

SUPPORTING STATEMENT
for the Paperwork Reduction Act Information Collection Submission for
Rule 17a-4
OMB Control No. 3235-0279
Partial Revision

A. JUSTIFICATION

1. Information Collection Necessity

All brokers and dealers in the ordinary course of their businesses need to maintain certain books and records reflecting, among other things, income and expenses, assets and liabilities, daily trading activity, and the status of customer and firm accounts. These books and records are, for the most part, standard and would be kept by any prudent individual engaging in a securities business.

The Commission is statutorily authorized by Sections 17(a)¹ and 23(a)² of the Securities Exchange Act of 1934 (“Exchange Act”) to promulgate rules and regulations regarding the maintenance and preservation of books and records of exchange members, brokers, and dealers (“broker-dealers”). Section 17(a)(1) provides in pertinent part:

“[all members of a national securities exchange and registered brokers and dealers] shall make and keep for prescribed periods such records...as the Commission, by rule, prescribes as necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the [Exchange Act].”

To standardize recordkeeping practices throughout the industry, the Commission, in 1940, adopted Rules 17a-3 and 17a-4 (one of the “Books and Records Rules”),³ which codified and specified minimum standards with respect to business records that broker-dealers must create and maintain. Rule 17a-3 requires exchange members, brokers and dealers to make and keep current certain records relating to a broker’s or dealer’s financial condition and operations. For example, broker-dealers are required to maintain, among other things, blotters containing an itemized daily record of all purchases and sales of securities; ledgers reflecting all assets and liabilities, income and expense, and capital accounts; a securities record or ledger reflecting separately for each security as of the clearance dates all “long” or “short” positions; a memorandum of each brokerage order; a memorandum of each purchase or sale of a security for the account of the broker-dealer; copies of confirmations; certain account holder information, as well as information regarding employees; and customer complaints, among other records.

Rule 17a-4, which is the subject of this Supporting Statement, requires broker-dealers to preserve, for prescribed periods of time, the records required to be created under Rule 17a-3 and

¹ 15 U.S.C. 78q(a).

² 15 U.S.C. 78w(a).

³ 17 CFR 240.17a-3 and 17 CFR 240.17a-4.

certain other Commission rules. In addition, Rule 17a-4 requires broker-dealers to preserve other records that may be created or received by the broker-dealer in the ordinary course of its business for prescribed periods of time.

On July 21, 2010, President Obama signed the Dodd-Frank Act into law.⁴ Title VII of the Dodd-Frank Act (“Title VII”) established a new regulatory framework for the over-the-counter derivatives markets.⁵ Title VII was enacted, among other reasons, to provide for the registration and regulation of security-based swap dealers (“SBSDs”) and major security-based swap participants (“MSBSPs”), and create recordkeeping and reporting regimes for such entities. Section 764 of the Dodd-Frank Act added Section 15F to the Exchange Act, which directs the Commission to adopt rules governing reporting and recordkeeping for SBSDs and MSBSPs.⁶ Additionally, Section 17(a)(1) of the Securities Exchange Act of 1934 provides the Commission with authority to adopt rules requiring broker-dealers – which would include broker-dealer security-based swap dealers (“broker-dealer SBSDs”) and broker-dealer major security-based swap participants (“broker-dealer MSBSPs”) – to make and keep for prescribed periods such records, furnish such copies thereof, and make and disseminate such reports as the Commission, by rule, prescribes as necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Exchange Act.⁷

Partial Revision to Collection of Information

As discussed further below, in October 2022, the Commission adopted amendments to the electronic recordkeeping requirements of broker-dealers in Rule 17a-4.⁸ This Supporting Statement addresses the collections of information that were revised or added as a result of the rule amendments adopted in October 2022 regarding the electronic recordkeeping requirements of broker-dealers. Additionally, this Supporting Statement addresses an oversight involving amendments to Rule 17a-4 regarding risk mitigation recordkeeping requirements for broker-dealer SBSDs and broker-dealer MSBSPs adopted on December 18, 2019.⁹ We are seeking to revise the estimated burdens in light of the December 18, 2019 amendments for OMB review and are seeking expedited review if possible.

2. Information Collection Purpose and Use

⁴ See Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, Pub. L. 111–203, 124 Stat. 1376 (2010).

⁵ Pursuant to section 701 of the Dodd-Frank Act, Title VII may be cited as the “Wall Street Transparency and Accountability Act of 2010.” See Pub. L. 111–203, 701.

⁶ See 15 U.S.C. 78o-10(f)(2).

⁷ See 15 U.S.C. 78q(a)(1).

⁸ See *Electronic Recordkeeping Requirements for Broker-Dealers, Security-Based Swap Dealers, and Major Security-Based Swap Participants*, Exchange Act Release No. 34-96034 (Oct. 12, 2022), 87 FR 66412 (Nov. 3, 2022) (“2022 Electronic Recordkeeping Adopting Release”).

⁹ See *Risk Mitigation Techniques for Uncleared Security-Based Swaps*, Exchange Act Release No. 34-87782 (Dec. 18, 2019), 85 FR 6359 (Feb. 4, 2020) (“Risk Mitigation Adopting Release”).

The purpose of requiring that broker-dealers, broker-dealer SBSBs, and broker-dealer MSBs to maintain the records specified in Rule 17a-4 is to help ensure that examiners and other representatives of the Commission, State securities regulatory authorities, and self-regulatory organizations (“SROs”) have access to the information and documents necessary to determine whether broker-dealers, broker-dealer SBSBs, and broker-dealer MSBs are in compliance with the Commission’s antifraud and anti-manipulation rules, financial responsibility program, and other Commission, SRO, and State laws, rules, and regulations. Without Rule 17a-4, it would be impossible for the Commission to determine whether a broker-dealer, broker-dealer SBSB, or broker-dealer MSB that chose not to preserve records was in compliance with these rules. Such a situation would not be in the public interest and would be detrimental to investors and the financial community as a whole.

3. Consideration Given to Information Technology

Rule 17a-4 specifically allows brokers and dealers, including broker-dealer SBSBs, and broker-dealer MSBs, to use electronic storage media to comply with the record-keeping requirements under the Securities and Exchange Act of 1934. In fact, because it simply sets minimum standards for the electronic storage media employed, Rule 17a-4 does not limit broker-dealers, including broker-dealer SBSBs, and broker-dealer MSBs, to using forms of electronic storage which may become obsolete as new technology is developed. The Commission believes that improvements in telecommunications and data processing technology may reduce any burdens that result from Rule 17a-4. The audit trail alternative in the amended rule is designed to update the requirements in Rule 17a-4 to account for technological advances in recordkeeping technologies that have occurred over the past two decades.

4. Duplication

There is no duplication.

5. Effects on Small Entities

Because number and complexity of records required to be preserved by Rule 17a-4 vary proportionately with the volume and complexity of the broker-dealer's business, broker-dealers, including broker-dealer SBSBs, and broker-dealer MSBs, may choose which media (hard-copy, microfiche, electronic storage, cloud-based service providers etc.) is most appropriate given their size and the type of business they do. The books and records required under Rule 17a-4 are normally retained by small broker-dealers. Additionally, with respect to the amendments associated with the rulemaking implementing the recordkeeping requirements mandated under the Dodd-Frank Act with respect to broker-dealer SBSBs and broker-dealer MSBs, and to account for the security-based swap and swap activities of stand-alone broker-dealers, the Commission does not anticipate that many small broker-dealers will be affected by the SBS Recordkeeping Release’s amendments to Rule 17a-4 as most of these firms generally do not hold positions in security-based swaps.

6. Consequences of Not Conducting Collection

Rule 17a-4 is a record preservation rule. Without Rule 17a-4, it would be impossible for the Commission to determine whether a broker-dealer, including a broker-dealer SBSD, or a broker-dealer MSBSP, that chose not to preserve records was in compliance with the Commission's antifraud and anti-manipulation rules, financial responsibility program, and other Commission, SRO, and State laws, rules, and regulations. Such a situation would not be in the public interest and would be detrimental to investors and the financial community as a whole.

