

**SUPPORTING STATEMENT**  
**for the Paperwork Reduction Act Information Collection Submission for**  
**Rule 15c3-1 – Net Capital Requirements for Brokers or Dealers**  
**3235-0200**

This submission is being made pursuant to the Paperwork Reduction Act of 1995, 44 U.S.C. Section 3501 *et seq.* **This Supporting Statement includes new collections of information related to a rulemaking that amended this Rule 15c3-1 (OMB No. 3235-0200). The collections of information that were previously in Rule 15c3-1, and that were not part of the rulemaking notice and comment process, are included in this Supporting Statement but are not being revised.**

**A. JUSTIFICATION**

**1. Necessity of Information Collection**

Rule 15c3-1<sup>1</sup> under the Securities Exchange Act of 1934 (“Exchange Act”)<sup>2</sup> is intended to ensure that broker-dealers registered with the Securities and Exchange Commission (“Commission”) at all times have sufficient liquid capital to protect the assets of customers and to meet their responsibilities to other broker-dealers.<sup>3</sup> Rule 15c3-1 generally defines the term “net capital” as a broker-dealer’s net worth (assets minus liabilities), plus certain subordinated liabilities, less certain assets that are not readily convertible into cash (*e.g.*, fixed assets), and less a percentage (haircut) of certain other liquid assets (*e.g.*, securities).<sup>4</sup>

Rule 15c3-1 is an integral part of the Commission’s financial responsibility program for broker-dealers. In particular, Rule 15c3-1 facilitates the monitoring of the financial condition of broker-dealers by the Commission and the broker-dealer’s designated examining authority (“DEA”). If the information were not required to be collected, the Commission and the DEAs would not be able to monitor the financial condition of broker-dealers, exposing their customers and counterparties to increased risk.

**2019 Amendments.** On June 21, 2019, in accordance with Section 764 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the “Dodd-Frank Act”),<sup>5</sup> the Commission adopted amendments to Rule 15c3-1 to set forth net capital requirements for broker-dealers that also register as nonbank security-based swap dealers (“broker-dealer SBSs”), along with other changes that would apply to broker-dealers, including a special class of broker-dealer that are approved to use internal models to compute net capital (“ANC broker-

---

<sup>1</sup> 17 CFR 240.15c3-1.

<sup>2</sup> 15 U.S.C. § 78 *et seq.*

<sup>3</sup> *See Net Capital Rule*, Exchange Act Release No. 39455 (Dec. 17, 1997), 62 FR 67996 (Dec. 30, 1997).

<sup>4</sup> *See* 17 CFR 240.15c3-1(c)(2).

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

dealers”).<sup>6</sup> The Commission adopted amendments to Rule 15c3-1 to increase net capital requirements for ANC broker-dealers, and prescribe certain capital requirements for broker-dealers that are not SBSBs to the extent they engage in security-based swap and swap activity. This supporting statement describes the new collections of information due to the adopted amendments in the SBSB Adopting Release. The existing collections of information that were already in Rule 15c3-1 were not part of the notice and comment process in the SBSB Adopting Release and are not being revised.

## 2. Purpose and Use of the Information Collection

Rule 15c3-1 is intended to help ensure that broker-dealers maintain at all times sufficient liquid resources to meet all liabilities, particularly the claims of customers, by requiring that broker-dealers maintain a minimum amount of net capital. A broker-dealer’s minimum net capital requirement is the greater of: (1) a fixed minimum amount set forth in Rule 15c3-1 based on the types of business that the broker-dealer conducts;<sup>7</sup> or (2) a financial ratio.<sup>8</sup> Exchange Act Section 15(c)(3) and Rule 15c3-1 promulgated thereunder prohibit a broker-dealer from effecting transactions in securities while not in compliance with its minimum net capital requirement.

Various provisions of Rule 15c3-1 require that broker-dealers provide written notification to the Commission and/or their DEA under certain circumstances. For example, a broker-dealer carrying the account of an options market maker must file a notice with the Commission and the DEA of both the carrying firm and the market maker prior to effecting transactions in the account.<sup>9</sup> In addition, the carrying firm must notify the Commission and the appropriate DEA if a market maker fails to deposit the required equity with the carrying broker-dealer relating to the market maker’s account within the prescribed time period or if certain deductions and other amounts relating to the carrying firm’s market maker accounts computed in accordance with Rule 15c3-1 exceeds 1,000% of the carrying broker-dealer’s net capital.<sup>10</sup> In addition, a broker-dealer electing to compute its net capital using the alternative method under paragraph (a)(1)(ii) of Rule 15c3-1 must notify its DEA of the election in writing, and thereafter must continue to compute its net capital in this manner unless a change is approved upon application to the Commission.<sup>11</sup>

There are also certain recordkeeping requirements under Rule 15c3-1. For example, a broker-dealer must keep a record of who is acting as an agent in a securities loan transaction and records with respect to obtaining DEA approval prior to withdrawing capital within one year of a

---

<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 (“SBSB Adopting Release”).

