

## **SUPPORTING STATEMENT**

### **for the Paperwork Reduction Act Information Collection Submission for**

**Rules 17h-1T and 17h-2T**  
OMB Control No. 3235-0410  
Proposed Partial Revision

**This submission is being made pursuant to the Paperwork Reduction Act of 1995, 44 U.S.C. Section 3501 et seq.**

#### **A. JUSTIFICATION**

##### **1. Information Collection Necessity**

On July 16, 1992, the Commission adopted Rules 17h-1T and 17h-2T (17 CFR 240.17h-1T and 17 CFR 240.17h-2T) (the “risk assessment rules”), under the Securities Exchange Act of 1934 (“Exchange Act”) pursuant to its authority under the risk assessment provisions of the Market Reform Act of 1990 (Pub. L. No. 101-432, 104 Stat. 963 (1990)).<sup>1</sup> These rules are intended to give the Commission access to information concerning the financial and securities activities of certain broker-dealer affiliates. A broker-dealer may be affected by the financial difficulties of an affiliate both directly, such as by the affiliate’s withdrawal of capital to meet the affiliate’s obligations, and indirectly, such as by the effect that the affiliate’s difficulties may have on the broker-dealer’s ability to obtain financing. This impact on a broker-dealer may be exacerbated in times of market stress. Accordingly, Rules 17h-1T and 17h-2T enable the Commission to monitor the activities of broker-dealer affiliates through its access to affiliate information and receipt of reports on a quarterly basis.

Rule 17h-1T requires a covered broker-dealer to maintain and preserve records and other information concerning certain entities that are associated with the broker-dealer. This requirement extends to the financial and securities activities of the holding company, affiliates and subsidiaries of the broker-dealer that are reasonably likely to have a material impact on the financial or operational condition of the broker-dealer. Rule 17h-2T requires a covered broker-dealer to file with the Commission reports concerning the information required to be maintained and preserved under Rule 17h-1T within 60 calendar days of the end of each fiscal quarter. However, Rule 17h-2T also allows a firm to file its year-end financial statements separately from the rest of its fiscal fourth quarter report, within 105 calendar days of the end of that quarter.<sup>2</sup>

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<sup>1</sup> See *Final Temporary Risk Assessment Rules*, Exchange Act Release 30929 (July 16, 1992), 57 FR 32159 (July 21, 1992).

<sup>2</sup> Thus, the same information is filed with the Commission whether the broker-dealer files all the information within 60 calendar days of the end of the fiscal fourth quarter or some of the information within 60 calendar days and the rest within 105 calendar days of the end of the fiscal fourth quarter.

The Commission is statutorily authorized by Section 17(h) of the Exchange Act of 1934 (15 U.S.C. 78q(h)) to adopt rules that require a broker-dealer to maintain and preserve risk assessment information with respect to those entities that are associated with the broker-dealer whose “business activities are reasonably likely to have a material impact on the financial and operational condition” of the broker-dealer. In addition, Section 17(h) authorizes the Commission to adopt rules that require a broker-dealer to file, no more frequently than quarterly, summary reports of the information and records maintained pursuant to the risk assessment rules. Further statutory authority is found in Section 23(a) of the Exchange Act (15 U.S.C. 78w).

### **2023 Proposed Rulemaking (Rule 17h-2T: Form 17-H)**

Rule 17h-2T permits quarterly and annual risk assessment reports to be filed with the Commission in paper-based format. The Commission is not proposing to substantively change the information that must be filed in connection with Form 17-H under Rule 17h-2T, but is only changing the manner and format in which that information is filed. The Commission is proposing to require Form 17-H to be filed in the Commission’s Electronic Data Gathering and Retrieval (“EDGAR”) system. The Commission also is proposing to require Item 4 (financial statements) of Form 17-H to be filed in EDGAR and provided in the Inline eXtensible Business Reporting Language (“Inline XBRL”) structured data language. The Inline XBRL requirement or Item 4 of Form 17-H would be new. The EDGAR-filing requirement for Form 17-H as a whole also would be new, although Form 17-H filers currently can file in EDGAR voluntarily and the vast majority of them elect to do so.