7. Inconsistencies with Guidelines in 5 CFR 1320.5(d)(2)

Certain provisions of Rule 17a-4 require respondents to retain records for more than three years. Specifically, Rule 17a-4(a) requires broker-dealers to preserve for a period of not less than six years:

1. Purchase and sales blotters, securities and cash receipts, and disbursements blotters;
2. Ledgers of a broker-dealer's assets, liabilities, income and expense, and capital accounts;
3. Customer account ledgers;
4. Securities position reports;
5. Lists of office employees able to explain records to examiners; and
6. A record of persons responsible for establishing policies and procedures designed to ensure that the broker-dealer is compliant with applicable rules and regulations.

After the closing of any customer's account, broker-dealers must preserve for at least six years any account cards or records which relate to the terms and conditions of opening and maintaining the account. Broker-dealers are required to maintain and preserve in an easily accessible place:

1. Employment records of associated persons until at least three years after the employment has terminated;
2. Processed fingerprint cards and other related information until at least three years after the termination of employment or association;
3. All records required pursuant to paragraph (a)(15) of Rule 17a-3 for the life of the enterprise;
4. All account record information required pursuant to Rule 17a-3(a)(17) and Rule 17a-3(a)(35) until at least six years after the earlier of the date the account was closed or the date on which the information was replaced or updated;
5. All records required pursuant to Rule 17a-3(a)(24) and a copy of each Form CRS, until at least six years after such record or Form CRS is created; and
6. Each compliance, supervisory, and procedures manual, including any updates, modifications, and revisions to the manual, describing the policies and practices of the member, broker, or dealer with respect to compliance with applicable laws and rules, and supervision of the activities of each natural person associated with the member, broker, or dealer until three years after the termination of the use of the manual.

In addition, Rule 17a-4(d) requires that a broker-dealer maintain specified organizational documents for the life of the enterprise and any successor enterprise.

These extended retention periods are necessary with respect to the records itemized above in order to provide regulators with sufficient time to conduct comprehensive inspections and investigations. Due to budget constraints, regulators only examine broker-dealers and office locations periodically. Further, certain of these documents do not become obsolete (*e.g.*, organizational documents).

8. Consultations Outside the Agency

The Commission requested comment on the partial revision to the collection of information requirements when the amendments were adopted in October 2022.¹⁰ The Commission received no comments regarding the Paperwork Reduction Act burden and cost estimates.

The Commission, however, received comment that affected the scope of the rulemaking in a way that affected the information collection burden and costs. Specifically, commenters expressed concerns with replacing the third-party undertakings requirement with the senior officer undertakings requirement.¹¹ In response to the comments, the final amendments to Rule 17a-4(f) require a broker-dealer to designate either an executive officer of the firm (“Designated Executive Officer”) or an unaffiliated third-party (“Designated Third Party”) to make the required undertakings.

Other commenters stated that cloud service providers do not have the ability to make the traditional undertaking required by Rule 17a-4(i).¹² These commenters pointed out a significant difference in how traditional records custodians maintain records for their clients compared to how cloud service providers maintain records for their clients. In light of the comments and the emerging use of cloud service providers by broker-dealers, the Commission adopted amendments to Rule 17a-4(i) to permit a cloud service provider to make an alternative undertaking that is tailored to how cloud service providers maintain records for broker-dealers in lieu of the traditional undertaking.

The Commission also requested comment on the partial revision to the 17a-4 collection of information requirements regarding risk mitigation techniques.¹³ The Commission received no comments regarding the Paperwork Reduction Act burden and cost estimates.¹⁴

¹⁰ See *2022 Electronic Recordkeeping Adopting Release*.

¹¹ See letter from Douglas Weeden, Managing Director, 17a-4, LLC, Jan. 3, 2022; letter from John Trotti, NCC Group, Dec. 29, 2021; Letter from Adam Schaub, Vice President, RegEd, Jan. 3, 2022.

¹² See Letter from Blair Anderson, Director, AWS, Jan. 3, 2022; letter from Eversheds Sutherland (US) LLP on behalf of Committee of Annuity Insurers, Jan. 5, 2022; letter from Alexander Gavis, Senior Vice President & Deputy General Counsel, Fidelity Investments, Dec. 31, 2021; letter from Dave T. Bellaire, Esq., Executive Vice President & General Counsel, Financial Services Institute, Jan 3, 2022; and letter from Melissa MacGregor, Managing Director and Associate General Counsel, SIFMA, Dec. 22, 2021.

¹³ See *Risk Mitigation Techniques for Uncleared Security-Based Swaps*, Exchange Act Release No. 34-84861 (Dec. 19, 2018), 84 FR 4614, 4639 (Feb. 15, 2019) (“*Risk Mitigation Proposing Release*”).

¹⁴ See *Risk Mitigation Adopting Release*, 85 FR at 6381.

9. Payment or Gift

The Commission did not provide any payment or gift to respondents.

10. Confidentiality

The records required to be maintained by Rule 17a-4 are available only to the examination staffs of the Commission, State regulatory authorities, and the SROs. Subject to the provisions of the Freedom of Information Act, 5 U.S.C. § 552 (“FOIA”) and the Commission’s rules thereunder (17 CFR 200.80(b)(4)(iii)), the Commission generally does not publish or make available information contained in reports, summaries, analyses, letters, or memoranda arising out of, in anticipation of, or in connection with an examination or inspection of the books and records of any person or any other investigation.

11. Sensitive Questions

Rule 17a-4 requires that broker-dealers maintain records as prescribed by Commission rules; however, this information collection does not collect personally identifiable information (“PII”). No information of a sensitive nature, including social security numbers, will be required under this collection of information. The agency has determined that a system of records notice (“SORN”) and privacy impact assessment (“PIA”) are not required in connection with the collection of information.

12. Information Collection Burden

Rule 17a-4 establishes the records that must be preserved by all broker-dealers, as well as records that must be preserved only by certain broker-dealers. All of these burdens are recordkeeping burdens.

Currently Approved Burdens

This section summarizes the burdens that have been reviewed and approved as of the most recent extension.¹⁵ These burdens are not changing at this time.

Records Preserved by All Broker-Dealers

The Commission estimates that, on average, each broker-dealer spends 254 hours each year to ensure that it preserves the records Rule 17a-4 requires all broker-dealers to preserve. As of December 31, 2018, there were 3,764 broker-dealers registered with the Commission. Therefore, the Commission estimates that all brokers will spend a combined total of **891,032 hours each year** ((3,508 broker-dealers x 254 hours) to comply with the Rule 17a-4 requirements applicable to all broker-dealers.

¹⁵

See https://www.reginfo.gov/public/do/PRAViewICR?ref_nbr=201910-3235-004.

Rule 17a-4(b)(11)

Paragraph (b)(11) of Rule 17a-4 requires any broker-dealer that sponsors an internal broker-dealer system to maintain certain records relating to such system for at least three years, the first two years in an easily accessible place.¹⁶ The Commission estimates that paragraph (b)(11) of Rule 17a-4 imposes an annual burden of 3 hours per year to maintain the requisite records. The Commission estimates that there are approximately 200 internal broker-dealer systems,¹⁷ resulting in **an annual recordkeeping burden of 600 hours**.¹⁸

Rule 17a-4(e)(5) and Rule 17a-4(e)(10)

In June 2019, the Commission amended Rule 17a-4 by revising paragraph (e)(5) and by adding new paragraph (e)(10). These revisions to the collection of information were approved by OMB on October 3, 2019. Because these revisions were approved so recently, we do not have any changes to the estimated burdens.