<sup>7</sup> See 17 CFR 240.15c3-1(a)(2)–(9).

<sup>8</sup> See 17 CFR 240.15c3-1(a)(1)(i)–(iii).

<sup>9</sup> See 17 CFR 240.15c3-1(a)(6)(vi).

<sup>10</sup> See 17 CFR 240.15c3-1(a)(6)(iv)(B); 17 CFR 240.15c3-1(a)(6)(v).

<sup>11</sup> See 17 CFR 240.15c3-1(a)(1)(ii).

contribution.<sup>12</sup> These records help the Commission and its staff, as well as DEAs, facilitate the monitoring of the financial condition of broker-dealers.

Appendix C to Rule 15c3-1 requires broker-dealers that consolidate their financial statements with a subsidiary or affiliate, under certain circumstances, to submit to their DEA an opinion of counsel.<sup>13</sup> The opinion of counsel must state, among other things, that the broker-dealer may cause that portion of the net assets of a subsidiary or affiliate related to its ownership interest in the entity to be distributed to the broker-dealer within 30 calendar days.<sup>14</sup>

Appendix E to Rule 15c3-1 provides an alternative method for determining certain net capital charges for certain broker-dealers (“alternative net capital firms” or “ANC firms”).<sup>15</sup> Appendix G to Rule 15c3-1 requires the holding company of an ANC firm that has a principal regulator to file certain periodic reports with the Commission, preserve certain records, and notify the Commission of certain events. The notification provisions of Appendix G are designed to give the Commission advance warning of situations that may pose material financial and operational risks to the broker-dealer and its holding company. These provisions are integral to Commission supervision of broker-dealers that use Appendix E.

**2019 Amendments.** The amendments to Rule 15c3-1 in the SBSB Adopting Release are integral parts of the Commission’s financial responsibility program for broker-dealers, broker-dealer SBSBs, and ANC broker-dealers. The collections of information in the amendments to Rule 15c3-1 facilitate the monitoring of the financial condition of broker-dealers by the Commission and its staff.

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

The method of computing net capital varies by size and complexity of a broker-dealer. Most large broker-dealers subject to Rule 15c3-1, including the SBSB entities subject to the 2019 Amendments described in the SBSB Adopting Release, utilize automated systems for computing their net capital and minimum requirements. Smaller broker-dealers with simple balance sheets may compute their net capital on a manual basis. The information collections however do not require that respondents use any specific information technology system either to prepare or submit information collections under Rule 15c3-3, as amended.

### **4. Duplication**

The information collection does not duplicate any existing information collection.

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

---

<sup>12</sup> See 17 CFR 240.15c3-1(c)(2)(iv)(B); 17 CFR 240.15c3-1(c)(2)(i)(G)(2).

<sup>13</sup> See 17 CFR 240.15c3-1c(b)(1).

<sup>14</sup> See 17 CFR 240.15c3-1c(b)(2).

<sup>15</sup> See 17 CFR 240.15c3-1e.

Small entities may be affected to the extent they are required to maintain a minimum amount of net capital under Rule 15c3-1. However, there are different requirements for small entities subject to Rule 15c3-1. Most of these entities are not affected by the information collection provisions of Rule 15c3-1. In addition, the information collections required pursuant to the adopted amendments to Rule 15c3-1 described in the SBSB Adopting Release do not place burdens on small entities. The broker-dealer SBSBs subject to the information collections under the rule are not expected to be small entities.

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

If the required activities were not required to be collected, or were required to be conducted less frequently, the Commission and the DEAs would not be able to monitor the financial condition of broker-dealers, exposing their customers and counterparties to increased risk and lessening the protection afforded to the public.