More specifically, at present, broker-dealers subject to the filing requirement may choose to file the form in paper to the Commission’s headquarters in Washington, DC, or may choose to file the form in EDGAR. As of September 30, 2022, approximately 238 of the 245 broker-dealers subject to Rule 17h-2T utilized EDGAR to make their required Form 17-H filings. The remaining broker-dealers submitted the Form 17-H in paper form. For electronic filing on EDGAR, the facing page and Part II of Form 17-H are fillable forms that EDGAR subsequently converts into a structured, eXtensible Markup Language (“XML”)-based data language specific to Form 17-H.

With the 2023 proposed rulemaking, the Commission is proposing to retain the custom XML functionality for the facing page disclosures and Part II (associated persons disclosures) that is already built into the voluntary EDGAR-filing process for Form 17-H. In conclusion, under the proposal, the materials filed under the rule would not change and the custom XML requirements would not change, but the proposal would alter existing requirements by mandating that Form 17-H be filed on EDGAR and that the financial statements required by Item 4 of Form 17-H be structured in Inline XBRL.

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

The information required by Rules 17h-1T and 17h-2T is necessary to enable the Commission to monitor the activities of a covered broker-dealer’s affiliate whose business activities are reasonably likely to have a material impact on the financial and operational

condition of the broker-dealer. Without this information, the Commission would be unable to assess the potentially damaging impact of the affiliate's activities on the broker-dealer.

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

Covered broker-dealers have the option to file Form 17-H and other required reports electronically through the Commission's BDRA system (similar to uploading an attachment) or by mail.

**2023 Proposed Rulemaking:** As stated above, the Commission is proposing to require portions of Form 17-H to be filed in EDGAR and provided in Inline XBRL. Currently, broker-dealers subject to Rule 17h-2T may—but are not required to—file Form 17-H in EDGAR, but the overwhelming majority of them do file the form in EDGAR, with a small number filing paper forms. As mentioned, the Inline XBRL requirement would be new to the proposal.

### **4. Duplication**

We are not aware of duplication of this information.

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

The risk assessment rules generally do not apply to small entities because a broker-dealer that maintains less than \$20 million in capital and does not carry customer accounts is exempted under the rules. Further, a broker-dealer that either restricts its business to certain mutual fund activities, certain direct participation programs or introduces accounts on a fully disclosed basis is also exempt under the rules. In addition, a broker-dealer that is owned by a natural person is exempt from the risk assessment rules under Section 17(h) of the Exchange Act.

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

The risk assessment rules enable the Commission to monitor the activities of a covered broker-dealer's affiliate whose business activities are reasonably likely to have a material impact on the financial and operational condition of the broker-dealer. This information is collected quarterly. If the information were to be collected less frequently, the Commission would have to rely on stale and outdated information when assessing risks to the broker-dealer. As a result, the Commission would be unable to adequately assess the potentially damaging impact of more recent activities of the broker-dealer affiliates on the broker-dealer.

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

There are no special circumstances. This collection is consistent with the guidelines in 5 CFR 1320.5(d)(2).

## 8. Consultations Outside the Agency

The Commission has issued a release soliciting comment on the proposed rules and associated paperwork burdens.<sup>3</sup> A copy of the release is attached. Comments on Commission releases are generally received from registrants, investors, and other market participants. Any comments received on this proposed rulemaking will be posted on the Commission's public website and made available through <http://www.sec.gov/rules/proposed.shtml>. The Commission will consider all comments received prior to publishing the final rule, and will explain in any adopting release how the final rule responds to such comments, in accordance with 5 CFR 1320.11(f).

## 9. Payment or Gift

No payment or gift is provided to respondents.