Based on data obtained from Form BR, the Commission estimates that approximately 73.5% of the 3,764 broker-dealers registered with the Commission as of December 31, 2018, or 2,766 broker-dealers, have retail customers and therefore are subject to the requirements of Rule 17a-4 (e)(5) and Rule 17a-4(e)(10).¹⁹

Rule 17a-4(e)(5) requires broker-dealers to retain all records of the information collected from or provided to each retail customer for at least six years after the earlier of the date the account was closed or the date on which the information was last replaced or updated.²⁰ Rule

¹⁶ An internal broker-dealer system is any facility that provides a mechanism for collecting, receiving, disseminating, or displaying system orders and facilitating agreement to the basic terms of a purchase or sale of a security between a customer and the sponsor, but excludes a national securities exchange, an exchange exempt from registration based on limited volume, and an alternative trading system. See 17 C.F.R. 240.17a-3(a)(16)(ii)(A). Because an internal broker-dealer system is not included in the definition of an exchange, it is regulated under the broker-dealer regulatory scheme.

¹⁷ The Commission believes that most over-the-counter (“OTC”) market makers maintain an internal broker-dealer system. In 2018, the Commission estimated that there are approximately 200 OTC market makers. See *Disclosure of Order Handling Information*, Exchange Act Release No. 84528 (Nov. 2, 2018), 83 FR 58338 (Nov. 19, 2018).

¹⁸ 3 hours x 200 internal broker-dealer systems = 600 hours.

¹⁹ On June 5, 2019, the Commission adopted Rule 15l-1 under the Exchange Act establishing a standard of conduct for broker-dealers and natural persons who are associated persons of a broker-dealer when making a recommendation of any securities transaction or investment strategy involving securities to a retail customer (“Regulation Best Interest”). See Securities Exchange Act Release No. 86031 (June 5, 2019), 84 FR 33318 (July 12, 2019) (“Regulation Best Interest Adopting Release”). At the same time, the Commission adopted Exchange Act Rule 17a-14 (CFR 240.17a-14) and Form CRS (17 CFR 249.640) under the Exchange Act. In connection with these rulemakings, the Commission amended Rule 17a-4 by revising paragraph (e)(5) and adding paragraph (e)(10).

²⁰ The Commission believes the following records will likely need to be retained by broker-dealers under Rule 17a-4(e)(5): (1) existing account disclosure documents; (2) comprehensive fee

17a-4(e)(10) requires broker-dealers subject to Form CRS to maintain each record made pursuant to Rule 17a-3(a)(24) for at least six years.

Based on the assumption that broker-dealers will rely on existing infrastructures to satisfy the recordkeeping obligations of Rule 17a-4(e)(5), the Commission estimates the one-time initial burden for broker-dealers to add new documents or modify existing documents to the broker-dealer's existing retention system is 1,639 hours per broker-dealer or **4,225,342 burden hours for all broker-dealers**²¹ (put another way, each broker-dealer incurs the burden for each of the 39,565 retail customer accounts)²² assuming a broker-dealer needs to upload or file each of the four account documents discussed above for each retail customer account.²³ Furthermore, the Commission estimates that the approximate ongoing burden associated with the recordkeeping requirement of Rule 17a-4(e)(5) is 1,623 hours per broker-dealer or **4,184,094 burden hours per year.**²⁴

Rule 17a-4(e)(10) requires broker-dealers subject to Form CRS to maintain each record made pursuant to Rule 17a-3(a)(24) for at least six years. The Commission estimates this increases the burden for each such broker-dealer by 0.10 hours, or an estimated aggregate burden of **258 hours on an annual basis.**²⁵ This estimate results in a total annual estimated recordkeeping burden for Form CRS records for all BDs of 258 hours.

Records Preserved by Broker-Dealer SBSDs and Broker-Dealer MSBSPs

Telephonic Communications: The Commission amended paragraph (b)(4) of Rule 17a-4 to require broker-dealer SBSDs and broker-dealer MSBSPs to retain telephone calls that have already been recorded and are related to the broker-dealer SBSD's and broker-dealer MSBSP's security-based swap business.²⁶ Paragraph (b)(4) of Rule 17a-4, as amended, only requires the retention of telephonic recordings the broker-dealer SBSD or broker-dealer MSBSP voluntarily chooses to record, so the Commission's burden estimate does not include the cost of recording

schedules; (3) disclosures identifying material conflicts; and (4) memorialized oral disclosures under the circumstances outlined in Section II.C.1 of the Regulation Best Interest Adopting Release, *Oral Disclosure or Disclosure After a Recommendation*.

²¹ This estimate is based on the following calculation: 2,578 broker-dealers x 1,639. hours per broker-dealer = 4,225,342 burden hours for all broker-dealers.

²² This estimate is based on the following calculation: (102 million retail customer accounts)/(2,578 broker-dealers) = 39,565 retail customer accounts per broker-dealer.

²³ This estimate is based on the following calculation: (4 documents per customer account) x (102 million retail customer accounts) x (2 minutes per document) / 60 minutes = 13,600,000 aggregate burden hours.

²⁴ This estimate is based on the following calculation: (2,578 broker-dealers) x 1,623 hours per broker-dealer = 4,184,094 burden hours for all broker-dealers.

²⁵ 2,578 broker-dealers x 0.1 hours = 258 hours in aggregate.

²⁶ See paragraph (b)(4) of Rule 17a-4, as amended.

phone calls. Therefore, the burden imposed by the amendment is to provide adequate physical space and computer hardware and software for storage. The Commission estimates that the amendment to paragraph (b)(4) of Rule 17a-4 imposes an initial burden of 13 hours per firm in the first year and an ongoing burden of 6 hours per year (including the first year). The Commission estimates that there are 17 respondents,²⁷ resulting in an estimated industry-wide initial burden of 221 hours²⁸ in the first year and an ongoing burden of 102 hours per year (including the first year).²⁹ Over a three year period, the total industry burden is estimated to be 527 hours,³⁰ or **176 hours per year when annualized.**³¹

Security-Based Swap Activities: The Commission amended paragraphs (b)(1), and (b)(8)(v)-(viii), and adding paragraphs (b)(8)(xvi) and (b)(14) of Rule 17a-4 that add five types of records to be preserved by broker-dealers.³² Because the burden to create these records is already accounted for in the Paperwork Reduction Act (“PRA”) estimates for Rule 17a-3, Rule 15c3-1, or in Regulation SBSR, the burdens imposed by these new requirements are to ensure there is adequate physical space and computer hardware and software for storage, ensure these records are preserved for the requisite time period, and produce them when requested. The Commission estimates that these amendments to Rule 17a-4 impose an initial burden of 65 hours per firm in the first year and an ongoing burden of 30 hours per year (including the first year). The Commission estimates that there are 42 respondents,³³ resulting in an estimated industry-wide initial burden of 2,730 hours³⁴ in the first year and an ongoing burden of 1,260 hours per year (including the first year).³⁵ Over a three year period, the total industry burden is estimated to be 6,510 hours,³⁶ or **2,170 hours per year when annualized.**³⁷

²⁷ 16 broker-dealer SBSDs + 1 broker-dealer MSBSP = 17 respondents.

²⁸ 13 hours x 17 broker-dealer SBSDs and broker-dealer MSBSPs = 221 hours.

²⁹ 6 hours x 17 broker-dealer SBSDs and broker-dealer MSBSPs = 102 hours.

³⁰ (221 hours in first year + 102 hours in first year) + 102 hours in second year + 102 hours in third year = 527 hours.

³¹ 527 hours / 3 years = 175.67 hours per year or 10.33 hours per respondent per year.

³² See Rule 17a-4, as amended (paragraph (b)(1) (cross-referencing paragraphs (a)(26) (compliance with possession or control requirements) and (a)(27) (records of reserve computations under Rule 15c3-3(p)(3)) of Rule 17a-3, as amended; paragraph (b)(8)(v) through (viii) (identifying information about swaps); paragraph (b)(8)(xvi) (risk margin calculation); and paragraph (b)(14) (Regulation SBSR information)).

³³ 16 broker-dealer SBSDs + 1 broker-dealer MSBSP + 25 non-SBSD/MSBSP broker-dealers engaged in security-based swap activities = 42 respondents.

³⁴ 65 hours x 42 respondents = 2,730 hours.