## **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**

**2019 Amendments.** The Commission requested comment in the proposing release on the included PRA analysis in October 2012.<sup>16</sup> In addition, in 2018, the Commission reopened the comment period and requested additional comment on the proposed rules and amendments (including potential modifications to proposed rule language).<sup>17</sup> While the Commission did not receive specific comments on the proposed collection of information, we received a number of comments on other aspects of the proposed rule.<sup>18</sup> In response to certain of these comments, the Commission has modified the language in the final rule, as discussed below. These comments and their impact on PRA estimates are discussed below.

In addition, in the SBSB Adopting Release, the Commission stated that, based on comments it received, it is not adopting the proposed liquidity stress test requirements that would have applied to ANC broker-dealers.<sup>19</sup> Therefore, the proposed collections of information with respect to the liquidity stress test and the written contingency funding plan are not included in this final collection of information.

---

<sup>16</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. 68071 (Oct. 18, 2012), 77 FR 70213, 70299 (Nov. 23, 2012).

<sup>17</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. 84409 (Oct. 11, 2018), 83 FR 53007 (Oct. 19, 2018) (“Capital, Margin, and Segregation Comment Reopening”).

<sup>18</sup> Comments available at <https://www.sec.gov/comments/s7-08-12/s70812.shtml>.

<sup>19</sup> See *SEC Proposed Capital, Margin, and Segregation Requirements for SBSBs and MSBSPs*, 77 FR at 70252-70254.

## **9. Payment or Gift**

No payments or gifts have been provided to respondents.

## **10. Confidentiality**

The Commission regards information obtained pursuant to the filings and notices required by Rule 15c3-1 to be confidential. Such information is of a financial nature and generally is not disclosed to the public. The statutory basis for the Commission's refusal to disclose such information to the public is the exemption contained in section (b)(4) of the Freedom of Information Act, 5 U.S.C. 552, which provides that the requirement of public dissemination does not apply to commercial or financial information which is privileged or confidential.

## **11. Sensitive Questions**

The collections of information do not expressly include Personally Identifiable Information ("PII").<sup>20</sup> At the same time, however, Commission staff understands that there may be instances when certain information (including, but not limited to, a person's name, email, or phone number) could be provided by a respondent in response to one of the collections of information. However, Commission staff does not envision any circumstances in which a social security number would be provided pursuant to any of the collections of information. As such, we believe that the treatment of any PII with the collection of information associated with the this rule is not likely to implicate the Federal Information Security Management Act of 2002 or the Privacy Act of 1974.

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

The existing hour burdens in the rule were not part of the notice and comment process for the 2019 Amendments and, therefore, are not being revised at this time. The description of the existing hour burdens is from the most-recent extension in 2017. A discussion of the new hour burdens in the recent rulemaking is further below.

### **Existing Hour Burdens**

Based on experience with the industry, the Commission estimates that broker-dealers annually file approximately 902 notices under Rule 15c3-1 and that a broker-dealer will spend approximately 30 minutes preparing and filing these notices. Therefore, the Commission estimates a total annual reporting burden of 451 hours.<sup>21</sup>

Paragraph (c)(2)(iv)(B) of Rule 15c3-1 requires a broker-dealer to make disclosures to, and obtain certain agreements from, securities lending principals in situations where the firm

---

<sup>20</sup> The term "Personally Identifiable Information" refers to information which can be used to distinguish or trace an individual's identity, such as their name, social security number, biometric records, etc. alone, or when combined with other personal or identifying information which is linked or linkable to a specific individual, such as date and place of birth, mother's maiden name, etc.

<sup>21</sup> 902 notices x (30 minutes / 60 minutes) = 451 hours.

participates in the settlement of a securities lending transaction but wants to be deemed an agent for purposes of Rule 15c3-1. The Commission estimates that 5% of the 122 broker-dealers, or approximately 6 firms, engaged in securities lending will need to modify their standard agreements. The Commission estimates each of these firms will spend approximately 20 hours of employee resources updating their standard agreement template. Therefore, the Commission estimates that the total one-time recordkeeping burden will be approximately 120 hours.<sup>22</sup>

Paragraph (c)(2)(i)(G)(2) of Rule 15c3-1 requires that a broker-dealer treat as a liability any capital contribution that is intended to be withdrawn within one year of its contribution. The amendment also includes the presumption that capital withdrawn within one year of contribution is presumed to have been intended to be withdrawn within one year, unless the broker-dealer receives permission in writing for the withdrawal from its DEA. The Commission estimates that 90 broker-dealers will seek to obtain permission from their DEA in writing to withdraw capital within one year of its contribution, and that it will take a broker-dealer approximately one hour to prepare and submit the request to its DEA to withdraw capital. Therefore, the Commission estimates that the total annual reporting burden will be approximately 90 hours.<sup>23</sup>

