

**SUPPORTING STATEMENT**  
**for the Paperwork Reduction Act Information Collection Submission**  
**for Rule 15c3-3 – Customer Protection—Reserves and Custody of Securities**

**3235-0078**  
**Proposed Partial Revision**

**A. JUSTIFICATION**

**1. Necessity of Information Collection**

During the “Paperwork Crisis” of 1967–1970, many brokers-dealers mishandled and misused customer funds and securities because they had inadequate and inefficient record keeping and segregation systems. Furthermore, the 1969–1970 “bear market” caused many firms that lacked sufficient capital to utilize customer funds and securities to obtain financing for their continued operation. In order to rectify these problems, the Securities and Exchange Commission (“Commission”) adopted Rule 15c3-3 under the Securities Exchange Act of 1934 (“Exchange Act”) to provide increased protection for the funds and securities of customers.<sup>1</sup>

Rule 15c3-3 requires all broker-dealers that hold securities or cash belonging to customers to obtain and maintain possession or control of all the fully-paid and excess margin securities of their customers.<sup>2</sup> In addition, these broker-dealers must make a periodic computation (“reserve computation”) to ascertain the amount of money being held that constitutes customer funds or funds obtained from the use of customer securities. If this amount – known as “customer credits” – exceeds the amount of money customers owe the firm (“customer debits”), the broker-dealer must deposit the excess in a special reserve bank account for the exclusive benefit of the firm’s customers (“Special Reserve Bank Account”).<sup>3</sup> In this way, Rule 15c3-3 protects customer assets by requiring firms to maintain possession or control of customer securities, and by permitting firms to use customer money only to the extent necessary to finance customer-related business.

Rule 15c3-3 requires broker-dealers to make the reserve computation on either a weekly or monthly basis. Broker-dealers are also required to: (1) maintain a description of the procedures utilized to comply with the possession and control requirements of Rule 15c3-3; (2) maintain a written notification from the bank where the Special Reserve Bank Account is located that all assets in the account are for the exclusive benefit of the broker-dealer’s customers; and (3) give telegraphic notice to the Commission, and the appropriate designated examining authority (“DEA”), if they fail to make a required deposit in the Special Reserve Bank Account.

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<sup>1</sup> See *Broker-dealers; Maintenance of Certain Basic Reserves*, Exchange Act Release No. 9856 (Nov. 10, 1972), 37 FR 25224 (Nov. 29, 1972).

<sup>2</sup> 17 CFR 240.15c3-3.

<sup>3</sup> For purposes of this Paperwork Reduction Act (“PRA”) submission, the term “Special Reserve Bank Account” includes accounts set up in accordance with both paragraph (e)(1) and (k)(2)(i) of Rule 15c3-3.

In addition, paragraph (o) of Rule 15c3-3 requires that a broker-dealer that effects transactions for customers in security futures products (“SFP”) must: (1) establish written policies and procedures for determining whether customer SFPs will be placed in a securities account or a futures account, and, if applicable, the process by which a customer may elect the type of account in which SFPs will be held; (2) provide each customer that plans to effect SFP transactions with a disclosure document containing certain information; (3) make a record of each change in account type; and (4) send each SFP customer notification of any change of account type.

In accordance with Section 764 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”),<sup>4</sup> which added section 15F to the Exchange Act,<sup>5</sup> on June 21, 2019,<sup>6</sup> the Commission adopted amendments to Rule 15c3-3 to establish segregation and notice requirements for broker-dealers, including broker-dealer security-based swap dealers (“SBSDs”), that are parallel to the requirements in Rule 18a-4<sup>7</sup> applicable to SBSBs that are not broker-dealers (“2019 amendments”). Specifically, the Commission added new paragraph (p) to Rule 15c3-3 to establish segregation and notice requirements for broker-dealers with respect to their security-based swap activity.<sup>8</sup> The Commission codified the security-based swap segregation requirements for broker-dealers in Rule 15c3-3, as amended, rather than in Rule 18a-4, as adopted, in order to consolidate broker-dealer customer protection requirements in Rule 15c3-3.<sup>9</sup>

### **2023 Proposed Rule Amendments**

On July 12, 2023, the Commission proposed amendments to the reserve computation requirements for certain broker-dealers pursuant to its authority under Section 15(c)(3)(A) of the Exchange Act.<sup>10</sup> Specifically, the proposed amendments would require broker-dealers that hold securities and cash on behalf of customers and other broker-dealers to compute the reserve computation on a daily basis, instead of weekly as required under the current rule, provided that

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<sup>4</sup> See *Dodd-Frank Wall Street Reform and Consumer Protection Act*, Public Law 111-203, 124 Stat. 1376 (2010).

<sup>5</sup> See 15 U.S.C. 78o-10(e)(2)(B).

<sup>6</sup> See *Capital, Margin, and Segregation Requirements for Security-Based Swap Dealers and Major Security-Based Swap Participants and Capital Requirements for Broker-Dealers*, Exchange Act Release No. 86175.

<sup>7</sup> OMB No. 3235-0700. This rule was submitted to OMB for its review at the proposing stage.

<sup>8</sup> See paragraph (p) to Rule 15c3-3, as amended.

<sup>9</sup> The hour burdens for the collection of information related to Rule 15c3-3, as amended, in the final rule release were included in the collection of information for Rule 18a-4, as proposed to be adopted, in the proposing release. See *Capital, Margin, and Segregation Requirements for Security-Based Swap Dealers and Major Security-Based Swap Participants and Capital Requirements for Broker-Dealers; Proposed Rule*, Exchange Act Release No. 68071, 77 FR 70214 (Nov. 23, 2012). These hours were moved to the existing collection of information in Rule 15c3-3, as amended, as a result of changes made to the final rule in response to comments to require that broker-dealers comply with the segregation requirements of paragraph (p) to Rule 15c3-3, as amended, with respect to their security-based swap activities (rather than the requirements of Rule 18a-4, as adopted). For more information about the comments, see *infra* note 15.

<sup>10</sup> See *Daily Computation of Customer and Broker-Dealer Reserve Requirements under the Broker-Dealer Customer Protection Rule*, Exchange Act Release No. 97877 (Jul. 12, 2023), 88 FR 45836 (Jul. 18, 2023) (“2023 Proposing Release”).

such broker-dealers have average total credits that equal or exceed \$250 million. For the purposes of the proposed amendments, “average total credits” would be defined as the arithmetic mean of the sum of total credits in the broker-dealer’s customer reserve computation and PAB reserve computation reported in the twelve most recently filed month-end FOCUS Reports.

The proposed amendments would also require broker-dealers subject to the daily reserve computation requirement to make a deposit of any excess of credits over debits to the Special Reserve Bank Account following each computation in accordance with the timelines prescribed in the rule. Broker-dealers re also be required to make and maintain a record of each such computation.

Finally, the proposed amendments would require broker-dealers subject to the daily reserve computation requirement to continue performing daily reserve computations for at least 60 days after falling below the \$250 million and providing notification to the broker-dealer’s designated examining authority in writing.

**This supporting statement describes the changes to the information collection burdens associated with Rule 15c3-3 that changed as a result of the 2023 proposed amendments only. It does not propose to revise any of the other burdens in this ICR.**

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

Rule 15c3-3 is an integral part of the Commission’s financial responsibility program for broker-dealers. Its purpose is to protect the rights of customers to promptly obtain their property from a broker-dealer. Rule 15c3-3’s reserve and notice requirements facilitate the process by which the Commission and the various DEAs monitor how broker-dealers are fulfilling their custodial responsibilities to investors. With the exception of the telegraphic notice requirement, governmental agencies do not regularly receive any of the information described above. Instead, the information is stored by the broker-dealer and made available to the various securities regulatory authorities as required to facilitate examinations and investigations. If broker-dealers were not required to create and maintain this information, the Commission’s ability to fulfill its statutory directive to protect investors would be diminished.

Rule 15c3-3 also requires that a broker-dealer provide each customer that wishes to engage in SFP activities with a disclosure document and notification of any change of account type. Without these disclosures and notifications, in the event of a liquidation, customers may be uncertain or confused as to which regulatory scheme is applicable to their account.

The 2019 amendments to Rule 15c3-3 are integral to the Commission’s financial responsibility program for broker-dealers and broker-dealer/SBSDLs as they are designed to protect the rights of security-based swap customers and their ability to promptly obtain their property from a broker-dealer. The collection of information requirements in the rule facilitates the process by which the Commission and its staff monitor how broker-dealers are fulfilling their custodial responsibilities to security-based swap customers. The 2019 amendments to Rule 15c3-3 also require that a broker-dealer provide certain notices to its counterparties.<sup>11</sup> These

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<sup>11</sup> See paragraphs (p)(1) and (p)(3) of Rule 15c3-3, as amended.

notices alert counterparties to the alternatives available to them with respect to segregation of non-cleared security-based swaps. The Commission and its staff will use the collection of information in the 2019 amendments to confirm registrants are providing the requisite notice to counterparties.