³⁵ 30 hours x 42 respondents = 1,260 hours.

³⁶ (2,730 hours in first year + 1,260 hours in first year) + 1,260 hours in second year + 1,260 hours in third year = 6,510 hours.

³⁷ 6,510 hours / 3 years = 2,170 hours per year or 51.67 hours per respondent per year.

Broker-Dealer SBSs and Broker-Dealer MSBs: The Commission amended paragraph (b)(1) and adopting paragraphs (b)(15) and (b)(16) of Rule 17a-4 to add five types of records to be preserved by broker-dealer SBSs and broker-dealer MSBs.³⁸ Because the burden to create these records is accounted for in the PRA estimates for Rule 17a-3, or Rules 15Fh-1 through 15Fh-5 and 15Fk-1, the burdens imposed by these amendments are to ensure there is adequate physical space and computer hardware and software for storage, ensure these records are preserved for the requisite time period, and produce them when requested. The Commission estimates that these amendments to Rule 17a-4 impose an initial burden of 65 hours per firm in the first year and an ongoing burden of 30 hours per year (including the first year). The Commission estimates that there are 17 respondents,³⁹ resulting in an estimated industry-wide initial burden of 1,105 hours⁴⁰ in the first year and an ongoing burden of 510 hours per year (including the first year).⁴¹ Over a three year period, the total industry burden is estimated to be 2,635 hours,⁴² or **878 hours per year when annualized.**⁴³

Broker-Dealer SBSs Only: The Commission amended paragraph (b)(1) of Rule 17a-4 that requires records relating to political contributions to be preserved by broker-dealer SBSs only.⁴⁴ Because the burden to create this record is accounted for in the PRA estimate for Rule 17a-3, as amended, the burden imposed by this new requirement is to ensure there is adequate physical space and computer hardware and software for storage, ensure the record is preserved for the requisite time period, and produce it when requested. The Commission estimates that this amendment to Rule 17a-4 imposes an initial burden of 13 hours per firm in the first year and an ongoing burden of 6 hours per year (including the first year). The Commission estimates that there are 16 broker-dealer SBSs, resulting in an estimated industry-wide initial burden of 208 hours⁴⁵ in the first year and an ongoing burden of 96 hours per year (including the first year).⁴⁶

³⁸ See Rule 17a-4, as amended (paragraph (b)(1), cross-referencing paragraph (a)(25) of Rule 17a-3, as amended (Rule 18a-3 calculations); paragraph (b)(1), cross-referencing paragraph (a)(28) of Rule 17a-3, as amended (unverified transactions); paragraph (b)(1), cross-referencing paragraph (a)(30) of Rule 17a-3, as amended (compliance with business conduct standards); paragraph (b)(15) (documents and notices related to the business conduct standards); and paragraph (b)(16) (special entity documents)).

³⁹ 16 broker-dealer SBSs + 1 broker-dealer MSB = 17 respondents.

⁴⁰ 65 hours x 17 broker-dealer SBSs and broker-dealer MSBs = 1,105 hours.

⁴¹ 30 hours x 17 broker-dealer SBSs and broker-dealer MSBs = 510 hours.

⁴² (1,105 hours in first year + 510 hours in first year) + 510 hours in second year + 510 hours in third year = 2,635 hours.

⁴³ 2,635 hours / 3 years = 878.33 hours per year or 51.67 hours per respondent per year.

⁴⁴ See paragraph (b)(1) of Rule 17a-4, as amended (cross-referencing paragraph (a)(29) of Rule 17a-3, as amended (political contributions)).

⁴⁵ 13 hours x 16 broker-dealer SBSs = 208 hours.

⁴⁶ 6 hours x 16 broker-dealer SBSs = 96 hours.

Over a three year period, the total industry burden is estimated to be 496 hours,⁴⁷ or **165.33 hours per year when annualized.**⁴⁸

The estimated burdens associated with Rule 17a-4 are summarized in the following table:

Name of Information Collection	Type of Burden	Number of Respondents	Summary of Hourly Burdens					
			Annual Responses per Respondent	Initial Burden per Entity per Response	Initial Burden Annualized per Entity per	Hourly Burden per Response	Annual Burden Per Entity	Annual Burden for all Respondents
Rule 17a-4	Recordkeeping	3,508	1			254	254	891,032
Rule 17a-4(b)(11)	Recordkeeping	200	1			3	3	600
Rule 17a-4(e)(5) - Initial One-Time	Recordkeeping	2,578	244,627			0.0067	1639.000 ⁹⁴⁹	4,225,342
Rule 17a-4(e)(5) - Ongoing	Recordkeeping	2,578	147,505			0.011	1622.555	4,182,947
Rule 17a-4(e)(10)	Recordkeeping	2,578	1			0.1	0.1	258
17a-4 (b)(4) – Telephonic communications	Recordkeeping	17	1	13	4.333	6	10.333	175.61
Rule 17a-4(b)(1), (b)(8)(v) - Security-Based Swap Activities and Rule 17a-4(b)(8)(xvi) and (b)(14)	Recordkeeping	42	1	65	21.67	30	51.67	2,170
Rule 17a-4(b)(1) Broker-Dealer SBSBs and Broker-Dealer MSBSPs and Rule 17a-4(b)(15) and (b)(16)	Recordkeeping	17	1	65	21.67	30	51.67	878
Rule 17a-4(b)(1) Broker-Dealer SBSBs Only:	Recordkeeping	16	1	13	4.333	6	10.333	165.33
						TOTAL		9,303,568.33

⁴⁷ (208 hours in first year + 96 hours in first year) + 96 hours in second year + 96 hours in third year = 496 hours.

⁴⁸ 496 hours / 3 years = 165.33 hours per year or 9.73 hours per respondent per year.

⁴⁹ This estimate is based on the following calculation: (4 documents per customer account) x (102 million retail customer accounts) x (2 minutes per document) / 60 minutes = 13,600,000 aggregate burden hours. (13,600,000/2766 broker-dealers) / 3 = 1,639 hours per year.

The Commission believes that requirements resulting from Rule 17a-4 are performed by individuals in a broker-dealer's compliance department. A Compliance Clerk earns an average of \$70 per hour,⁵⁰ resulting in a total internal cost of compliance of approximately \$699 million (9,983,015 hours x \$ 70).

PARTIAL REVISIONS: New Burdens Associated with the 2022 Amendments to Rule 17a-4

The amendments to Rule 17a-4(f) added an audit-trail alternative to the current broker-dealer recordkeeping requirement.⁵¹ The Commission also amended both of these paragraphs to require the broker-dealer to have a backup set of records or the redundant equivalency when records are preserved on an electronic recordkeeping system.⁵² The amendments to Rule 17a-4(f) also replaces the third-party access and undertakings requirements with a requirement that either a designated executive officer or a third party have the access and provide the necessary undertakings.⁵³ The amendments to Rule 17a-4(f) eliminate a requirement that the broker-dealer notify its DEA before employing an electronic recordkeeping system.⁵⁴ The amendments to Rule 17a-4(j) also require a broker-dealer to furnish a record and its audit trail (if applicable) preserved on an electronic recordkeeping system pursuant to Rules 17a-4(f), respectively, in a reasonably usable electronic format, if requested by a representative of the Commission.⁵⁵ The amendments to Rule 17a-4(i) provide an alternative undertaking for certain third-party electronic recordkeeping service providers, in particular cloud service providers.⁵⁶

The Commission estimates that replacing the third-party access and undertakings requirements with a requirement that either a designated executive officer or a third party have the access and provide the necessary undertakings will result in a one-time burden of 3,333 hours.⁵⁷ In addition, the Commission estimates that the alternative electronic recordkeeper undertaking will result in a one-time initial burden of 1 hour per affected broker-dealer, for a total of 500 hours.⁵⁸ Finally, the Commission estimates that the need for the five cloud service providers to review and execute the Alternative Undertaking will result in a one-time initial burden of 100 hours per provider, for a total of 500.⁵⁹

⁵⁰ This figure is based on SIFMA's *Office Salaries in the Securities Industry 2013*, modified by Commission staff to account for inflation and an 1,800-hour work-year multiplied by 2.93 to account for bonuses, firm size, employee benefits, and overhead.