With respect to Appendices E and G of Rule 15c3-1, the following estimates are based on the assumption that 10 broker-dealers will ultimately compute deductions for market risk under Appendix E. Currently, there are 5 ANC firms, and the Commission expects that 5 additional firms will apply to compute deductions for market risk under Appendix E.<sup>24</sup> The Commission estimates that each broker-dealer that applies will incur a one-time recordkeeping burden of approximately 1,000 hours to create and compile the various documents to be included with the application and to work through the application process, with an aggregate one-time recordkeeping burden of 5,000 hours or an annualized burden of 1,666.65 per year.<sup>25</sup>

The Commission estimates that an ANC firm using Appendices E and G to Rule 15c3-1 spends approximately 5,600 hours per year to review and update the models it uses to assess market and credit risk and approximately 160 hours each quarter, or approximately 640 hours per year, to back test the models. Consequently, the Commission estimates that the total annual recordkeeping burden associated with reviewing and back testing mathematical models for the 5 ANC firms will be approximately 31,200 hours,<sup>26</sup> and approximately 20,800 hours<sup>27</sup> for the 5

---

<sup>22</sup> 6 broker-dealers x 20 hours per firm = 120 hours. The three-year annualized number for this one time burden is 40 hours (120 hours / 3 years = 40), or 6.67 hours per firm.

<sup>23</sup> 90 broker-dealers x 1 hour = 90 hours.

<sup>24</sup> The Commission expects that these 5 firms will register as ANC firms over the next three years. However, until their registrations are complete, these firms will not be subject to the annual burdens discussed throughout Item 12. Therefore, the Commission has taken this fact into consideration in its calculations.

<sup>25</sup> The three-year annualized number for this one-time burden is 333.33 per firm (1,000 hours / 3 years = 333.33), or 1,666.65 hours for the industry (333.33 hours x 5 firms).

<sup>26</sup> (5,600 hours + 640 hours) x 5 broker-dealers = 31,200 hours.

<sup>27</sup> (Y1: 0 hours) + (Y2: 5,600 hours + 640 hours = 6,240 hours) + (Y3: 5,600 hours + 640 hours = 6,240 hours) = 12,480 hours / 3 years = 4,160 x 5 ANC broker-dealers = 20,800 hours.

broker-dealers expected to become ANC firms, resulting in an aggregate annual recordkeeping burden of 52,000 hours.<sup>28</sup>

The Commission estimates that the average amount of time necessary to prepare and file the monthly reports required by Appendix G will be approximately 8 hours per month, or 96 hours per year. The Commission estimates that the average amount of time necessary to prepare and file the quarterly reports will be approximately 16 hours per quarter, or 64 hours per year. The Commission estimates that the average amount of time necessary to prepare and file the annual audit reports will be approximately 200 hours per year. Consequently, the Commission estimates that the total annual reporting burden of Appendix G for the 5 ANC firms will be approximately 1,800 hours,<sup>29</sup> and the total annual reporting burden for the 5 broker-dealers expected to become ANC firms will be approximately 1,200 hours,<sup>30</sup> resulting in an aggregate annual reporting burden of 3,000 hours.<sup>31</sup>

The Commission expects that any additional burden associated with the requirements of Appendix G relating to preserving records will be minimal because a prudent firm that manages risk on a group-wide basis will make and preserve these records in the ordinary course of its business. The Commission estimates that the average one-time burden of making and preserving these records will be approximately 40 hours and that the average annual burden will be approximately 290 hours. Consequently, the Commission estimates that the annual recordkeeping burden for the 5 ANC firms will be approximately 1,450 hours.<sup>32</sup> The Commission estimates that the total one-time and annual recordkeeping burden for the 5 broker-dealers expected to become ANC firms will be approximately 200 hours<sup>33</sup> and 966.65 hours,<sup>34</sup> respectively. Therefore, Commission estimates an aggregate annualized recordkeeping burden of approximately 2,483.65 hours.<sup>35</sup>

The Commission estimates that ANC firms will spend a total of approximately one hour per year to comply with the notification provisions of Appendix G, resulting in a total annual

---

<sup>28</sup> 31,200 hours + 20,800 hours = 52,000 hours.

<sup>29</sup> (96 hours + 64 hours + 200 hours) x 5 ANC broker-dealers = 1,800 hours.