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

Rule 15c3-3 does not prevent a broker-dealer from using computers or other mechanical devices to generate, obtain, disclose or maintain the records and information required under the rule. Currently, most firms utilize automated systems to comply with Rule 15c3-3. The Commission is not aware of any technical or legal obstacle to reducing the burden through the use of improved information technology.

### **4. Duplication**

There are no similar rules that are duplicative of Rule 15c3-3. Copies of notices required to be filed with the Commission under paragraph (i) of Rule 15c3-3 must also be filed with the regulatory authority that examines the broker-dealer for compliance with financial responsibility, helping to avoid duplication.

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

Paragraph (k) of Rule 15c3-3 has the effect of exempting most small broker-dealers from the rule's requirements. Small broker-dealers that are not exempt from Rule 15c3-3 can make the required computation monthly as long as they have aggregate indebtedness not exceeding 800% of net capital and carry aggregate customer funds not exceeding \$1,000,000. The Commission estimates that, as of 2022 year-end, approximately 31 broker-dealers were small entities that performed a customer reserve computation pursuant to Rule 15c3-3.<sup>12</sup> In addition, the information collections required under the 2019 amendments do not place burdens on small entities. 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 information were not conducted or were conducted less frequently, the level of protection afforded to the counterparties and the U.S. financial system by Rule 15c3-3 would be diminished.

### **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).

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<sup>12</sup> This estimate is based on the number of firms that, as of December 31, 2022, indicated on Part II their FOCUS reports (OMB Control Number 3235-0123) that they make their 15c3-3 computations monthly (line 4333).

## **8. Consultations Outside the Agency**

The required Federal Register notice soliciting comments on this collection of information was published in the 2023 Proposing Release.<sup>13</sup> No public comments regarding the collection of information were received.

## **9. Payment or Gift**

No payments of gifts have been provided to respondents.

## **10. Confidentiality**

The information collected by the Commission under Rule 15c3-3, as amended, is kept confidential to the extent permitted by the Freedom of Information Act (5 U.S.C. § 552 *et seq.*).

## **11. Sensitive Questions**

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

## **12. Burden of Information Collection**

The Commission estimates that the aggregate annual hour burden associated with Rule 15c3-3 is approximately 1,174,051 hours calculated as described below. This estimated figure includes the changes to information collection burdens resulting from the 2023 proposed amendments to Rule 15c3-3. The changes are discussed in connection with the burdens estimated for paragraph (e) below. Additionally, a new information collection has been added to reflect a proposed notification requirement included in the proposed amendments to Rule 15c3-3(e). No other estimated burdens have changed from those that were approved as of October 17, 2023.<sup>14</sup>

### **2023 Proposed Revisions to Existing Hour Burdens**

#### *Customer Reserve Accounts*

As described above, Rule 15c3-3(e) requires broker-dealers to make a reserve computation on either a weekly or monthly basis. The Commission estimates that, as of December 31, 2022, there were approximately 207 broker-dealers fully subject to Rule 15c3-3 (*i.e.*, broker-dealers that cannot claim any of the exemptions enumerated in paragraph (k)), of which approximately 15 made daily (on a voluntary basis), 161 made weekly, and 31 made monthly, reserve computations.<sup>15</sup> Paragraph (e)(3) of Rule 15c3-3 requires each broker-dealer to

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<sup>13</sup> See *supra*, note 10.

<sup>14</sup> [https://www.reginfo.gov/public/do/PRAViewICR?ref\\_nbr=202306-3235-015](https://www.reginfo.gov/public/do/PRAViewICR?ref_nbr=202306-3235-015).

<sup>15</sup> This estimate is based on the number of firms that, as of December 31, 2022, indicated on Part II of their FOCUS reports that they make their 15c3-3 computations daily (line 4332), weekly (line 4333), or monthly (line 4334).

make a record of each such computation.<sup>16</sup> Based on staff experience, the Commission estimates that it takes between one and five hours to make a record of each reserve computation, and that the average time spent across all the firms is 2.5 hours.

*Rule 15c3-3(e)(3) – daily computations for customer reserve account*<sup>17</sup>

As noted above, in 2023 the Commission proposed amendments to Rule 15c3-3. The amendments would require broker-dealers with \$250 million or more in average total credits to make a daily reserve computation, instead of weekly. The Commission estimates that there are approximately 63 broker-dealers that would have average total credits equal to or exceeding \$250 million. Of these 63 broker-dealers, the Commission estimates that 11 already perform the customer reserve computation daily. As a result, the Commission estimates that 52 broker-dealers will be required to shift from weekly to daily customer reserve computations. The total number of broker-dealers that would perform daily customer reserve computations would therefore be 67 broker-dealers (15 existing broker-dealers plus the 52 broker-dealers performing weekly computations that would be required to perform daily computation).

Consequently, the revised hour burden associated with the requirement for broker-dealers to perform a daily reserve computation for customer accounts is estimated to be 41,875 hours.<sup>18</sup> This represents an increase of 32,500 hours over the currently approved hour burden for this information collection.<sup>19</sup>

*Rule 15c3-3(e)(3) – weekly computations for customer reserve account*<sup>20</sup>

As a result of the proposed change to Rule 15c3-3(e) that would require certain broker-dealers to perform a customer reserve computation on a daily basis, the hour burden associated with the information collection related to weekly reserve computations for customer accounts will decrease. Specifically, the number of respondents subject to the requirement to perform weekly reserve computations for customer accounts will decrease from 161 to 109. This decrease of 52 broker-dealers is the number of broker-dealers that the Commission estimates will

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<sup>16</sup> 17 CFR 240.15c3-3(e)(3).

<sup>17</sup> In the most recently approved supporting statement for Rule 15c3-3, the title of this collection of information is “Rule 15c3-3(e)(3) – daily computations.” The Commission is revising the title of this collection of information in order to clarify that it is distinct from the collection of information related to daily computations for PAB reserve accounts, which currently shares the same title.

<sup>18</sup> 2.5 hours x 250 computations annually x 67 respondents that calculate daily = 41,875 hours.

<sup>19</sup> Revised hour burden of 41,875 minus currently approved burden of 9,375 hours = 32,500 hours.

<sup>20</sup> In the most recently approved supporting statement for Rule 15c3-3, the title of this collection of information is “Rule 15c3-3(e)(3) – weekly computations.” The Commission is revising the title of this collection of information in order to clarify that it is distinct from the collection of information related to weekly computations for PAB reserve accounts, which currently shares the same title.

be required to shift from a weekly to a daily reserve computation for customer accounts as a result of the 2023 proposed rule changes.

Consequently, the Commission estimates that the revised hour burden for the information collection associated with weekly reserve computations for customer accounts is 14,170 hours.<sup>21</sup> This represents a decrease of 6,760 hours.<sup>22</sup>

The burden related to monthly reserve computations for customer accounts will not change as a result of the 2023 proposed amendments.

Based on these revised estimates, the Commission believes that the hourly burden associated with the information collection associated with reserve computations for customer accounts will be approximately 56,975 hours (41,875 hours for daily computations + 14,170 hours for weekly computations + 930 for hours for monthly computations).<sup>23</sup> Thus, the Commission estimates that there will be an increase in the burden associated with the requirement to make a record of the customer reserve computation of 25,740 hours<sup>24</sup> as a result of the 2023 proposed amendments to Rule 15c3-3.

#### *PAB Reserve Accounts*

In addition to reserve computations for customer accounts, paragraph (e) of Rule 15c3-3 also requires a PAB<sup>25</sup> reserve computation. The Commission previously estimated that approximately 93 broker-dealers perform a PAB reserve computation.<sup>26</sup> The Commission also previously estimated that of the 93 broker-dealers required to perform a PAB reserve computation, approximately 77 of the current PAB filers will perform the PAB reserve computation on a weekly basis, 5 broker-dealers will perform it on a monthly basis, and 11 broker-dealers will perform the PAB reserve computation on a daily basis. The Commission estimates that a broker-dealer will spend, on average, approximately 2.5 hours to complete the PAB reserve computation in order to make a record of such computation pursuant to paragraph (e) of Rule 15c3-3.

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<sup>21</sup> 2.5 hours x 52 computations x 109 respondents = 14,170 hours.

<sup>22</sup> Revised hour burden of 14,170 hours minus the currently approved hour burden of 20,930 hours = 6,760 hours.

<sup>23</sup> (2.5 hours x 250 computations annually x 67 respondents that calculate daily) + (2.5 hours x 52 computations annually x 109 respondents that calculate weekly) + (2.5 hours x 12 computations annually x 31 respondents that calculate monthly) = 56,975 hours.

<sup>24</sup> Estimated burden of 56,975 hours resulting from proposed amendments less previously approved burden of 31,325 hours = 25,740 hours.

<sup>25</sup> The term PAB account means a proprietary securities account of a broker or dealer (which includes a foreign broker or dealer, or a foreign bank acting as a broker or dealer) other than a delivery-versus-payment account or a receipt-versus-payment account. The term does not include an account that has been subordinated to the claims of creditors of the carrying broker or dealer. 15c3-3(a)(16)

<sup>26</sup> This estimate is based on the number of brokers-dealers that have, as of December 31, 2022, either aggregate credit items (line 2170) or debit items (line 2230) on either Part II or Part II CSE of their FOCUS Reports.