⁵¹ See section II.D. of the *2022 Electronic Recordkeeping Adopting Release* (discussing this amendment).

⁵² See section II.E. of the *2022 Electronic Recordkeeping Adopting Release* (discussing this amendment).

⁵³ *Id.*

⁵⁴ See section II.C. of the *2022 Electronic Recordkeeping Adopting Release* (discussing this amendment).

⁵⁵ See section II.H. of the *2022 Electronic Recordkeeping Adopting Release* (discussing this amendment).

⁵⁶ See section II.G. of the *2022 Electronic Recordkeeping Adopting Release* (discussing this amendment).

⁵⁷ One-time initial reporting burden for 3,333 broker-dealers (1 hour x 3,373 broker-dealers) = 3,333 hours.

⁵⁸ One-time initial recordkeeping burden for 500 broker-dealers (1 hour x 500 broker-dealers) = 500 hours.

⁵⁹ One-time initial reporting burden for five cloud service providers: (100 hours x five cloud service providers) = 500 hours.

Name of Information Collection	Type of Burden	Number of Respondents	Summary of Hourly Burdens					
			Annual Responses per Respondent	Initial Burden per Entity per Response	Initial Burden Annualized per Entity	Ongoing Hourly Burden per Response	Annual Burden Per Entity	Annual Burden for all Respondents
Third party or Designated Executive Officer Undertaking	Reporting	3,333	1	1	.333	0	.333	1,111
Alternative undertaking – Broker-Dealers	Recordkeeping	500	1	1	.333	0	.333	166.67
Alternative undertaking – Cloud Service Providers	Reporting	5	100	1	.333	0	33.333	166.67
TOTAL								4,333

New Burdens Associated with the 2019 Amendments to Rule 17a-4 Related to Risk Mitigation Techniques

The Commission amended Rule 17a-4(b)(1), (e)(11), and (e)(12) to account for the security-based swap risk mitigation activities of broker-dealers, including Broker-Dealer SBSs and Broker-Dealer MSBSPs (collectively, “SBS Entities”), by, among other things, requiring the preserving of any required records regarding portfolio reconciliation (Rule 15Fi-3(a) and (b)), bilateral offsets (Rule 15Fi-4(a)(1)), bilateral or multilateral portfolio compression (Rule 15Fi-4(b) and (c)), valuation disputes (Rule 15Fi-3(c)), and written trading relationship documentation (Rule 15Fi-5). Rule 17–4 does not require the firm to create these records or perform the underlying task required by the Rule. Rather, the burden to create these records and perform the underlying task is accounted for in Rule 15Fi-3 – 15Fi-5.⁶⁰ Accordingly, the burdens imposed by the requirements in 17a-4 are to ensure these records related to risk mitigation are preserved for the requisite time period and produced when requested. The Commission estimates that these recordkeeping requirements will impose an initial burden of 60 hours per firm for updating the applicable policies and systems required to account for capturing the additional records made pursuant to Rule 15Fi-3 through 15Fi-5, and an ongoing annual burden of 75 hours per firm for maintaining such records as well as to make additional updates to the applicable recordkeeping policies and systems to account for the new rules. The Commission estimates that there are 17 SBS Entity respondents, for a total average initial annual burden for all respondents of 1,020 hours⁶¹ and a total ongoing average annual burden of 1,275 hours.⁶²

Name of Information Collection	Type of Burden	Number of Respondents	Summary of Hourly Burdens					
			Annual Responses	Initial Burden per Entity	Initial Burden Annualized	Hourly Burden	Annual Burden	Annual Burden for all

⁶⁰ See *Risk Mitigation Adopting Release*, 85 FR at 6389.

⁶¹ One-time initial reporting burden for 17 SBS Entities (60 hour x 17 SBS Entities) = 1,020 hours.

⁶² 75 hour x 17 SBS Entities = 1,275 hours.

			per Respondent	per Response	per Entity per	per Response	Per Entity	Responden ts
Rule 17a-4(b)(1) (e)(11) and (e)(12) Broker- Dealer SBSDs and Broker- Dealer MSBSPs:	Recordkeeping	17	1	60	20	75	95	1615
						TOTAL		1615

13. Costs to Respondents

Currently Approved Costs

The following chart summarizes the costs that are currently approved for this collection. A description of each cost follows the chart:

Summary of Cost Burdens				
Name of Information Collection	Type of Burden	Number of Respondents	Annual Cost Burden per Respondent	Annual Burden for all Respondents
Rule 17a-4 – Document Storage Costs	Recordkeeping	3,508	\$5,000	\$17,540,000
Telephonic Communications	Recordkeeping	17	\$2,000	\$34,000
Security-Based Swap Activities	Recordkeeping	42	\$600	\$25,200
Broker-Dealer SBSDs and Broker-Dealer MSBSPs	Recordkeeping	17	\$600	\$10,200
Broker-Dealer SBSDs Only	Recordkeeping	16	\$120	\$1,920
			TOTAL	\$17,611,320

Rule 17a-4 – Document Storage Costs.

Based on conversations with members of the securities industry and the Commission's experience in the area, we estimate that the average broker-dealer spends approximately \$5,000 each year to store documents required to be retained under Rule 17a-4. Costs include the cost of physical space, computer hardware and software, etc., which vary widely depending on the size of the broker-dealer and the type of storage media employed. The Commission estimates that the **annual reporting and recordkeeping cost burden is \$17,540,000.** This cost is calculated by the number of active, registered broker-dealers multiplied by the recordkeeping cost for each respondent (3,508 active, registered broker-dealers x \$5,000). This is a recordkeeping cost.

Telephonic Communications: The Commission estimates that each applicable firm incurs an ongoing annual cost of approximately \$2,000 per firm for server, equipment, and systems development costs. The Commission estimates that there are 17 respondents,⁶³ resulting in an estimated industry-wide **ongoing annual cost of \$34,000.**⁶⁴

⁶³ 16 broker-dealer SBSDs + 1 broker-dealer MSBSP = 17 respondents.

⁶⁴ \$2,000 per firm x 17 respondents = \$34,000.

Security-Based Swap Activities: The Commission estimates that the amendments to paragraphs (b)(1), (b)(8)(v)-(viii) and new paragraphs (b)(8)(xvi) and (b)(14) of Rule 17a-4 impose an ongoing annual cost of approximately \$600 per firm. The Commission estimates that there are 42 respondents,⁶⁵ resulting in an estimated industry-wide ongoing annual cost of \$25,200.⁶⁶

Broker-Dealer SBSBs and Broker-Dealer MSBSPs: The Commission estimates that the amendments to paragraph (b)(1) and new paragraphs (b)(15) and (b)(16) of Rule 17a-4 impose ongoing annual cost of approximately \$600 per firm. The Commission estimates that there are 17 respondents,⁶⁷ resulting in an estimated industry-wide ongoing annual cost of \$10,200.⁶⁸

Broker-Dealer SBSBs Only: The Commission estimates that the amendments to paragraph (b)(1) of Rule 17a-4 impose an ongoing annual cost of approximately \$120 per firm. The Commission estimates that there are 16 broker-dealer SBSBs, resulting in an estimated industry-wide ongoing annual cost of \$1,920.⁶⁹

PARTIAL REVISION: New Costs Associated with the 2022 Amendments to Rule 17a-4.⁷⁰

As described above, the amendments to Rule 17a-4(f) add an audit-trail alternative to the current broker-dealer recordkeeping requirement.⁷¹ The Commission also amended both of these paragraphs to require the broker-dealer to have a backup set of records or the redundant equivalency when records are preserved on an electronic recordkeeping system.⁷² The amendments to Rule 17a-4(f) also replaced the third-party access and undertakings requirements with a requirement that either a third party or a designated executive officer of the broker-dealer have the access and provide the necessary undertakings.⁷³ The amendments to Rule 17a-4(f)

⁶⁵ 16 broker-dealer SBSBs + 1 broker-dealer MSBSP + 25 non-SBSD/MSBSP broker-dealers engaged in security-based swap activities = 42 respondents.