<sup>30</sup> (Y1: 0 hours) + (Y2: 96 hours + 64 hours + 200 hours = 360 hours) + (Y3: 96 hours + 64 hours + 200 hours = 360 hours) = 720 hours / 3 years = 240 hours x 5 broker-dealers = 1,200 hours.

<sup>31</sup> 1,800 hours + 1,200 hours = 3,000 hours.

<sup>32</sup> 290 hours x 5 broker-dealers = 1,450 hours.

<sup>33</sup> 40 hours x 5 broker-dealers = 200 hours. The three-year annualized number for this one-time burden is 66.666, rounded to 66.67 hours (200 hours / 3 years = 66.666, rounded to 66.67 hours).

<sup>34</sup> (Y1: 0 hours) + (Y2: 290 hours) + (Y3: 290 hours) = 580 hours / 3 years = 193.33 hours x 5 broker-dealers = 966.65 hours.

<sup>35</sup> 1,450 hours (5 ANC firms) + 67 hours (5 broker-dealers expected to become ANC firms) + 966.65 hours (5 broker-dealers expected to become ANC firms) = 2,483.65 hours.

reporting burden of 5 hours<sup>36</sup> for the 5 ANC firms, and 3.35 hours<sup>37</sup> for the 5 broker-dealers expected to become ANC firms, resulting in an aggregate reporting burden of 8.35 hours.<sup>38</sup>

The Commission also estimates that each broker-dealer will spend approximately 250 hours per year reviewing and updating its risk management control system, resulting in an aggregate annual recordkeeping burden of 1,250 for the 5 ANC firms,<sup>39</sup> and 833.35 for the 5 broker-dealers expected to become ANC firms<sup>40</sup> totaling 2,083.35 hours.<sup>41</sup>

Therefore, the total annual hour burden for Appendices E and G to Rule 15c3-1 is 61,241.65 hours.<sup>42</sup>

A broker-dealer is required to take a 15% haircut on its proprietary positions in commercial paper, nonconvertible debt, and preferred stock unless the broker-dealer establishes, documents, maintains, and enforces written policies and procedures for determining creditworthiness.<sup>43</sup> The staff estimates that approximately 351 broker-dealers will establish, document, maintain, and enforce policies and procedures that are reasonably designed to determine whether a security or a money market instrument has a minimal amount of credit risk.<sup>44</sup> If the security or money market instrument has a minimal amount of credit risk, the broker-dealer can take haircuts on the security or money market instrument pursuant to paragraphs (c)(2)(vi)(E), (c)(2)(vi)(F)(1), (c)(2)(vi)(F)(2) and (c)(2)(vi)(H) of Rule 15c3-1. The staff estimates that, on average, broker-dealers will spend 25 hours developing policies and procedures or revising their current policies and procedures for evaluating creditworthiness for

---

<sup>36</sup> 1 hour x 5 broker-dealers = 5 hours.

<sup>37</sup> (Y1: 0 hours) + (Y2: 1 hour) + (Y3: 1 hour) = 2 hours / 3 years = .67 hours x 5 broker-dealers = 3.35 hours.

<sup>38</sup> 5 hours (5 ANC firms) + 3.35 hours (5 broker-dealers expected to become ANC firms) = 8.35 hours.

<sup>39</sup> 250 hours x 5 broker-dealers = 1,250 hours.

<sup>40</sup> (Y1: 0 hours) + (Y2: 250 hours) + (Y3: 250 hours) = 500 hours / 3 years = 166.67 hours x 5 broker-dealers = 833.35 hours.

<sup>41</sup> 1,250 hours (5 ANC firms) + 833.5 hours (5 broker-dealers expected to become ANC firms) = 2,083.5 hours.

<sup>42</sup> 1,666.65 + 52,000 + 3,000 + 2,483.3 + 8.35 + 2,083.35 = 61,241.65 hours.

<sup>43</sup> *Removal of Certain References to Credit Ratings under the Securities Exchange Act of 1934*, Exchange Act Release No. 71194 (Dec. 27, 2013), 79 FR 1522 (Jan. 8, 2014).