*Rule 15c3-3(e)(3) – daily computations for PAB reserve account*<sup>27</sup>

In connection with the 2023 proposed amendments described above, the Commission estimates that of the 63 broker-dealers with average total credits equal to or exceeding \$250 million, 49 have total credits relating to PAB account holders of more than \$0, with 10 of these broker-dealers already performing the PAB reserve computation daily. As a result, the Commission estimates that 39 broker-dealers will be required to switch from a weekly PAB reserve computation to a daily PAB reserve computation. The total number of broker-dealers that would perform daily PAB reserve computations would therefore be 50 broker-dealers (11 existing broker-dealers plus the 39 broker-dealers performing weekly PAB computations that would be required to perform daily computations).

Consequently, the revised hour burden associated with the requirement for broker-dealers to perform a daily PAB reserve computation is estimated to be 31,250 hours.<sup>28</sup> This represents an increase of 24,375 hours over the currently approved hour burden for this information collection.<sup>29</sup>

*Rule 15c3-3(e)(3) – weekly computations for PAB reserve account*<sup>30</sup>

As a result of the proposed amendments to Rule 15c3-3(e) that would require certain broker-dealers to perform a PAB reserve computation on a daily basis, the hour burden associated with the information collection related to weekly PAB reserve computations will decrease. Specifically, the number of respondents subject to the requirement to perform weekly reserve computations for customer accounts will decrease to 77 from 38. This decrease of 39 broker-dealers is the number of broker-dealers that the Commission estimates will be required to

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<sup>27</sup> In the most recently approved supporting statement for Rule 15c3-3, the title of this collection of information is “Rule 15c3-3(e)(3) – daily computations.” The Commission is revising the title of this collection of information in order to clarify that it is distinct from the collection of information related to daily computations for customer reserve accounts, which currently shares the same title.

<sup>28</sup> 2.5 hours x 250 computations annually x 50 respondents that calculate daily = 31,250 hours.

<sup>29</sup> Revised hour burden of 31,250 hours minus currently approved burden of 6,875 hours = 24,375 hours.

<sup>30</sup> In the most recently approved supporting statement for Rule 15c3-3, the title of this collection of information is “Rule 15c3-3(e)(3) – weekly computations.” The Commission is revising the title of this collection of information in order to clarify that it is distinct from the collection of information related to weekly computations for customer reserve accounts, which currently shares the same title.

shift from a weekly to a daily PAB reserve computation as a result of the 2023 proposed amendments to Rule 15c3-3.

Consequently, the Commission estimates that the revised hour burden for the information collection associated with weekly PAB reserve computations is 4,940 hours.<sup>31</sup> This represents a decrease of 5,070 hours.<sup>32</sup>

The burden related to monthly reserve computations for PAB accounts will not change as a result of the 2023 proposed rule change.

Based on these estimates, the Commission believes that the hourly burden associated with this collection of information will be approximately 36,340 hours (4,940 hours for weekly computations + 150 hours for monthly computations + 31,250 hours for daily computations).<sup>33</sup> Thus, the Commission estimates that there will be an increase in the burden associated with the requirement to make a record of the PAB reserve formula computation of 19,305 hours.<sup>34</sup>

### **2023 Proposed New Information Collection**

As noted above, the proposed amendments to Rule 15c3-3 require broker-dealers with average total credits of or exceeding \$250 million to perform the reserve computation daily instead of weekly. Such broker-dealers must continue to perform a daily reserve computation until the broker-dealer's average total credits fall below \$250 million. A broker-dealer can then elect to revert to a weekly reserve computation but must notify its designated examining authority in writing of its election and continue to perform a daily reserve computation for at least 60 calendar days after providing the written notification.

Based on a review of FOCUS Report data for the 2022 calendar year, the Commission estimates that one broker-dealer per year would provide notice to the broker-dealer's designated examining authority that the broker-dealer's average total credits have fallen below the \$250 million threshold and that the broker-dealer would revert to a weekly reserve computation.

Based on its experience with other notification requirements, the Commission estimates that it would take a broker-dealer 30 minutes to prepare and send the notification regarding its election to perform weekly reserve computations to its designated examining authority. As a result, the Commission estimates that one broker-dealer per year would send the notice for a burden of **0.5 hours per year**. This burden would represent a new collection of information.

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<sup>31</sup> 2.5 hours x 52 computations x 38 respondents = 4,940 hours.

<sup>32</sup> Revised hour burden of 4,940 hours minus the currently approved hour burden of 10,010 hours = (5,070 hours).

<sup>33</sup> (38 weekly filers x 52 weeks x 2.5 hours per computation) + (5 monthly filers x 12 months x 2.5 hours per computation) + (50 daily filers x 250 business days per year x 2.5 hours per computation) = 36,340 total hours.

<sup>34</sup> Estimated burden of 36,340 hours resulting from proposed amendments less previously estimated burden of 17,035 hours = 19,305 hours

## Unchanged Burden Hours

**The following burden hour estimates have not changed from their previous estimates in connection with the proposed amendments to Rule 15c3-3. They are included in this supporting statement for completeness.**

Paragraph (a)(16) of Rule 15c3-3 excludes from its definition of “PAB account,” an account that “has been subordinated to the claims of creditors of the carrying broker or dealer.”<sup>35</sup> The Commission understands that most PAB account holders that enter into a subordinated loan agreement with a broker-dealer that maintains custody of customer securities and cash (“carrying broker-dealer”) in order to not be treated as PAB accounts under paragraph (a)(16) likely will be affiliates of the broker-dealer. The Commission estimates that the 93 broker-dealers that carry PAB accounts will enter into an average of 11 subordination agreements under paragraph (a)(16) and it will take a carrying broker-dealer approximately 20 hours to draft a subordination agreement. Therefore, the Commission estimates that the total one-time recordkeeping burden will be approximately 20,460 hours, or approximately 6,820 hours per year on an annualized basis.<sup>36</sup>

Paragraph (b)(5) of Rule 15c3-3 requires carrying broker-dealers to provide PAB account holders with written notice that the account holder’s non-margin securities may be used in the ordinary course of its business. As noted above, the Commission estimates that approximately 93 broker-dealers carry PAB accounts. The Commission further estimates that, on average, a firm will spend approximately 10 hours of employee resources drafting or updating a standard notice template, for a total one-time recordkeeping burden of approximately 930 hours, or approximately 310 hours per year on an annualized basis.<sup>37</sup> The Commission also estimates that there are approximately 1,107 existing PAB customers<sup>38</sup> and approximately 5% of those customers (approximately 55 customers) will be affected by this requirement as they have not yet received the required written notice from their broker-dealer.<sup>39</sup> Therefore, broker-dealers will have to send approximately 55 written notices, spending approximately 10 minutes per account sending out the required written notice, for a total one-time disclosure burden of 9.16 hours, or approximately 3 hours per year on an annualized basis.<sup>40</sup>

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<sup>35</sup> For purposes of this supporting statement, the term “PAB account” references accounts held at carrying broker-dealers that hold the proprietary securities and cash of other broker-dealers.

<sup>36</sup> 93 broker-dealers x 11 accounts x 20 hours = 20,460 hours. The total annualized burden over the three-year approval period is 6,820 hours (20,460 / 3 = 6,820, with an average of 73 hours per respondent (6,820 / 93 broker-dealers = 73.333, rounded down to 73).

<sup>37</sup> 93 firms x 10 hours = 930 hours. The one-time burden annualized over the three-year approval period is 310 hours (930 / 3 = 310, hours), with an average per 93 broker-dealers of 3 hours (310 / 93 = 3.333, rounded down to 3).

<sup>38</sup> This estimate is based on the number of firms that, as of December 31, 2022, have account numbers on either lines 418, 419, 420, or 424 of Part IIA of the FOCUS report.

<sup>39</sup> 1,107 PAB account holders x 5% = 55.35 PAB account holders, rounded down to 55 PAB account holders.

<sup>40</sup> 55 PAB account holders x 10 minutes = 550 minutes. 550 minutes / 60 minutes = 9.16, rounded to 9 hours. For purposes of this supporting statement, the one-time burden annualized over the three-year approval period is 3.055 hours (9.16 / 3 = 3.055, rounded to 3 hours).