## 10. Confidentiality

All information obtained by the Commission pursuant to the provisions of Rules 17h-1T and 17h-2T from a broker or dealer concerning a material associated person is deemed confidential information for the purposes of section 24(b) of the Exchange Act.

## 11. Sensitive Questions

This information collection does not collect personally identifiable information. The agency has determined that neither a Privacy Impact Assessment ("PIA") nor a System of Records Notice ("SORN") are required in connection with the collection of information.

## 12. Information Collection Burden

### **Annual Recordkeeping Burden:**

There are currently 245 respondents that must comply with Rules 17h-1T and 17h-2T, which is an increase of 10 from the prior extension for Rules 17h-1T and 17h-2T.<sup>4</sup> Each of these 245 respondents are estimated to require 10 hours per year to maintain the records required under Rule 17h-1T, for an aggregate **estimated annual industry recordkeeping burden of 2,450 hours** (245 respondents X 10 hours). In addition, there are 245 broker-dealer respondents that must file quarterly and annual risk assessment reports with the Commission under Rule 17h-2T. Therefore, each of these 245 respondents must make five annual responses under Rule 17h-2T (for a total of 1,205 responses per year). These five responses are estimated to require 14 hours per respondent per year, for an aggregate **estimated annual industry reporting burden of 3,430 hours** (245 respondents X 14 hours).

<sup>3</sup> See Electronic Submission of Certain Materials Under the Securities Exchange Act of 1934; Amendments Regarding the FOCUS Report; SEC Release Nos. 33-11176, 34-97182, IC-34864 (Mar. 22, 2023); 88 FR 23920 (Apr. 18, 2023) (File No. S7-08-23).

<sup>4</sup> See *Submission for OMB Review: Comment Request: Extension; Rules 17h-T and 17h-2T*, [SEC File No. 270-359, OMB Control No. 3235-0410]. 87 FR 56109 (Sept. 13, 2022).

In addition, new respondents must draft an organizational chart required under Rule 17h-1T and establish a system for complying with the risk assessment rules. The staff estimates that drafting the required organizational chart requires one hour and establishing a system for complying with the rules requires three hours. Based on the modest increase in the number of new filers in recent years, the staff estimates there will be three new respondents, and thus, a corresponding estimated initial (one-time) burden of twelve hours for new respondents (4 hours X 3 new respondents = 12 hours), for an **annualized total industry reporting burden of 4 hours** (that is, a one-time burden of 12 hours amortized over three years).

The three burden hour totals listed above for reporting, recordkeeping, and new respondents are not a result of any new information collections or any substantive changes to existing information collections proposed by the Commission, but only result from changes in the number of actual respondents (for recordkeeping and reporting) and prospective respondents (for estimated new respondents).

### **2023 Proposed Rulemaking (Rule 17h-2T: Form 17-H Inline XBRL Requirement)**

As mentioned, the Commission is proposing to require broker-dealers subject to Rule 17h-2T to file Item 4 of Form 17-H in EDGAR in Inline XBRL. To be clear, the Commission is not proposing to change the substantive information required in Item 4 of Form 17-H, but is only changing the format in which the Item 4 of Form 17-H is filed by requiring EDGAR-filing in Inline XBRL. While the EDGAR-filing and Inline XBRL requirements are new, broker-dealers subject to Rule 17h-2T have had the option to file Form 17-H in EDGAR and the overwhelming majority of them have been doing so. Under the proposal, broker-dealers that are required to file reports under Rule 17h-2T would be required to tag the financial statements included with the report in Inline XBRL.