⁶⁶ \$600 per firm x 42 respondents = \$25,200.

⁶⁷ 16 broker-dealer SBSBs + 1 broker-dealer MSBSP = 17 respondents.

⁶⁸ \$600 per firm x 17 respondents = \$10,200.

⁶⁹ \$120 per firm x 16 broker-dealer SBSBs = \$1,920.

⁷⁰ Throughout this section, to monetize the internal costs the Commission staff used data from the SIFMA publications, Management and Professional Earnings in the Securities Industry—2013, and Office Salaries in the Securities Industry—2013, modified by the Commission staff to account for an 1800 hour work-year and multiplied by 5.35 (professionals) or 2.93 (office) to account for bonuses, firm size, employee benefits and overhead. These figures have been adjusted for inflation through the end of 2020 using data published by the Bureau of Labor Statistics.

⁷¹ See section II.D. & E. of the 2022 *Electronic Recordkeeping Adopting Release* (discussing this amendment).

⁷² See section II.D. of the 2022 *Electronic Recordkeeping Adopting Release* (discussing this amendment).

⁷³ *Id.*

eliminated a requirement that the broker-dealer notify its DEA before employing an electronic recordkeeping system.⁷⁴ The amendments to Rule 17a-4(j) also require a broker-dealer furnish a record and its audit trail (if applicable) preserved on an electronic recordkeeping system pursuant to Rules 17a-4(f), respectively, in a reasonably usable electronic format, if requested by a representative of the Commission.⁷⁵ The amendments to Rule 17a-4(i) provide an alternative undertaking for certain third-party electronic recordkeeping service providers, in particular cloud service providers.⁷⁶

Based upon information provided to the Commission by the securities industry, the Commission estimates that the initial cost to build and implement a WORM-compliant electronic recordkeeping system for a large broker-dealer is \$10 million, with an additional cost of \$1.2 million annually to maintain the system.⁷⁷ Based on feedback from the securities industry, the Commission believes that the initial cost to build and implement an electronic recordkeeping system that meets the audit-trail requirements and the ongoing cost to maintain the system will be substantially lower than the analogous costs that are incurred with respect to a WORM-compliant system.⁷⁸ Consequently, the Commission estimates that the initial cost to build and implement an electronic recordkeeping system that meets the audit-trail requirement for a large broker-dealer is \$1,000,000, with an additional cost of \$120,000 annually to maintain the system. There are 802 broker-dealers with assets greater than \$10 million. The Commission does not believe any of these firms will elect to build a WORM-compliant electronic recordkeeping system. Moreover, the Commission estimates that most of these firms have electronic recordkeeping systems that could meet the audit-trail requirement or that could be configured to meet that requirement without the need to build a new system. The Commission estimates that 20 of these firms will elect to build a new electronic recordkeeping system to meet the audit-trail requirement for an initial one-time industry cost of \$20,000,000 (an annualized initial cost of \$6,666,660) and an annual cost of \$2,400,000.

The Commission estimates that the cost for the 2,749 broker-dealers with \$10 million or less in total assets to build and maintain an electronic recordkeeping system that meets the audit-trail requirement will be significantly less than the \$1,000,000 initial and \$120,000 annual costs estimated for the 802 larger broker-dealers. Consequently, the Commission estimates that the initial cost to build and implement an electronic recordkeeping system that meets the audit-trail requirement for these smaller broker-dealers is \$100,000, with an additional cost of \$12,000 annually to maintain the system. The Commission estimates that most of the 2,749 broker-dealers with \$10,000,000 or less in total assets will continue to preserve records in the manner they do today: using a WORM-compliant system, using micrographic media, or maintaining paper records. The Commission estimates that 80 of these firms will elect to build a new

⁷⁴ See section II.C. of the *2022 Electronic Recordkeeping Adopting Release* (discussing this amendment).

⁷⁵ See section II.H. of the *2022 Electronic Recordkeeping Adopting Release* (discussing this amendment).

⁷⁶ See section II.G. of the *2022 Electronic Recordkeeping Adopting Release* (discussing this amendment).

⁷⁷ See Petition 4-713 (Nov. 14, 2017) filed by the Securities Industry Financial Markets Association, Financial Services Roundtable, Futures Industry Association, International Swaps Derivatives Association, and Financial Services Institute available at <https://www.sec.gov/rules/petitions/2017/petn4-713.pdf> (“Rule 17a-4(f) Rulemaking Petition”). at 4-5.

⁷⁸ See e.g. Rule 17a-4(f) Rulemaking Petition at 6-7.

electronic recordkeeping system to meet the audit-trail requirement for an initial one-time industry cost of \$8,000,000 (an annualized initial cost of \$2,666,640) and an annual cost of \$960,000.

The Commission believes the initial and ongoing costs to establish backup electronic recordkeeping systems or the redundant equivalency will be substantially less than the costs of the primary electronic recordkeeping systems because of the benefit of economies of scale for the backup system or the redundant equivalency whereby common technology and personnel could be used for both systems. The Commission estimates that the costs for the 802 larger broker-dealers will be \$250,000 in initial burdens and costs and \$30,000 in annual burdens and costs. Further, the Commission expects that the broker-dealers that have electronic recordkeeping systems that could meet the audit-trail requirement or that could be configured to meet that requirement without the need to build a new system also maintain backup recordkeeping systems or the redundant equivalencies for business continuity purposes. Therefore, the initial and annual costs will be incurred by the 20 firms that elect to build a new electronic recordkeeping system that meets that audit-trail requirement. Consequently, the Commission estimates that the industry-wide costs and burdens for these firms will be \$5,000,000 in initial costs (an annualized initial cost of \$1,666,660) and burdens and \$600,000 in annual costs and burdens.

The Commission estimates that the costs incurred by the 80 smaller broker-dealers that will build electronic recordkeeping systems to meet the audit-trail requirement and, therefore, need to build a backup recordkeeping system or the redundant equivalency, will be substantially less than the costs and burdens incurred by the larger broker-dealers. The Commission estimates that these firms will incur an initial costs of \$25,000 and ongoing annual costs of \$3,000. Therefore, the Commission estimates that the industry-wide costs for these firms will be \$2,000,000 in initial costs (an annualized initial cost of \$666,640) and \$240,000 in ongoing annual costs.

The Commission estimates that replacing the third-party access and undertakings requirements with a requirement that either a designated executive officer or a third party have the access and provide the necessary undertakings will result in a one-time cost of \$1,656,501.⁷⁹ In addition, the Commission estimates that the alternative electronic recordkeeper undertaking will result in a one-time initial cost of \$248,500.⁸⁰ Finally, the Commission estimates that the need for the five cloud service providers to review and execute the Alternative Undertaking will result in a one-time initial cost of \$248,500.⁸¹

Name of Information Collection	Type of Burden	Summary of Cost Burdens				
		Number of Respondents	Initial Cost Burden per Respondent	Initial Cost for all Respondents	Annual Cost Burden per Respondent	Annual Burden for all Respondents

⁷⁹ One-time initial reporting cost for 3,333 broker-dealers (1 hour x 3,333 broker-dealers) x \$497 per hour (at the controller hourly rate) = \$1,656,501.

⁸⁰ One-time initial recordkeeping cost for 500 broker-dealers (1 hour x 500 broker-dealers) x \$497 per hour (at the controller hourly rate) = \$248,500.

⁸¹ One-time initial reporting cost for five cloud service providers: (100 hours x five cloud service providers) x \$497 per hour (at the controller hourly rate) = \$248,500.