Further, the Commission estimates that the 93 firms that carry PAB accounts will have to amend or update their standard PAB agreement template. The Commission estimates a firm will spend, on average, approximately 20 hours of employee resources on this task, for a total one-time recordkeeping burden of approximately 1,860 hours, or approximately 620 hours per year on an annualized basis.<sup>41</sup>

Paragraph (f) of Rule 15c3-3 prescribes that a broker-dealer required to maintain a Special Reserve Bank Account must obtain and retain a written notification from each bank in which it has a Special Reserve Bank Account to evidence the bank's acknowledgement that assets deposited in the account are being held by the bank for the exclusive benefit of the broker-dealer's customers.<sup>42</sup> As stated above, 207 broker-dealers are estimated to be fully subject to Rule 15c3-3. In addition, 350 broker-dealers operate in accordance with the exemption provided in paragraph (k)(2)(i),<sup>43</sup> which also requires that a broker-dealer maintain a special reserve account. Broker-dealers generally maintain longstanding relationships with banks where they hold their Special Reserve Bank Accounts and thus do not need to obtain these letters frequently. The Commission estimates that of the total number of broker-dealers that must comply with Rule 15c3-3, only 25%, or approximately 139 broker-dealers,<sup>44</sup> must obtain one new letter each year.<sup>45</sup> The Commission estimates that it will take a broker-dealer approximately one hour to obtain this written notification from a bank regarding a Special Reserve Bank Account.<sup>46</sup> Therefore, the Commission estimates a total annual recordkeeping burden of approximately 139 hours to obtain these written notifications.<sup>47</sup>

Paragraph (f) of Rule 15c3-3 requires a broker-dealer to immediately notify the Commission and its DEA if it fails to make a required deposit in its Special Reserve Bank Account.<sup>48</sup> We anticipate broker-dealers will file approximately 15 such notices each year.<sup>49</sup>

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<sup>41</sup> 93 firms x 20 hours = 1,860 hours. The one-time burden annualized over the three-year approval period is 620 hours (1,860 / 3 = 620.), with an average hour burden of 6.67 hours per broker-dealer (620 / 93 = 6.666, rounded to 6.67).

<sup>42</sup> 17 CFR 240.15c3-3(f).

<sup>43</sup> This estimate is based on the number of firms that, as of December 31, 2022, indicated on line 4560 of Part II or Part II CSE of their FOCUS reports that they are subject to the Rule 15c3-3(k)(2)(i) exemption.

<sup>44</sup> (207 + 350) x 25% = 139.25, rounded down to 139 broker-dealers.

<sup>45</sup> The Commission notes that a broker-dealer will need to obtain a letter from its bank regarding its Special Reserve Bank Account because either the broker-dealer changed the type of business it does and became subject to paragraph (e)(3) or (k)(2)(i) of Rule 15c3-3 or the broker-dealer established a new Special Reserve Bank Account.

<sup>46</sup> The language in these letters is largely standardized.

<sup>47</sup> 139 broker-dealers x 1 hour = 139 hours.

<sup>48</sup> 17 CFR 240.15c3-3(i).

<sup>49</sup> Broker-dealers filed 15 such notices with the Commission, on average, in past years.

The Commission estimates that it will take a broker-dealer approximately 30 minutes to file the required notice, resulting in a total annual reporting burden of approximately 8 hours.<sup>50</sup>

Paragraph (j)(1) of Rule 15c3-3 includes a condition that a broker-dealer must establish adequate procedures that will impose a paperwork burden if a broker-dealer wishes to accept or use any free credit balance from the account of any customer of the broker-dealer. The requirement that broker-dealers establish adequate procedures with regard to free credit balances will result in one-time and annual hours burdens for broker-dealers subject to the requirements of paragraph (j)(1) to Rule 15c3-3 for the 142 broker-dealers that carry free credit balances.<sup>51</sup> Most firms already have such procedures in place. Therefore, the Commission estimates that a broker-dealer will spend approximately 10 hours per year reviewing and updating its procedures, for an annual recordkeeping burden of approximately 1,420 hours.<sup>52</sup>

Paragraph (j)(2) of Rule 15c3-3 requires a broker-dealer to obtain written affirmative consent from a new customer before including a customer's free credit balances in a Sweep Program, as defined in paragraph (a)(17), as well as to provide certain disclosures and notices to all customers with regard to the broker-dealer's Sweep Program. These requirements will result in one-time and annual burdens to broker-dealers subject to its provisions. However, these requirements apply only to firms that carry customer free credit balances and opt to have the ability to change how their customers' free credit balances are treated. The Commission is including all 142 broker-dealers that carry free credit balances in its estimate to reflect the fact that these firms may have to update their systems to comply with these requirements. The Commission further estimates that these firms will spend, on average, approximately 200 hours of employee resources per firm updating their current systems (including processes for generating customer account statements) to comply with the rule. Therefore, the Commission estimates that the total one-time recordkeeping burden to broker-dealers arising from this requirement will be approximately 28,400 hours, or approximately 9,467 hours per year on an annualized basis.<sup>53</sup>

With respect to the annual burden associated with paragraph (j)(2) of Rule 15c3-3, the Commission estimates that there are 256,751,303 customer accounts<sup>54</sup> of which 5% (approximately 12,837,565) will be impacted each year.<sup>55</sup> This equates to an average of

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<sup>50</sup> 15 notices x 0.5 hours = 7.5 hours rounded up to 8.

<sup>51</sup> This estimate is based on the number of firms that, as of December 31, 2022, had free credit balances on line 4340 of Part II of their FOCUS reports.

<sup>52</sup> 142 broker-dealers x 10 hours = 1,420 hours.

<sup>53</sup> 142 broker-dealers x 200 hours per firm = 28,400 hours. For purposes of this supporting statement, this one-time burden annualized over the three-year approval period is approximately 9,467 hours (28,400 / 3 = 9,466.67, rounded up to 9,467), with an average hour burden per broker-dealer of approximately 66.67 hours (9,466.6667 / 142 broker-dealers = 66.6666667, rounded up to 66.67).

<sup>54</sup> This estimate is based on the total number of public customer accounts listed on line 8080 of firms' FOCUS reports, as of December 31, 2022.

<sup>55</sup> The Commission estimates approximately 12,837,565 accounts (256,751,303 x 5% = 12,837,565.15, rounded down to 12,837,565) will be impacted annually.

approximately 90,405 accounts per broker-dealer.<sup>56</sup> The Commission further estimates that a broker-dealer will spend, on average, four minutes of employee resources to process a written affirmative consent for new customers, as well as disclosures required under paragraph (j) to Rule 15c3-3. Therefore, the Commission estimates that the annual recordkeeping burden to broker-dealers<sup>57</sup> arising from the requirement will be approximately 855,838 hours.<sup>58</sup>

Paragraph (o)(2)(i) of Rule 15c3-3 requires a broker-dealer that effects transactions for customers in SFPs to provide each customer that engages in SFP transactions with a disclosure document containing certain information. The Commission estimates that 8% of the accounts held by broker-dealers that are also registered as FCMs, or 3,110,078 accounts, may engage in SFP transactions.<sup>59</sup> This equates to an average of approximately 21,902 accounts per broker-dealer.<sup>60</sup> The Commission estimates that it will take approximately 3 minutes to create each record.<sup>61</sup> Thus, the total annual disclosure burden associated with the requirements of paragraph (o)(2)(i) will be approximately 155,504 hours.<sup>62</sup>

Paragraph (o)(3) of Rule 15c3-3 requires a broker-dealer that effects transactions in SFPs for customers to make a record of each change in account type and to provide certain customers with disclosure documents containing certain information about SFP products.<sup>63</sup> The Commission estimates that broker-dealers that were also registered as futures commission merchants (“FCMs”) maintained approximately 38,875,974 customer accounts.<sup>64</sup> The Commission estimates that 8% of these customers may engage in SFP transactions,<sup>65</sup> and that of that 8%, 20% per year may change account type, requiring a broker-dealer to promptly notify the

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<sup>56</sup>  $12,837,565 \div 142 = 90,405.39$  rounded down to 90,405.

<sup>57</sup> This annual burden will affect the 142 broker-dealers that carry free credit balances.

<sup>58</sup>  $(12,837,565 \text{ accounts} \times 4 \text{ minutes per account}) / 60 \text{ minutes} = 855,837.667$ , rounded up to 855,838 hours. For purposes of this supporting statement, the Commission divided the total annual hour burden by 161 respondents for an average annual burden per firm of approximately 3,347 hours  $(538,815. / 161 = 3,346.677$ , rounded up to 3,347).

<sup>59</sup>  $38,875,974 \text{ accounts} \times 8\% = 3,110,077.9$ , rounded up to 3,110,078 accounts. The Commission derived its 8% estimate from the number of active options accounts and conversations with industry representatives.

<sup>60</sup>  $3,110,078 \div 142 = 21,901.95$  rounded up to 21,902.

<sup>61</sup> The Commission estimates that most firms will have this process automated. To the extent that no person need be involved in the generation of this record, the burden will be very minimal.

<sup>62</sup>  $3,110,078 \text{ accounts} \times (3 \text{ minutes}/60 \text{ minutes}) = 155,503.9$  hours rounded up to 155,504.

<sup>63</sup> More specifically, a broker-dealer that changes the type of account in which a customer’s SFPs are held must create a record of each change in account type that includes the name of the customer, the account number, the date the broker-dealer received the customer’s request to change the account type, and the date the change in account type took place.

<sup>64</sup> This estimate is based on the number of accounts that, as of December 31, 2022, were listed on line 8080 of Schedule 1 of firms’ FOCUS reports provided that those firms also had a dollar amount greater than 0 listed on line 7465 of Part II of their FOCUS reports.