<sup>44</sup> The number of 351 broker-dealers was obtained by reviewing broker-dealer Financial and Operational Combined Single (or “FOCUS”) Reports for the third-quarter of 2016 and then calculating how many firms reported holding proprietary debt positions. For FOCUS Part II filers, the balances examined were “Bankers Acceptances” (line item 370) and “Corporate Obligations” (line item 400). For FOCUS CSE filers, the balances examined were: “Money Market Instruments” (line item 8240), “Private Label Mortgage Backed Securities” (line item 8250), “Other Asset Backed Securities” (line item 8260) and “Corporate Debt” (line item 8270). For Part IIA filers, the balance examined was “Debt Securities” (line item 419). Broker-dealers that hold preferred stock also may hold positions in debt securities. However, because preferred stock is not a separate line item on the FOCUS Report, broker-dealers that hold only preferred stock and no other debt securities are not included in this estimate.



the purposes of Rule 15c3-1, resulting in an aggregate one-time recordkeeping burden of 8,775 hours.<sup>45</sup>

The staff also estimates that, on average, each broker-dealer will spend an additional 10 hours a year reviewing and adjusting its own standards for evaluating creditworthiness. Therefore, the Commission estimates that the total annualized recordkeeping burden to the industry will be approximately 3,510 annual hours.<sup>46</sup> Consequently, the Commission estimates that the total annual burden associated with evaluating creditworthiness under Rule 15c3-1 will be approximately 4,092.66 hours.<sup>47</sup>

Therefore, the total annual hour burden for these information collections in Rule 15c3-1 is 65,915.31 hours.<sup>48</sup>

Nature of Information Collection Burden	Type of Burden	Total Number of Respondents	Total Number of Responses Per Year	Initial Burden Per Response Per Year Per Respondent	Ongoing Burden Per Response Per Year Per Respondent	Total Annualized Burden Per Year Per Respondent	Total Annualized Reporting Burden For All Respondents	Small Business Entities Affected
Rule 15c3-1: Notices	Reporting	902	1	0	0.5	0.5	451	290
Paragraph (c)(2)(iv)(B): Disclosures and Agreements	Recordkeeping	6	1	6.67	0	6.67	40	0
Paragraph (c)(2)(i)(G)(2): Capital Withdrawal Liability	Reporting	90	1	0	1	1	90	29
Appendix E computations for ANC firms	Recordkeeping	5	1	333.33	0	333.33	1,666.65	0
Reviewing and back testing models for existing ANC firms	Recordkeeping	5	1	0	6,240	6,240	31,200	0
Reviewing and back testing models for new ANC firms	Recordkeeping	5	1	0	4,160	4,160	20,800	0
Appendix G monthly reports for existing ANC firms	Reporting	5	12	0	8	96	480	0
Appendix G quarterly reports for existing ANC firms	Reporting	5	4	0	16	64	320	0
Appendix G annual reports for existing ANC firms	Reporting	5	1	0	200	200	1,000	0
Appendix G monthly reports for new ANC firms	Reporting	5	12	0	5.33	64	320	0

<sup>45</sup> 351 broker-dealers x 25 hours = 8,775 hours.

<sup>46</sup> 351 broker-dealers x 10 hours = 3,510 hours. The Commission estimates that broker-dealers will use a controller to do this work.

<sup>47</sup> See *supra* note 40. 2,923.83 hours + 1,168.83 hours = 4,092.66 hours.

<sup>48</sup> 451 + 40 + 90 + 61,241.65 = 61,822.65; 61,822.65 hours + 4,092.66 hours = 65,915.31 hours.

Appendix G quarterly reports for new ANC firms	Reporting	5	4	0	10.67	42.67	213.35	0
Appendix G annual reports for new ANC firms	Reporting	5	1	0	133.33	133.33	666.65	0
Appendix G recordkeeping for existing ANC firms	Recordkeeping	5	1	0	290	290	1,450.00	0
Appendix G recordkeeping for new ANC firms (initial)	Recordkeeping	5	1	13.33	0	13.33	66.65	0
Appendix G recordkeeping for new ANY firms (ongoing)	Recordkeeping	5	1	0	193.33	193.33	966.65	0
Appendix G notification provision for existing ANC firms	Reporting	5	1	0	1	1	5	0
Appendix G notification provision for new ANC firms	Reporting	5	1	0	0.67	0.67	3.35	0
Appendix G updating risk management profile for existing ANC firms	Recordkeeping	5	1	0	250	250	1,250	0
Appendix G updating risk management profile for new ANC firms	Recordkeeping	5	1	0	166.67	166.67	833.35	0
Creating procedures to determine creditworthiness to avoid 15% haircut	Recordkeeping	351	1	25	8.33	8.33	2,923.83	139
Reviewing procedures to determine creditworthiness to avoid 15% haircut	Recordkeeping	351	1	10	3.33	3.33	1,168.83	139
<b>Totals</b>							<b>65,915.31</b>	

## **2019 Amendments**

The adopted amendments to Rule 15c3-1 described in the SBSB Adopting Release will set forth net capital requirements for broker-dealer SBSBs, along with other changes that would apply to broker-dealers, including ANC broker-dealers.<sup>49</sup> These amendments impose additional one-time hour burdens or additional annual hour burdens to the industry and are summarized in the following chart and discussed below.