Rule 17a-4 (f) – Audit trail alternative to WORM for Large Broker- Dealers	Recordkeeping	20	\$1,000,000	\$20,000,000 (\$6,666,660 annualized)	\$120,000	\$2,400,000 \$6,666,660
Rule 17a-4 (f) – Audit trail alternative to WORM for Small Broker- Dealers	Recordkeeping	80	\$100,000	\$8,000,000 (\$2,666,640 annualized)	\$12,000	\$960,000 \$2,666,640
Rule 17a-4 (f) – Backup Recordkeeping Systems or the redundant equivalency for Large Broker- Dealers	Recordkeeping	20	\$250,000	\$5,000,000 (\$1,666,660 annualized)	\$30,000	\$600,000 \$1,666,660
Rule 17a-4 (f) – Backup Recordkeeping Systems or the redundant equivalency for Small Broker- Dealers	Recordkeeping	80	\$25,000	\$2,000,000 (\$666,640 annualized)	\$3,000	\$240,000 \$666,640
Third party or Designated Executive Officer Undertaking	Reporting	3,333	\$497	\$1,656,501 (\$552,167 annualized)	\$0	\$0 \$552,167
Alternative undertaking – Broker- Dealers	Recordkeeping	500	\$497	\$248,500 (\$82,833 annualized)	\$0	\$0 \$82,833
Alternative undertaking – Cloud Service Providers	Reporting	5	\$497	\$248,500 (\$82,833 annualized)	\$0	\$0 \$82,833
		TOTAL				\$16,584,443

14. Costs to the Federal Government

The federal government does not incur a cost for this collection of information since it relates to a recordkeeping burden for the respondents.

15. Changes in Burden

The Commission modified some of the existing information collections to update the number of respondents that are small entities and the percentage of respondents reporting electronically; however, we did not modify the estimated hour or burdens for these collections.

The remaining the changes are for the new information collections added by the amendments to the rule. As proposed, the amendments to Rule 17a-4(f) and (i) would have added five new collections of information: a senior officer undertaking requirement, an audit trail requirement for large and small broker-dealers, and a backup recordkeeping requirement for large and small broker-dealers. The adopting release added a total of seven collections of information. These included new collections of information for the designated executive officer or third party undertaking (a modified version of the proposed senior officer undertaking requirement with revised hour and cost burdens), an audit trail requirement for large and small broker-dealers (no change in estimated costs from the proposing release), and a backup (or an alternative with equivalent redundancy properties) recordkeeping requirement for large and small broker-dealers (no change in estimated costs from the proposing release). Based on comments received, the Commission adopted two additional information collection requirements: an alternative undertaking for broker-dealers and an alternative undertaking for cloud service providers.

The amendments to Rule 17a-4(f) added an audit-trail alternative to the current broker-dealer recordkeeping requirement.⁸² The Commission also amended both of these paragraphs to require the broker-dealer to have a backup set of records or the redundant equivalency when records are preserved on an electronic recordkeeping system.⁸³ As described in further detail in Item 8 above, in response to comments, the Commission amended Rule 17a-4(f) to replace the originally-proposed senior officer access and undertaking requirement with a requirement that either a designated executive officer or a third party have the access and provide the necessary undertakings.⁸⁴ The amendments to Rule 17a-4(j) also require a broker-dealer to furnish a record and its audit trail (if applicable) preserved on an electronic recordkeeping system pursuant to Rules 17a-4(f), respectively, in a reasonably usable electronic format, if requested by a representative of the Commission.⁸⁵ As described in further detail in item 8, above, in response to comments, the Commission amended Rule 17a-4(i) to provide an alternative undertaking for certain third-party electronic recordkeeping service providers, in particular cloud service providers.⁸⁶

The Commission estimates that replacing the third-party access and undertakings requirements with a requirement that either a designated executive officer or a third party have the access and provide the necessary undertakings will result in a one-time burden of 3,333

⁸² See section II.D. of the *2022 Electronic Recordkeeping Adopting Release* (discussing this amendment).

⁸³ See section II.E. of the *2022 Electronic Recordkeeping Adopting Release* (discussing this amendment).

⁸⁴ *Id.*

⁸⁵ See section II.H. of the *2022 Electronic Recordkeeping Adopting Release* (discussing this amendment).

⁸⁶ See section II.G. of the *2022 Electronic Recordkeeping Adopting Release* (discussing this amendment).

hours.⁸⁷ The Commission also estimates that the elimination of the DEA notification requirement will reduce the annual broker-dealer reporting burden by 433 hours.⁸⁸ In addition, the Commission estimates that the alternative electronic recordkeeper undertaking will result in a one-time initial burden of 1 hour per affected broker-dealer, for a total of 500 hours.⁸⁹ Finally, the Commission estimates that the need for the five cloud service providers to review and execute the Alternative Undertaking will result in a one-time initial burden of 100 hours per provider, for a total of 500 hours.⁹⁰

With regards to the risk mitigation recordkeeping requirements, the amendments to Rule 17a-4(b)(1), (e)(11), and (e)(12) added the requirement to preserve records with respects to Rule 15Fi-3 – 15Fi-5. As discussed above, the Commission estimates that respondents, will incur an average initial annual burden for all respondents of 340 hours (1,020 annualized over 3 years) and a total ongoing average annual burden of 1,275 hours for a total burden increase of 1,615 hours.

Summary of Change in Hourly Burden (Annual)				
Name of Information Collection	Previously Reviewed Burden	New Estimated Burden	Change in Burden	Reason for the Change
Third party or Designated Executive Officer Undertaking	3,373	3,333	(40)	Creation of the new Designated Executive Officer or Third Party undertaking requirement. Decrease in the estimated burden due to a reduction in the estimated number of broker-dealers expected to be subject to the rules as amended.
Alternative undertaking – Broker-Dealers	0	500	500	Broker-dealer recordkeeping burdens associated with the creation of the alternative undertaking for third-party recordkeepers. Added in response to comments received indicating that cloud service providers do not have the ability to make the traditional

⁸⁷ One-time initial reporting burden for 3,373 broker-dealers (1 hour x 3,333 broker-dealers) = 3,333 hours.

⁸⁸ Reduction of annual reporting burden for 433 broker-dealers (1 hour x 433 broker-dealers) = (433 hours).

⁸⁹ One-time initial recordkeeping burden for 500 broker-dealers (1 hour x 500 broker-dealers) = 500 hours.

⁹⁰ One-time initial reporting burden for five cloud service providers: (100 hours x five cloud service providers) = 500 hours.

				undertaking required by Rule 17a-4(i).
Alternative undertaking – Cloud Service Providers	0	500	500	Creation of the alternative undertaking for third-party recordkeepers Added in response to comments received indicating that cloud service providers do not have the ability to make the traditional undertaking required by Rule 17a-4(i).
Risk Mitigation Techniques Record Preservation	0	1,615	1,615	SBS Entity recordkeeping burdens associated with preservation of records regarding risk mitigation techniques
	TOTAL CHANGE IN BURDEN			2,575

As described above, the amendments to Rule 17a-4(f) add an audit-trail alternative to the current broker-dealer recordkeeping requirement.⁹¹ The Commission also amended both of these paragraphs to require the broker-dealer to have a backup set of records or the redundant equivalency when records are preserved on an electronic recordkeeping system.⁹² The amendments to Rule 17a-4(f) also replaced the third-party access and undertakings requirements with a requirement that either a third party or a designated executive officer of the broker-dealer have the access and provide the necessary undertakings.⁹³ The amendments to Rule 17a-4(f) eliminated a requirement that the broker-dealer notify its DEA before employing an electronic recordkeeping system.⁹⁴ The amendments to Rule 17a-4(j) also require a broker-dealer furnish a record and its audit trail (if applicable) preserved on an electronic recordkeeping system pursuant to Rules 17a-4(f), respectively, in a reasonably usable electronic format, if requested by a representative of the Commission.⁹⁵ The amendments to Rule 17a-4(i) provide an alternative undertaking for certain third-party electronic recordkeeping service providers, in particular cloud service providers.⁹⁶

⁹¹ See section II.D. & E. of the *2022 Electronic Recordkeeping Adopting Release* (discussing this amendment).