<sup>65</sup>  $38,875,974 \text{ accounts} \times 8\% = 3,110,077.92$ , rounded to 3,110,078 accounts. The Commission derived its estimate from the number of active options accounts and conversations with industry representatives.

customer in writing on the date that change became effective.<sup>66</sup> Thus, broker-dealers may be required to create these records for approximately 622,016 accounts.<sup>67</sup> This equates to an average of approximately 4,380 accounts per broker-dealer.<sup>68</sup> The Commission estimates that it will take approximately 3 minutes to create each record.<sup>69</sup> Thus, the total annual recordkeeping and disclosure burden associated with the requirements of paragraph (o)(3) will be approximately 31,101 hours.<sup>70</sup>

A broker-dealer that is determining whether a registered clearing or derivatives organization meets the requirements of Note G to Exhibit A to Rule 15c3-3 may not rely on the credit rating of that organization to determine whether the broker-dealer can keep customer's positions in security future products with the organization for purposes of the reserve computation. Thus, broker-dealers that previously relied on ratings for the purposes of Note G use another method for assessing the creditworthiness of registered clearing or derivatives organizations. The Commission believes that approximately 31 broker-dealers will be required to change or update how they assess the creditworthiness of registered clearing or derivatives organizations under Note G.<sup>71</sup> The Commission believes that broker-dealers will spend approximately .25 hours determining whether a clearing or derivatives organization meets the requirements of Note G, resulting in an annual recordkeeping burden of approximately 8 hours.<sup>72</sup> The Commission further believes that broker-dealers will spend approximately one hour changing or reviewing their methods for determining whether a clearing or derivatives clearing organization meets the requirements of Note G, resulting in a one-time recordkeeping burden of approximately 31 hours, or approximately 10 hours per year on an annualized basis.<sup>73</sup> The aggregate Note G related recordkeeping burden is thus approximately 18 hours per year (8+10).

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<sup>66</sup> Broker-dealers that engage in an SFP business may choose not to allow customers to change account type because it may be costly to facilitate such conversions. In addition, once a customer has researched the issue and made a choice as to account type, it may be unlikely for the customer to change his or her account type.

<sup>67</sup>  $3,110,078 \text{ accounts} \times 20\% = 622,015.58$ , rounded to 622,016 accounts.

<sup>68</sup>  $622,016 \div 142 = 4,380.39$  rounded down to 4,380.

<sup>69</sup> The Commission estimates that most firms will have this process automated. To the extent that no person need be involved in the generation of this record, the burden will be very minimal.

<sup>70</sup>  $622,016 \text{ accounts} \times (3\text{min} / 60\text{min}) = 31,100.78$  hours, rounded to 31,101 hours.

<sup>71</sup> The number 31 comes from reviewing the members of the Options Clearing Corporation ("OCC") listed in the member directory on the OCC's website, *available at* <https://www.theocc.com/company-information/member-directory>. Of the list of members, the Commission looked only at those who trade in futures. Of the list of members that trade in futures, the Commission deleted any members who had the exact same firm name but different firm numbers.

<sup>72</sup>  $31 \text{ broker-dealers} \times .25 \text{ hours} = 7.75$  hours rounded up to 8.

<sup>73</sup>  $31 \text{ broker-dealers} \times 1 \text{ hour} = 31$  hours.  $31 \div 3 = 10.333$  rounded to 10. The average hour burden per broker-dealer is approximately 333 hours ( $10.33/31 \text{ broker-dealers} = .333$ ). The staff believes that broker-dealers will be subject to a one-time cost associated with reviewing the standards a broker-dealer uses to determine whether a registered clearing or derivatives organization meets the requirements of Note G.

Paragraph (p) of Rule 15c3-3, as amended, establishes segregation requirements for registered broker-dealers and broker-dealer SBSBs with respect to their security-based swap activities and notifications requirements for broker-dealers that are either SBSBs or MSBSPs.

The amendments to Rule 15c3-3 added three new collections of information with recordkeeping burdens and five new collections of information with third-party disclosure burdens. These collections of information are summarized in the chart below and explained in the following discussion.

#### Special Accounts (Rule 15c3-3(p)(1))

SBSBs are required to establish special accounts with banks and obtain written acknowledgements from, and enter into written contracts with, the banks. These special accounts include: (1) the qualified clearing agency account;<sup>74</sup> (2) the qualified SBSB account;<sup>75</sup> and (3) the special account for the exclusive benefit of security-based swap customers.<sup>76</sup> The Commission estimates that, as of December 31, 2022 there were 3 broker-dealer SBSBs registered with the Commission, approximately 11 broker-dealers engaged in security-based swap activities but not required to register as an SBSB or MSBSP, and no broker-dealer MSBSPs. Staff further estimates that each of the 3 broker-dealer SBSBs and 11 broker-dealers establishes 6 special accounts at banks (2 for each type of special account). Further, based on staff experience with Rule 15c3-3, the Commission staff estimates that each SBSB and broker-dealer will spend approximately 30 hours to draft and obtain the written acknowledgement and agreement for each account. These estimates result in an industry-wide one-time hour burden of approximately 2,520 hours, or approximately 840 hours per year on an annualized basis.<sup>77</sup>

The Commission staff estimates that 25 percent<sup>78</sup> of the 3 broker-dealer SBSBs and 11 broker-dealers (a total of approximately 4) will establish a new special account each year because, for example, they change their banking relationship, for each type of special account. Therefore, the Commission staff estimates an industry-wide ongoing annual hour burden of approximately 360 recordkeeping hours.<sup>79</sup>

#### Customer Reserve Computation (Rule 15c3-3(p)(3)(iii))

Paragraph (p)(3) of Rule 15c3-3 requires broker-dealer SBSBs and broker-dealers engaged in security-based swap activities to maintain a special account for the exclusive benefit

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<sup>74</sup> Paragraph (p) (1)(iii) of Rule 15c3-3, as amended.

<sup>75</sup> Paragraph (p) (1) (iv) of Rule 15c3-3, as amended.

<sup>76</sup> Paragraph (p)(1)(vii) of Rule 15c3-3, as amended.

<sup>77</sup> (3 broker-dealer SBSBs + 11 broker-dealers engaged in security-based swap activities but not required to register as an SBSB or MSBSP) x 6 special accounts x 30 hours = 2,460 hours. For purposes of this supporting statement, this one-time burden annualized over the three-year approval period is 2,460 hours (7,380 / 3 = 2,460), with an average hour burden per respondent of 60 hours (2,460 / 41 respondents = 60).

<sup>78</sup> This number is based on the currently approved PRA collection for Rule 15c3-3. See Commission, *Supporting Statement for the Paperwork Reduction Act Information Collection Submission for Rule 15c3-3*.

<sup>79</sup> 10 broker-dealer SBSBs x 3 types of special accounts x 30 hours = 900 hours.

of security-based swap customers and have on deposit in the account at all times an amount of cash and/or qualified securities determined through a computation using the formula in Exhibit B to Rule 15c3-3. Paragraph (p)(3)(iii) of Rule 15c3-3 provides that the computations necessary to determine the amount required to be maintained in the special bank account must be made on a weekly basis.<sup>80</sup> Variation in size and complexity between these SBSDs and broker-dealers makes it very difficult to develop a meaningful figure for the amount of time required to calculate each reserve computation. Based on experience with the Rule 15c3-3 reserve computation PRA burden hours and with the OTC derivatives industry, the Commission staff estimates that it will take between 1 and 5 hours to compute each reserve computation, and that the average time spent across all the broker-dealer SBSDs will be approximately 2.5 hours. Accordingly, the Commission staff estimates that the resulting annual recordkeeping hour burden for paragraph (p)(3)(iii) of Rule 15c3-3 is approximately 1,820 hours.<sup>81</sup>

#### Counterparty Notice (Rule 15c3-3(p)(4)(i))

Paragraph (p)(4)(i) of Rule 15c3-3 requires that broker-dealer SBSDs and broker-dealer MSBSPs provide a notice to a counterparty pursuant to section 3E(f) of the Exchange Act prior to the execution of the first non-cleared security-based swap transaction with the counterparty occurring after the compliance date of the new rule.<sup>82</sup> The number of notices sent in the first year the rule is effective will depend on the number of counterparties with which each broker-dealer SBSD or broker-dealer MSBSP engages in security-based swap transactions. The number of counterparties an SBSD and MSBSP has will vary depending on the size and complexity of the firm and its operations. The Commission staff estimates that each of the 3 broker-dealer SBSDs would have approximately 1,000 counterparties at any given time.<sup>83</sup> Therefore, the Commission staff estimates that approximately 3,000 notices will be sent in the first year the rule

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<sup>80</sup> A commenter requested that the Commission require a weekly SBS Customer Reserve Account computation rather than a daily computation. The commenter stated that calculating the reserve account formula is an onerous process that is operationally intensive and requires a significant commitment of resources. The commenter further stated that the Commission can achieve its objective of decreasing liquidity pressures on SBSDs while limiting operational burdens by requiring weekly computations and permitting daily computations. *See* Letter from Kenneth E. Bentsen, Jr., Executive Vice President, Securities Industry and Financial Markets Association (Feb. 22, 2013). In response to comments, the Commission modified its final rules to require a weekly SBS Customer Reserve Account computation. The final rules further provide that stand-alone broker-dealers or SBSDs may perform daily computations if they choose to do so.