As broker-dealers that are required to file reports under Rule 17h-2T are also required to file annual reports in EDGAR under Rule 17a-5, the Commission is not estimating an additional burden for becoming familiar with the EDGAR system and for monitoring changes in EDGAR filing requirements attributable to the proposed amendments to Rule 17h-2T. Likewise, because these broker-dealers also are required to tag annual reports under Rule 17a-5 in Inline XBRL, the proposed Inline XBRL requirement for reports under Rule 17h-12T would represent additional (quarterly) iterations of that compliance process, as abbreviated to reflect that Form 17-H requires only financial statements (and not any supplemental reports or other related filings) to be tagged in Inline XBRL, and that Form 17-H filers may omit the statement of cash flows and the footnotes to the financial statements. Thus, the Commission estimates an average additional burden of 1 hour per response four times a year (quarterly) for 245 respondents, resulting in a **total industrywide burden of 980 hours<sup>5</sup> per year** for Form 17-H filers to structure their financial statements (Item 4 of Form 17-H) in Inline XBRL.

The hour burdens are summarized in the following chart:

Summary of Hourly Burdens
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<sup>5</sup> (245 respondents X 4 hours = 980 hours.)

		A.	B.	C.	D.	E.	F.	G.		
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
					[C ÷ 3 years]		[D + E]	[F * B]	[G * A]	[A * %]
Rule 17h-1T & Rule 17h-2T	Recordkeeping	245	1	0	0	10	10	10	2,450	0
Rule 17h-2T (quarterly risk assessment reports & annual financial statements)	Reporting	245	5	0	0	2.8 <sup>6</sup>	2.8	14	3,430	0
Rule 17h-1T – Initial Burden for new respondents (org chart & compliance program)	Reporting	3 <sup>7</sup>	1	4	1.33	0	1.33	1.33	4	0
2023 proposal to require filing Form 17-H in Inline XBRL – Ongoing Burden	Reporting	245	4	0	0	1	1	4	980	0
TOTAL HOURLY BURDEN FOR ALL RESPONDENTS									6,864	

### 13. Costs to Respondents

The total annual cost burden for Rules 17h-1T and 17h-2T is \$0.

### 14. Costs to Federal Government

There is no estimated cost to the federal government.

### 15. Changes in Burden

The change in burden is a result of an increase in the number of respondents from 235 to 245 and because the Commission is proposing to require broker-dealers subject to Rule 17h-2T to file Item 4 (financial statements) of Form 17-H in inline XBRL. The increase in the number

<sup>6</sup> The 5 responses are estimated to take a combined total of 14 hours per year, therefore, to determine the burden per response, we divided 14 by 5. (14 / 5 = 2.8.)

<sup>7</sup> We are estimating a modest future increase in the number of broker-dealers—namely, 3 new respondents—that would be subject to Rule 17h-1T (which is not being amended in the 2023 proposed rulemaking).

of respondents is unrelated to the 2023 rule proposal. As a result, the estimated total annual industry hourly burden would increase from 5,640 to 6,864, an increase of 1,112.

The estimated total annual hour burden has changed as follows:

Summary of Changes in Burden Hours				
Name of Information Collection	Annual Industry Burden	Annual Industry Burden Previously Approved	Change in Burden	Reason for Change
Rule 17h-1T & 17h-2T (Recordkeeping)	2,450	2,350	100	Increase in number of respondents
Rule 17h-2T (quarterly risk assessment reports & annual financial statements)	3,430	3,290	140	Increase in number of respondents
Rule 17h-1T initial burden for projected new respondents	4	0	4	Projected increase in number of respondents
2023 proposal to require filing Form 17-H in Inline XBRL – Ongoing Burden	980	0	980	Proposal to require respondents to report Form 17-H information in Inline XBRL would be a new requirement
Total Hourly Burden Change for All Respondents	6,864	5,640	1,224	Respondents increased from 235 to 245 with an estimated future increase of 3 participants. The proposed Inline XBRL filing requirement for quarterly risk assessments would result in an hour burden increase for each of the four responses required by respondents annually.
<b>TOTAL CHANGE</b>			1,112 hours	

#### **16. Information Collection Planned for Statistical Purposes**

Not applicable. The information collection is not used for statistical purposes.

#### **17. Approval to Omit OMB Expiration**

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**

The collection of information does not involve statistical methods.