Nature of Information Collection Burden	Type of Burden	Total Number of Respondents	Total Number of Responses Per Year	Initial Burden Per Response Per Year Per Respondent	Ongoing Burden Per Response Per Year Per Respondent	Total Annualized Burden Per Year Per Respondent	Total Annualized Reporting Burden For All Respondents	Small Business Entities Affected
NEW: Rule 15c3-4: Risk management control system	Recordkeeping	6	1	666.67	250	916.67	5,500	0
NEW: 15c3-1(c)(2)(vi)(O)(l)(iii): Industry sector classification	Recordkeeping	6	1	0	1	1	6	0
NEW: 15c3-1(c)(2)(xiv): Account control agreements – Outside Counsel Review	Third-Party	16	100	0	2	200	3,200	0

<sup>49</sup> See *supra* note 5. The collection of information for Rule 18a-1, as adopted, is contained in a separate supporting statement.

NEW: 15c3-1(c)(2)(xiv): Account control agreements – Opinion of Counsel	Recordkeeping	8	1	20	0	6.67	53.36	0
<b>Totals</b>							<b>8,759.36</b>	

**Risk Management Control System.** The amendments to Rule 15c3-1 will require that all broker-dealer SBSBs comply with certain requirements of Rule 15c3-4.<sup>50</sup> Rule 15c3-4 requires OTC derivatives dealers and firms subject to its provisions, to establish, document, and maintain a system of internal risk management controls to assist the firm in managing the risks associated with business activities, including market, credit, leverage, liquidity, legal, and operational risks. Currently, there are 10 ANC broker-dealers expected to register as broker-dealer SBSBs, and 6 additional broker-dealers are expected to register as SBSBs that do not use models. Because ANC broker-dealers are currently subject to Rule 15c3-4, only those 6 broker-dealer SBSBs not expected to use internal models to compute net capital will have additional hour burdens and costs associated with complying with Rule 15c3-4. The Commission staff estimates that each of these firms will spend 2,000 hours to establish a risk management control system, and 250 hours per year to review and update that system.<sup>51</sup> This results in an estimated industry-wide one-time hour burden of approximately 12,000 recordkeeping hours,<sup>52</sup> and an estimated industry-wide annual hour burden of approximately 1,500 recordkeeping hours per year.<sup>53</sup> **Therefore, the Commission estimates an aggregate annualized recordkeeping burden of approximately 5,500 hours.**<sup>54</sup>

**Industry Sector Classification.** With respect to documenting an industry sector classification system with respect to credit default swap haircuts under paragraph (c)(2)(vi)(P)(I)(iii) of Rule 15c3-1, as amended, the Commission staff expects that 6 broker-dealer SBSBs not using models will each spend 1 hour per year complying with this requirement.<sup>55</sup> **This results in an industry-wide total annual recordkeeping hour burden of 6 hours.**<sup>56</sup>

<sup>50</sup> See paragraph (a)(10)(ii) of Rule 15c3-1, as amended.

<sup>51</sup> The one-time estimate of 2,000 hours and the annual estimate of 250 hours is based on the estimates for OTC derivatives dealer burdens to implement the same controls under Rule 15c3-1. See *OTC Derivatives Dealers*, 62 FR 67940.

<sup>52</sup> 6 non-model broker-dealer SBSBs x 2,000 hours = 12,000 hours. For purposes of this supporting statement, this one-time burden annualized over the three-year approval period is 4,000 hours (12,000 / 3 = 4,000), with an average hour burden per broker-dealer of 666.67 hours (4,000 / 6 broker-dealers = 666.67). Also note that this number is incremental to the current collection of information for Rule 15c3-1 with regard to complying with the provisions of Rule 15c3-4 and, therefore, excludes the 10 respondents included in the collection of information for that provision of the rule.

<sup>53</sup> 6 non-model broker-dealer SBSBs x 250 hours/year = 1,500 hours/year.

<sup>54</sup> 4,000 hours + 1,500 hours = 5,500 hours.

<sup>55</sup> The Commission staff expects that these firms would utilize third party systems, resulting in reduced hours and costs.