<sup>81</sup>  $(3 \text{ broker-dealer SBSDs} + 11 \text{ broker-dealers engaged in security-based swap activities but not required to register as an SBSD or MSBSP}) \times 52 \text{ weeks} \times 2.5 \text{ hours/week} = 1,820 \text{ hours.}$

<sup>82</sup> *See* paragraph (p)(4)(i) of Rule 15c3-3, as amended.

<sup>83</sup> The Commission previously estimated that there are approximately 10,900 market participants in security-based swap transactions. *See Business Conduct Release*, 81 FR at 30089. Based on the 10,900 market participants and Commission staff experience relative to the securities and OTC derivatives industry, the Commission staff estimates that each broker-dealer SBSD and MSBSP will have 1,000 counterparties at any given time. The number of counterparties may widely vary depending on the size of the SBSD or MSBSP. A large firm may have thousands of counterparties at one time, while a smaller firm may have substantially less than 1,000. The Commission staff also estimates, based on staff experience, that these entities will establish account relationships with approximately 200 new counterparties a year, or approximately 20 percent of a firm's existing counterparties.

is effective.<sup>84</sup> The Commission staff estimates that each of the 3 broker-dealer SBSBs will spend approximately 10 minutes sending out the notice. These estimates result in an industry-wide one-time third-party hour burden of approximately 500 hours, or approximately 167<sup>85</sup> hours per year on an annualized basis.<sup>86</sup>

The Commission staff further estimates that the 3 broker-dealer SBSBs will establish account relationships with 200 new counterparties per year. Therefore, the Commission staff estimates that approximately 600 notices will be sent annually.<sup>87</sup> These estimates result in an industry-wide annual third-party hour burden of approximately 100 hours.<sup>88</sup>

#### Subordination Agreements (Rule 15c3-3(p)(4)(ii))

Under paragraph (p)(4)(ii) of Rule 15c3-3, a broker-dealer SBSB is required to obtain agreements from counterparties that do not choose to require segregation of funds or other property pursuant to Section 3E(f) of the Exchange Act or paragraph (p)(3)(iii) of Rule 15c3-3, as amended, in which the counterparty agrees to subordinate all of its claims against the broker-dealer to the claims of customers and security-based swap customers of the broker-dealer.<sup>89</sup> The Commission staff estimates that a broker-dealer SBSB will spend, on average, approximately 200 hours to draft and prepare standard subordination agreements. These estimates result in an industry-wide one-time third-party hour burden of approximately 600 hours, or approximately 200 hours per year on an annualized basis.<sup>90</sup>

As discussed above, the Commission staff estimates that each of the 3 broker-dealer SBSBs would have approximately 1,000 counterparties at any given time. The Commission staff further estimates that approximately 50 percent of these counterparties will either elect individual segregation or waive segregation altogether.<sup>91</sup> The Commission staff estimates that a

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<sup>84</sup> (3 broker-dealer SBSBs) x 1,000 counterparties = 3,000 notices.

<sup>85</sup> 166.67 rounded to 167.

<sup>86</sup> (3,000 notices x 10 minutes) / 60 minutes = 500 hours. For purposes of this supporting statement, this one-time burden annualized over the three-year approval period is approximately 167 hours (500 / 3 = 166.67, rounded to 167), with an average hour burden per respondent of approximately 56 hours (167 / 3 respondents = 55.67).

<sup>87</sup> 3 broker-dealer SBSBs x 200 counterparties = 600 notices.

<sup>88</sup> (600 notices x 10 minutes) / 60 minutes = 100 hours.

<sup>89</sup> See paragraph (p)(4)(ii) of Rule 15c3-3, as amended.

<sup>90</sup> 200 hours x 3 broker-dealer SBSBs = 600 hours. For purposes of this supporting statement, this one-time burden annualized over the three-year approval period is approximately 200 hours per year (600 / 3 = 200), with an average hour burden per broker-dealer SBSB of approximately 66.67 hours (200 / 3 broker-dealer SBSBs = 66.67, rounded to 66.67).

<sup>91</sup> Based on discussions with market participants, the Commission staff understands that many large buy-side financial end users currently ask for individual segregation and the Commission staff assumes that many of these end users will continue to do so. However, Commission staff believes that some smaller end users may not choose to incur additional cost that may come with individual segregation. Therefore, the Commission staff estimates that approximately 50 percent of counterparties will either elect individual segregation or waiver segregation altogether.

broker-dealer SBSB will spend 20 hours per counterparty to enter into a written subordination agreement. These estimates result in an industry-wide one-time hour burden of approximately 30,000 hours, or approximately 10,000 hours per year on an annualized basis.<sup>92</sup>

Further, as discussed above, the Commission staff estimates that each of the 3 broker-dealer SBSBs will establish account relationships with 200 new counterparties per year. The Commission staff further estimates that 50 percent or 100 of these counterparties will either elect individual segregation or waive segregation altogether. These estimates result in an industry-wide annual third-party hour burden of approximately 6,000 hours.<sup>93</sup>

### **Total Revised Hourly Burden**

The aggregate annual hour burden associated with Rule 15c3-3, as revised by the 2023 proposed amendments described above, is approximately 1,174,051 hours.<sup>94</sup> The annual hour burden is summarized in the table below. Hour burdens that have been revised or added are in bold.

Summary of Hourly Burdens										
Name of Information Collection	Type of Burden	Number of Entities Impacted	Annual Responses per Entity	Initial Burden per Entity per Response	Initial Burden Annualized per Entity per Response	Ongoing Burden per Entity per Response	Annual Burden Per Entity per Response	Total Annual Burden Per Entity	Total Industry Burden	Small Business Entities Affected
Rule 15c3-3(e)(3) – daily computations for customer reserve account <sup>95</sup>	Recordkeeping	67	250	0.00	0.00	2.50	2.50	625.00	41,875	0
Rule 15c3-3(e)(3) – weekly computations for customer reserve account <sup>96</sup>	Recordkeeping	109	52	0.00	0.00	2.50	2.50	130.00	14,170	0

<sup>92</sup> 3 broker-dealer SBSBs x 500 counterparties x 20 hours = 30,000 hours. For purposes of this supporting statement, this one-time burden annualized over the three-year approval period is approximately 10,000 hours (30,000/ 3 = 10,000, with an average hour burden per broker-dealer SBSB of approximately 3,333.33 hours (10,000 / 3 broker-dealer SBSBs = 3,333.33).

<sup>93</sup> 3 broker-dealer SBSBs x 100 counterparties x 20 hours = 6,000 hours.

<sup>94</sup> 41,875 hours + 14,170 hours + 930 hours + 4,940 hours + 150 hours + 31,250 hours + 6,820 hours + 310 hours + 3 hours + 620 hours + 139 hours + 8 hours + 1,420 hours + 9,467 hours + 855,838 hours + 155,504 hours + 31,101 hours + 8 hours + 10 hours + 0.50 hours + 840 hours + 360 hours + 1,820 hours + 167 hours + 100 hours + 200 hours + 10,000 hours + 6,000 hours = 1,174,051 hours.

<sup>95</sup> In the most recently approved supporting statement for Rule 15c3-3, the title of this collection of information is “Rule 15c3-3(e)(3) – daily computations.” The Commission is revising the title of this collection of information in order to clarify that it is distinct from the collection of information related to daily computations for PAB reserve accounts, which currently shares the same title. The Commission is also revising the estimated burdens associated with the collection of information as a result of the proposed amendments to Rule 15c3-3.

