. Duplication**

Broker-dealers are not otherwise required to obtain the written agreement to purchases required by the Rule. The penny stock rules mandate that broker-dealers disclose certain information about the market for penny stocks and the particular penny stock transaction to customers with whom they do business in penny stocks, while the Rule requires broker-dealers who do such business to obtain certain information from customers acknowledging receipt of the penny stock disclosure documents.

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

The statements and records requested are not extensive, and therefore the collection of information is not unduly burdensome for small entities.

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

As stated in Section 2 above, the Rule disciplines the “boiler room” process by establishing account opening procedures that must be followed before penny stocks are recommended to unsophisticated new customers. The penny stock disclosure document gives several important warnings to investors concerning the penny stock market, and cautions investors against making a hurried investment decision. As a result of these procedures, the customer has an opportunity to review the determination and decide whether the broker-dealer has made a good faith attempt to consider the customer’s financial situation, investment experience, and investment objectives.

The consequences of requiring such disclosure less frequently would be a substantial weakening of the Rule's effectiveness because each new customer would not receive the required warning. Furthermore, any less frequent recordkeeping would jeopardize the ability of the Commission and the SROs to monitor compliance with the requirements 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**

No payments or gifts are provided to any respondents.

## **10. Confidentiality**

The information is not confidential. In fact, this information is subject to inspection by the Commission and the various SROs.

## **11. Sensitive Questions**

The Information Collection does not collect information about individuals, therefore, a PIA, SORN, and PAS are not required.

## 12. Information Collection Burden

The Commission estimates that approximately 5% of registered broker-dealers, or 175 broker-dealers, are engaged in penny stock transactions and thereby subject to the Rule (5% x of the approximately 3,497 registered broker-dealers as of July 1, 2023 = 175 broker-dealers). The Commission estimates that each of these firms processes an average of three new customers for penny stocks per week. Thus, each respondent processes approximately 156 penny stock disclosure documents per year.

The Commission further estimates that half of the broker-dealers send the penny stock disclosure documents by mail, and the other half send them through electronic means such as e-mail.

### Hour Burden Associated with Mailing Documents

We estimate the copying and mailing of the penny stock disclosure document takes two minutes. Thus, the total associated burden is 2 minutes per response, or an aggregate total of 312 minutes per respondent.<sup>2</sup> Since there are 88 respondents, **the annual hour burden is 457 hours,**<sup>3</sup> **for this third-party disclosure relating to mailing documents.**

### Hour Burden Associated with Emailing Documents

We estimate that sending the penny stock disclosure document electronically takes one minute. Thus, the total associated burden is 1 minute per response, or an aggregate total of 156 minutes per respondent.<sup>4</sup> Since there are 88 respondents, **the annual burden is or 229 hours,**<sup>5</sup> **for this third-party disclosure related to emailing documents.**

### Recordkeeping Hour Burden

In addition, broker-dealers incur a recordkeeping burden of approximately two minutes per response when filing the completed penny stock disclosure documents as required pursuant to the Rule 15g-2(c), which requires a broker-dealer to preserve a copy of the written acknowledgement pursuant to Rule 17a-4(b) of the Exchange Act. Since there are approximately 156 responses for each respondent, **the respondents incur an aggregate recordkeeping burden of or 910 hours,**<sup>6</sup> under Rule 15g-2.

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<sup>2</sup> 2 minutes per response x 3 responses per week x 52 weeks a year equals 312 minutes per respondent annually.

<sup>3</sup> 312 minutes per respondent annually x 88 respondents equals 27,456 minutes annually or 457 hours annually.

<sup>4</sup> 1 minute per response x 3 responses per week x 52 weeks a year equals 156 minutes per respondent annually.

<sup>5</sup> 156 minutes per respondent annually x 88 respondents equals 13,728 minutes annually or 229 hours annually.

<sup>6</sup> 175 respondents x 156 responses annually x 2 minutes per response equals 54,600 minutes annually or 910 hours annually.

## Hour Burden Associated with Disclosure under Rule 15g-2(d)

Rule 15g-2(d) requires a broker-dealer, upon request of a customer, to furnish the customer with a copy of certain information set forth on the Commission's website. If the customer requests a paper copy of this information, the printing and mailing of the document containing the information takes no more than two minutes per customer. Because many investors have access to the Commission's website via computers located in their homes, the Commission estimates that, at most, a quarter of customers, or 39,<sup>7</sup> who are required to receive the Rule 15g-2 disclosure document request that their broker-dealer provide them with the additional microcap and penny stock information posted on the Commission's website. Thus, each broker-dealer respondent processes approximately 39 requests for paper copies of this information per year or an aggregate total of 78 minutes per respondent.<sup>8</sup> Since there are 175 respondents, **the annual burden is or 228 hours.**<sup>9</sup> **This is a third-party disclosure type of burden.**

<b>Rule</b>	<b>Burden type</b>	<b>Number of Respondents</b>	<b>Number of Annual Responses per Respondent</b>	<b>Time per Response (Hours)</b>	<b>Total Burden per Burden Type (Hours)</b>
15g-2(a) Mailing documents	Third party disclosure	88	156	0.0333	457
15g-2(a) E-mailing documents	Third party disclosure	88	156	0.0166	229
15g-2(c)	Recordkeeping	175	156	0.0333	910
15g-2(d)	Third party disclosure (paper)	175	39	0.0333	228
<b>Total Aggregate Burden</b>					<b>1,824</b>

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

There are no capital, start-up, or other external costs on respondents associated with the rule.

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<sup>7</sup> 156 responses/4 equals 39

<sup>8</sup> 2 minutes per customer x 39 requests per respondent equals 78 minutes per respondent..

<sup>9</sup> 78 minutes x 175 respondents equals 13650 minutes for all respondents annually or 228 hours.

**14. Costs to the Federal Government**

There are no costs to the federal government associated with these rules.

**15. Changes in Burden**

There was an overall decrease in the total burden hours because the number of registered broker-dealers we expect will be engaged in penny stock transactions decreased from 182 to 175 and total annual burden hours decreased from 1893 to 1824; the burden hours per response remains unchanged.

**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.