⁹² See section II.D. of the *2022 Electronic Recordkeeping Adopting Release* (discussing this amendment).

⁹³ *Id.*

⁹⁴ See section II.C. of the *2022 Electronic Recordkeeping Adopting Release* (discussing this amendment).

⁹⁵ See section II.H. of the *2022 Electronic Recordkeeping Adopting Release* (discussing this amendment).

⁹⁶ See section II.G. of the *2022 Electronic Recordkeeping Adopting Release* (discussing this amendment).

Based upon information provided to the Commission by the securities industry, the Commission estimates that the initial cost to build and implement a WORM-compliant electronic recordkeeping system for a large broker-dealer is \$10 million, with an additional cost of \$1.2 million annually to maintain the system.⁹⁷ Based on feedback from the securities industry, the Commission believes that the initial cost to build and implement an electronic recordkeeping system that meets the audit-trail requirements and the ongoing cost to maintain the system will be substantially lower than the analogous costs that are incurred with respect to a WORM-compliant system.⁹⁸ Consequently, the Commission estimates that the initial cost to build and implement an electronic recordkeeping system that meets the audit-trail requirement for a large broker-dealer is \$1,000,000, with an additional cost of \$120,000 annually to maintain the system. There are 802 broker-dealers with assets greater than \$10 million. The Commission does not believe any of these firms will elect to build a WORM-compliant electronic recordkeeping system. Moreover, the Commission estimates that most of these firms have electronic recordkeeping systems that could meet the audit-trail requirement or that could be configured to meet that requirement without the need to build a new system. The Commission estimates that 20 of these firms will elect to build a new electronic recordkeeping system to meet the audit-trail requirement for an initial one-time industry cost of \$20,000,000 (an annualized initial cost of \$6,666,660) and an annual cost of \$2,400,000.

The Commission estimates that the cost for the 2,749 broker-dealers with \$10 million or less in total assets to build and maintain an electronic recordkeeping system that meets the audit-trail requirement will be significantly less than the \$1,000,000 initial and \$120,000 annual costs estimated for the 802 larger broker-dealers. Consequently, the Commission estimates that the initial cost to build and implement an electronic recordkeeping system that meets the audit-trail requirement for these smaller broker-dealers is \$100,000, with an additional cost of \$12,000 annually to maintain the system. The Commission estimates that most of the 2,749 broker-dealers with \$10,000,000 or less in total assets will continue to preserve records in the manner they do today: using a WORM-compliant system, using micrographic media, or maintaining paper records. The Commission estimates that 80 of these firms will elect to build a new electronic recordkeeping system to meet the audit-trail requirement for an initial one-time industry cost of \$8,000,000 (an annualized initial cost of \$2,666,640) and an annual cost of \$960,000.

The Commission believes the initial and ongoing costs to establish backup electronic recordkeeping systems or the redundant equivalency will be substantially less than the costs of the primary electronic recordkeeping systems because of the benefit of economies of scale for the backup system or the redundant equivalency whereby common technology and personnel could be used for both systems. The Commission estimates that the costs for the 802 larger broker-dealers will be \$250,000 in initial burdens and costs and \$30,000 in annual burdens and costs. Further, the Commission expects that the broker-dealers that have electronic

⁹⁷ See Petition 4-713 (Nov. 14, 2017) filed by the Securities Industry Financial Markets Association, Financial Services Roundtable, Futures Industry Association, International Swaps Derivatives Association, and Financial Services Institute available at <https://www.sec.gov/rules/petitions/2017/petn4-713.pdf> (“Rule 17a-4(f) Rulemaking Petition”). at 4-5.

⁹⁸ See e.g. Rule 17a-4(f) Rulemaking Petition at 6-7.

recordkeeping systems that could meet the audit-trail requirement or that could be configured to meet that requirement without the need to build a new system also maintain backup recordkeeping systems or the redundant equivalencies for business continuity purposes. Therefore, the initial and annual costs will be incurred by the 20 firms that elect to build a new electronic recordkeeping system that meets that audit-trail requirement. Consequently, the Commission estimates that the industry-wide costs and burdens for these firms will be \$5,000,000 in initial costs (an annualized initial cost of \$1,666,660) and burdens and \$600,000 in annual costs and burdens.

The Commission estimates that the costs incurred by the 80 smaller broker-dealers that will build electronic recordkeeping systems to meet the audit-trail requirement and, therefore, need to build a backup recordkeeping system or the redundant equivalency, will be substantially less than the costs and burdens incurred by the larger broker-dealers. The Commission estimates that these firms will incur an initial costs of \$25,000 and ongoing annual costs of \$3,000. Therefore, the Commission estimates that the industry-wide costs for these firms will be \$2,000,000 in initial costs (an annualized initial cost of \$666,640) and \$240,000 in ongoing annual costs.

The Commission estimates that replacing the third-party access and undertakings requirements with a requirement that either a designated executive officer or a third party have the access and provide the necessary undertakings will result in a one-time cost of \$1,656,501.⁹⁹ In addition, the Commission estimates that the alternative electronic recordkeeper undertaking will result in a one-time initial cost of \$248,500.¹⁰⁰ Finally, the Commission estimates that the need for the five cloud service providers to review and execute the Alternative Undertaking will result in a one-time initial cost of \$248,500.¹⁰¹

Name of Information Collection	Summary of Change in Cost (Annual)			
	Previously Reviewed Cost	New Estimated Cost	Change in Cost	Reason for the Change
Rule 17a-4 (f) – Audit trail alternative to WORM for Large Broker-Dealers	\$9,066,660 (\$2,400,000 \$6,666,660)	\$9,066,660 (\$2,400,000 \$6,666,660)	0	No change from proposal.

⁹⁹ One-time initial reporting cost for 3,333 broker-dealers (1 hour x 3,333 broker-dealers) x \$497 per hour (at the controller hourly rate) = \$1,656,501.

¹⁰⁰ One-time initial recordkeeping cost for 500 broker-dealers (1 hour x 500 broker-dealers) x \$497 per hour (at the controller hourly rate) = \$248,500.

¹⁰¹ One-time initial reporting cost for five cloud service providers: (100 hours x five cloud service providers) x \$497 per hour (at the controller hourly rate) = \$248,500.

Rule 17a-4 (f) – Audit trail alternative to WORM for Small Broker-Dealers	\$3,626,640 (\$960,000 \$2,666,640)	\$3,626,640 (\$960,000 \$2,666,640)	0	No change from proposal.
Rule 17a-4 (f) – Backup Recordkeeping Systems or the redundant equivalency for Large Broker-Dealers	\$2,266,660 (\$600,000 \$1,666,660)	\$2,266,660 (\$600,000 \$1,666,660)	0	New backup recordkeeping or the redundant equivalency requirement for large broker-dealers. No change from proposal.
Rule 17a-4 (f) – Backup Recordkeeping Systems or the redundant equivalency for Small Broker-Dealers	\$906,640 (\$240,000 \$666,640)	\$906,640 (\$240,000 \$666,640)	0	New backup recordkeeping or the redundant equivalency requirement for small broker-dealers. No change from proposal.
Third party or Designated Executive Officer Undertaking	\$0	\$552,167	\$552,167	New Third party or Designated Executive Officer Undertaking Requirement. Modification of proposed senior officer undertaking requirement in response to comments received.
Alternative undertaking – Broker-Dealers	\$0	\$82,833	\$82,833	Broker-dealer recordkeeping burdens associated with the creation of the alternative undertaking for third-party recordkeepers. Alternative undertaking added in response to comments received to address new developments in electronic recordkeeping practices.
Alternative undertaking – Cloud Service Providers	\$0	\$82,833	\$82,833	Creation of the alternative undertaking for third-party recordkeepers. Alternative undertaking added in response to comments received to address new developments in electronic recordkeeping practices.
	TOTAL CHANGE IN COST			\$717,833

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.