<sup>96</sup> In the most recently approved supporting statement for Rule 15c3-3, the title of this collection of information is “Rule 15c3-3(e)(3) – weekly computations.” The Commission is revising the title of this collection of information in order to clarify that it is distinct from the collection of information related to weekly computations for PAB reserve accounts, which currently shares the same title. The Commission is

Rule 15c3-3(e)(3) monthly computations for customer reserve account <sup>97</sup>	Recordkeeping	31	12	0.00	0.00	2.50	2.50	30.00	930	5
<b>Rule 15c3-3(e) – weekly computations for PAB reserve account<sup>98</sup></b>	<b>Recordkeeping</b>	<b>38</b>	<b>52</b>	<b>0.00</b>	<b>0.00</b>	<b>2.50</b>	<b>2.50</b>	<b>130.00</b>	<b>4,940</b>	<b>0</b>
Rule 15c3-3(e) - monthly computations for PAB reserve account <sup>99</sup>	Recordkeeping	5	12	0.00	0.00	2.50	2.50	30.00	150	0
<b>Rule 15c3-3(e) - daily computations – for PAB reserve account<sup>100</sup></b>	<b>Recordkeeping</b>	<b>50</b>	<b>250</b>	<b>0.00</b>	<b>0.00</b>	<b>2.50</b>	<b>2.50</b>	<b>625.00</b>	<b>31,250</b>	<b>0</b>
Rule 15c3-3(a)(16)	Recordkeeping	93	11	20.00	6.667	0.00	6.67	73.00	6,820	0
Rule 15c3-3(b)(5) – drafting/updating notice	Recordkeeping	93	1	10.00	3.33	0.00	3.33	3.33	310	0
Rule 15c3-3(b)(5) – notices to affected customers	Third-Party	55	1	0.17	0.0566	0.00	0.0566	0.0566	3	0
Rule 15c3-3(b)(5) – amend/update agreement	Recordkeeping	93	1	20.00	6.67	0.00	6.67	6.67	620	0
Rule 15c3-3(f) - obtain new letter	Recordkeeping	139	1	0.00	0.00	1.00	1.00	1.00	139	0
Rule 15c3-3(f) - notice	Reporting	557	0.0269	0.00	0.00	0.50	0.50	0.50	8	0
Rule 15c3-3(j)(1) - annual	Recordkeeping	142	1	0	0.00	10.00	10.00	10.00	1,420	5
Rule 15c3-3(j)(2) - initial	Recordkeeping	142	1	200.00	66.6666667	0.00	66.6666667	66.6666667	9,467	0
Rule 15c3-3(j)(2) - annual	Recordkeeping	142	90,405.3873	0.00	0.00	0.066666666	0.066666666	0.066666666	855,838	0
Rule 15c3-3(o)(2)(i)	Third-Party	142	21,901.95	0.00	0.00	0.05	0.05	0.05	155,504	0
Rule 15c3-3(o)(3)	Third-Party	142	4380.3915	0.00	0.00	0.05	0.05	0.05	31,101	0
Rule 15c3-3, Note G (annual)	Recordkeeping	31	1	0.00	0.00	0.25	0.25	0.25	8	0
Rule 15c3-3, Note G (initial)	Recordkeeping	31	1	1.00	0.333		0.333	0.333	10	
<b>Rule 15c3-3(e)(B)(I) notification</b>	<b>Reporting</b>	<b>1</b>	<b>1</b>	<b>0.00</b>	<b>0.00</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0</b>

also revising the estimated burdens associated with the collection of information as a result of the proposed amendments to Rule 15c3-3.

<sup>97</sup> In the most recently approved supporting statement for Rule 15c3-3, the title of this collection of information is “Rule 15c3-3(e)(3) – monthly computations.” The Commission is revising the title of this collection of information in order to clarify that it is distinct from the collection of information related to monthly computations for PAB reserve accounts, which currently shares the same title.

<sup>98</sup> In the most recently approved supporting statement for Rule 15c3-3, the title of this collection of information is “Rule 15c3-3(e)(3) – weekly computations.” The Commission is revising the title of this collection of information in order to clarify that it is distinct from the collection of information related to weekly computations for customer reserve accounts, which currently shares the same title. The Commission is also revising the estimated burdens associated with the collection of information as a result of the proposed amendments to Rule 15c3-3.

<sup>99</sup> In the most recently approved supporting statement for Rule 15c3-3, the title of this collection of information is “Rule 15c3-3(e)(3) – monthly computations.” The Commission is revising the title of this collection of information in order to clarify that it is distinct from the collection of information related to weekly computations for customer reserve accounts, which currently shares the same title.

<sup>100</sup> In the most recently approved supporting statement for Rule 15c3-3, the title of this collection of information is “Rule 15c3-3(e)(3) – daily computations.” The Commission is revising the title of this collection of information in order to clarify that it is distinct from the collection of information related to daily computations for customer reserve accounts, which currently shares the same title. The Commission is also revising the estimated burdens associated with the collection of information as a result of the proposed amendments to Rule 15c3-3.

Rule 15c3-3(p)(1) (Special Accounts)	Recordkeeping	14	6	30.00	10.00	0.00	10.00	60.00	840	0
Rule 15c3-3(p)(1) (Special Accounts)	Recordkeeping	4	3	0.00	0.00	30.00	30.00	90.00	360	0
Rule 15c3-3(p)(3)(iii) (Customer Reserve Computation)	Recordkeeping	14	52	0.00	0.00	2.50	2.50	130.00	1,820	0
Rule 15c3-3(p)(4)(i) (Counterparty Notice)	Third-Party	3	1,000	0.16666667	0.05555556	0.00	0.05555556	55.55	167	0
Rule 15c3-3(p)(4)(i) (Counterparty Notice)	Third Party	3	200	0.00	0.00	0.16666667	0.16666667	33.35	100	0
Rule 15c3-3(p)(4)(ii) (Subordination Agreements)	Third-Party	3	1	200.00	66.67	0.00	66.67	66.67	200	0
Rule 15c3-3(p)(4)(ii) (Subordination Agreements)	Third-Party	3	500	20.00	6.66666667	0.00	6.66666667	3,333.3	10,000	0
Rule 15c3-3(p)(4)(ii) (Subordination Agreements)	Third-Party	3	100	0.00	0.00	20.00	20.00	2,000.00	6,000	0
<b>TOTAL HOURLY BURDEN FOR ALL RESPONDENTS</b>									<b>1,174,051</b>	

### 13. Costs to Respondents

The Commission estimates that the aggregate annual cost burden associated with Rule 15c3-3 is approximately \$3,530,101 calculated as described below.<sup>101</sup> The cost burdens associated with Rule 15c3-3 have not changed in connection with the proposed amendments described above. The currently approved cost burdens are included in this supporting statement for completeness.

Paragraph (b)(5) of Rule 15c3-3 will require a broker-dealer to incur postage costs when sending out the required written notice to customers. The Commission estimates that there are approximately 1,107 existing PAB customers and approximately 5% of those customers will be affected by this requirement as they have not yet received the required written notice from their broker-dealer.<sup>102</sup> Therefore, broker-dealers will have to send approximately 55 written notices. These carrying broker-dealers will likely use the least expensive method to comply with this requirement and may include this notification with other mailings sent to PAB account holders. The Commission, however, conservatively estimates that the postage cost or each notification, using the current price of first class postage, will be approximately \$0.63 per document sent. Therefore, the Commission estimates that the total one-time third-party disclosure cost associated with sending the required written notification to PAB account holders will be approximately \$34.65, or approximately \$12 per year on an annualized basis.<sup>103</sup>

Additionally, the Commission estimates that the 93 broker-dealers carrying PAB accounts likely will engage outside counsel to review the required notice, as well as the standard PAB template agreement under the final rule amendments to Rule 15c3-3. As a result, the Commission estimates that each of these 93 broker-dealers will likely incur approximately \$2,310 in one-time legal costs,<sup>104</sup> for a total one-time recordkeeping cost to the industry of

<sup>101</sup> \$3,516,241 + \$13,860 = \$3,530,101.

<sup>102</sup> 1,107 PAB account holders x 5% = 55.35 PAB account holders, rounded to 55 PAB account holders.

<sup>103</sup> 55 notices x \$0.63 = \$34.65, or about \$11.55 annualized over three years rounded up to 12.

<sup>104</sup> 5 hours x \$462 per hour = \$2,310. The Commission estimates the review of the notice and standard PAB template will require 5 hours of outside counsel time, which is the same estimate used for outside counsel review in another recent release. Based on Commission experience with the PAIB Letter and the

approximately \$214,820, or approximately \$71,610 per year on an annualized basis,<sup>105</sup> to review and comment on these materials.

The Commission also estimates that broker-dealers will consult with outside counsel in making system changes, particularly with respect to the language in the disclosures and notices under paragraph (j)(2) to Rule 15c3-3 related to the treatment of free credit balances. As a result, the Commission estimates that the average one-time recordkeeping cost to a broker-dealer will be approximately \$23,100<sup>106</sup> and the average one-time recordkeeping cost to all broker-dealers will be approximately \$3,280,200, or approximately \$1,093,400 per year on an annualized basis.<sup>107</sup>

Rule 15c3-3(o)(2)(i) requires a broker-dealer that effects transactions for customers in SFPs to provide each customer that engages in SFP transactions with a disclosure document containing certain information. The costs of printing and sending the disclosure document to customers will be based on the number of customer accounts that will be opened by customers to effect transactions in SFPs. As applied in section 12 above, the Commission estimates that 8% of the accounts held by broker-dealers that are also registered as FCMs, or 3,110,078 accounts, may engage in SFP transactions.<sup>108</sup> This equates to an average of approximately 21,902 accounts per broker-dealer.<sup>109</sup> The Commission also estimates that the cost of printing and sending each disclosure document will be approximately \$.63 per document sent, based on the price of first class postage. Therefore, the Commission estimates that the annual recordkeeping and disclosure cost burden associated with this rule requirement is approximately \$1,959,349.<sup>110</sup>

Rule 15c3-3(o)(3)(ii) requires a broker-dealer that changes the type of account in which a customer's SFPs are held to promptly notify the customer in writing of the date that change became effective. The Commission estimates that 622,016 accounts<sup>111</sup> may change account type per year, thus broker-dealers will be required to send this notification to 622,016 customers. This equates to an average of approximately 4,380 accounts per broker-dealer.<sup>112</sup> The Commission notes that firms will likely use the least expensive method to comply with these requirements, and may include this notification with other mailings, such as customer account

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application of Rule 15c3-3, the Commission estimates the outside counsel review related to the PAB amendments will take a comparable amount of time.

<sup>105</sup> 93 firms x \$2,310 legal cost = \$214,820. This is \$71,610 on an annualized basis ( $\$214,820 / 3 = \$71,610$ ).

<sup>106</sup> \$462 per hour x 50 hours = \$23,100. The Commission estimates that the average hourly cost for an outside counsel will be approximately \$462 per hour.

<sup>107</sup> 142 broker-dealers x \$23,100 = \$3,280,200, or \$1,093,400 annualized over three years.

<sup>108</sup> 38,875,974 accounts x 8% = 3,110,077.92, rounded up to 3,110,078 accounts. The Commission derived its 8% estimate from the number of active options accounts and conversations with industry representatives.

<sup>109</sup>  $3,110,078 \div 142 = 21,901.95$  rounded up to 21,902.

<sup>110</sup>  $3,110,078 \text{ accounts} \times \$0.63 = \$1,959,349.14$  rounded down to \$1,959,349.

<sup>111</sup>  $3,110,078 \text{ accounts} \times 20\% = 622,015.6$  accounts, rounded to 622,016 accounts.

<sup>112</sup>  $622,016 \div 142 = 4,380.394$  rounded down to 4,380.

statements, sent to the customer. Therefore, the Commission estimates that the cost of printing and posting each notification will be approximately \$.63 per document sent, resulting in an annual recordkeeping and disclosure burden of approximately \$391,870.<sup>113</sup>

#### Counterparty Notice (Rule 15c3-3(p)(4)(i))

Paragraph (p)(4)(i) of Rule 15c3-3, as amended, requires that broker-dealer SBSBs and broker-dealer MSBSPs are required to provide a notice to a counterparty pursuant to section 3E(f) of the Exchange Act prior to the execution of the first non-cleared security-based swap transaction with the counterparty occurring after the compliance date of the new rule.<sup>114</sup> All broker-dealer SBSBs and broker-dealer MSBSPs are required to provide these notices to their counterparties. The Commission staff estimates that the 3 broker-dealer SBSBs will engage outside counsel to draft and review the notice at a cost of \$462 per hour for an average of 10 hours per respondent. These estimates result in a one-time third-party cost burden of approximately \$13,860 for all of these 3 entities, or approximately \$4,620 per year on an annualized basis.<sup>115</sup>

#### Subordination Agreements (Rule 15c3-3(p)(4)(ii))

Under paragraph (p)(4)(ii) of Rule 15c3-3, a broker-dealer SBSB is required to obtain agreements from counterparties that do not choose to require segregation of funds or other property pursuant to Section 3E(f) of the Exchange Act or paragraph (p)(3)(iii) of Rule 15c3-3, as amended, in which the counterparty agrees to subordinate all of its claims against the broker-dealer to the claims of customers and security-based swap customers of the broker-dealer.<sup>116</sup> Because the broker-dealer SBSB will enter into these agreements with security-based swap customers after the broker-dealer SBSB prepares a standard subordination agreement in-house, the Commission staff also estimates that a broker-dealer SBSB will have outside counsel review the standard subordination agreements and that the review will take approximately 20 hours at a cost of approximately \$462 per hour. As a result, the Commission staff estimates that each broker-dealer SBSB will incur one-time third-party costs of approximately \$9,240.<sup>117</sup> These estimates result in an industry-wide one-time third-party cost of approximately \$27,720, or approximately \$9,240 per year on an annualized basis.<sup>118</sup>

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<sup>113</sup> 622,016 accounts x \$.63 = \$391,870.08, rounded to \$391,870.

<sup>114</sup> See paragraph (p)(4)(i) of Rule 15c3-3, as amended.

<sup>115</sup> 3 broker-dealer SBSBs x \$462 per hour x 10 hours = \$13,860. The Commission expects that these functions will likely be performed by outside counsel with an expertise in financial services law to help ensure that counterparties are receiving the proper notice under the statutory requirement. The Commission is annualizing the one-time costs over the three-year approval period to reflect an annualized cost of approximately \$4,620 per year ( $\$13,860/3 = \$4,620$ , or approximately \$1,540 per respondent ( $\$4,620/3 = \$1,540$ )).

<sup>116</sup> See paragraph (p)(4)(ii) of Rule 15c3-3, as amended.

<sup>117</sup>  $\$462 \times 20 \text{ hours} = \$9,240$ .

<sup>118</sup>  $\$9,240 \times 3 \text{ broker-dealer SBSBs} = \$27,720$ . The Commission is annualizing the one-time costs over the three-year approval period to reflect an annualized cost of \$9,240 per year ( $\$27,720/3 = \$9,240$ ), or approximately \$3,080 per respondent ( $\$9,240/3 = \$3,080$ ).

The aggregate annual cost burden associated with Rule 15c3-3 is thus approximately \$3,530,101.<sup>119</sup> This cost burden is summarized in the table below.

Summary of Dollar Costs										
Name of Information Collection	Type of Burden	Number of Entities Impacted	Annual Responses per Entity	Initial Cost per Entity per Response	Initial Cost Annualized per Entity per Response	Ongoing Cost per Entity per Response	Annual Cost Per Entity per Response	Total Annual Cost Per Entity	Total Industry Cost	Small Business Entities Affected
Rule 15c3-3(b)(5)	Third-party disclosure	55	1	\$0.63	\$0.21	0	\$0.21	\$0.21	\$12	0
Rule 15c3-3(b)(5)	Recordkeeping	93	1	\$2,310.00	\$770	0	\$770	\$770	\$71,610	0
Rule 15c3-3(j)(2)	Recordkeeping	142	1	\$23,100	\$7,700	0	\$7,700	\$7,700	\$1,093,400	0
Rule 15c3-3(o)(2)(i)	Third-party disclosure	142	21,901.95	\$0.00	\$0.00	\$0.63	\$0.63	\$0.63	\$1,959,349	0
Rule 15c3-3(o)(3)(ii)	Third-party disclosure	142	4,380.39	\$0.00	\$0.00	\$0.63	\$0.63	\$0.63	\$391,870	0
Rule 15c3-3(p)(4)(i) (Counterparty Notice)	Third-Party	3	1	\$4,620.00	\$1,540	0	\$1,540	\$1,540	\$4,620	0
Rule 15c3-3(p)(4)(ii) (Subordination Agreements)	Third-Party	3	1	\$9,240	\$3,080	0	\$3,080	\$3,080	\$9,240	0
<b>TOTAL COST FOR ALL RESPONDENTS</b>									<b>\$3,530,101</b>	

#### 14. Costs to Federal Government

The staff does not anticipate this information collection to impose additional costs to the Federal Government.

#### 15. Changes in Burden

As specified in the chart below, the changes in the hourly burden are a result of the proposed amendments to Rule 15c3-3 described above. Due to the proposed amendments, some broker-dealers that currently preform weekly customer and PAB reserve computations will be required to perform daily computations. Consequently, the burden associated with daily customer and PAB reserve computations will increase due to the increased number of respondents, while the burden associated with weekly customer and PAB computations will decrease as a result of a decrease in the number of respondents. The changes are summarized in the table below.

**NOTE:** We are also proposing to modify the titles of the information collections in the Rule 15c3-3(p) series of rules to remove the word “NEW” as these information collections were previously approved, and we are proposing to remove the collection titled “Rule 15c3-3(e) – updates as the estimated burden is currently zero.

Name of Information Collection	Revised Annual Industry Burden	Annual Industry Burden Previously Reviewed	Change in Burden	Reason for Change

<sup>119</sup> \$12 + \$71,610 + \$1,093,400 + 1,959,349 + \$391,870 + \$4,620 + \$9,240 = \$3,530,101.

Rule 15c3-3(e)(3) – daily computations for customer reserve account	41,875 hours	9,375 hours	32,500 hours	Increase in the number of respondents as a result of proposed amendments to Rule 15c3-3
Rule 15c3-3(e)(3) – weekly computations for customer reserve account	14,170 hours	20,930 hours	(6,760 hours)	Decrease in the number of respondents as a result of proposed amendments to Rule 15c3-3
Rule 15c3-3(e) – weekly computations for PAB reserve account	4,940 hours	10,010 hours	(5,070 hours)	Decrease in the number of respondents as a result of proposed amendments to Rule 15c3-3
Rule 15c3-3(e) - daily computations for PAB reserve account	31,250 hours	6,875 hours	24,375 hours	Increase in the number of respondents as a result of
Rule 15c3-3(e)(B)(1) notification	0.50 hours	N/A	0.50 hours	New information collection resulting from proposed amendments to Rule 15c3-3

**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.