<sup>56</sup> 6 non-model broker-dealer SBSBs x 1 hour/year = 6 hours/year.

### Account Control Agreements

Outside Counsel Review. Finally, as a result of comments received,<sup>57</sup> under the amendments under Rule 15c3-1, as adopted in the SBSB Adopting Release, a broker-dealer and a broker-dealer/SBSB may treat collateral held by a third-party custodian to meet an initial margin requirement of a security-based swap or swap customer as being held by the broker-dealer for purposes of the capital in lieu of margin charge provisions of the rule if certain conditions are met.<sup>58</sup> More specifically, Rule 15c3-1, as amended, requires the execution of an account control agreement governing the terms under which the custodian holds and releases collateral pledged by the counterparty as initial margin if the broker-dealer intends to treat collateral held by a third-party custodian to meet an initial margin requirement of a security-based swap or swap customer as being held by the broker-dealer for purposes of the capital in lieu of margin charge provisions of the rule if certain conditions are met. Based on staff experience with the net capital and customer protection rules, the Commission estimates that 16 broker-dealer SBSBs will enter into approximately 100 account control agreements per year with security-based swap customers and that it will take approximately 2 hours to execute each account control agreement. **This results in an annual third-party hour burden of 3,200 hours.**<sup>59</sup>

Opinion of Counsel. Furthermore, the Commission staff estimates 16 broker-dealer SBSBs will need to maintain written documentation of their legal analysis of the account control agreement. Based on staff experience, the Commission estimates that broker-dealer SBSBs will meet this requirement split evenly between obtaining a written opinion of outside legal counsel or through the firm's own "in house" analysis. The Commission estimates that it will take a broker-dealer SBSB approximately 20 hours to conduct a written "in house" analysis, resulting in an industry-wide one-time burden of 160 hours.<sup>60</sup> **Therefore, the Commission estimates an aggregate annualized recordkeeping burden of approximately 53.33 hours.**<sup>61</sup>

### Total Industry Annual Hour Burden with 2019 Amendments

Thus, the total annual industry hour burden attributable to the SBSB Adopting Release will be 8,759.36 hours per year.<sup>62</sup> Therefore, the resulting estimated total yearly ongoing hour

---

<sup>57</sup> If a stand-alone dealer or nonbank SBSB delivers initial margin to a counterparty, it must take a deduction from net worth in the amount of the posted collateral. See paragraphs (c)(2)(i) through (xiv) of Rule 15c3-1. The Commission recognizes that the imposition of this deduction could increase transaction costs for stand-alone broker-dealers and nonbank SBSBs. Consequently, the Commission sought comment on whether it should provide a means for a firm to post initial margin to counterparties without incurring the deduction with respect to Rule 15c3-1 under specified conditions. Several commenters expressed support for this general approach. See, e.g., Letter from Kenneth E. Bentson, Jr., President and CEO, Securities Industry and Financial Markets Association (Nov. 19, 2018); Letter from Sebastian Crapanzano and Soo-Mi Lee, Managing Directors, Morgan Stanley (Nov. 19, 2018).

<sup>58</sup> See paragraph (c)(2)(xv)(C)(3) of Rule 15c3-1, as amended.

<sup>59</sup> 16 broker-dealer SBSBs x 100 agreements x 2 hours = 3,200 hours.

<sup>60</sup> (8 broker-dealer SBSBs) x 20 hours = 160 hours.

<sup>61</sup> (20 hours/3) x 8 broker-dealer SBSBs = 53.33.

<sup>62</sup> 5,500 + 6 + 3,200 + 53.36 = 8,759.36 hours.

burden to comply with Rule 15c3-1, as amended by the SBSB Adopting Release, will be approximately 76,958.61.<sup>63</sup>

### 13. Costs to Respondents

The existing cost burdens in the rule were not part of the recent rulemaking’s notice and comment process and, therefore, are not being revised at this time. The description of the existing cost burdens is from the most-recent extension in 2017. A discussion of the new cost burdens in the recent rulemaking is further below.

#### Existing Cost Burdens

Approximately 81 broker-dealers file consolidated financial reports, of which approximately 20 obtain an opinion of counsel under Appendix C of Rule 15c3-1. The Commission estimates that the approximate cost to broker-dealers to obtain an opinion of counsel to file the consolidated financial reports as required under Appendix C of Rule 15c3-1 will be \$8,000. This figure is based on an estimate of 20 hours per opinion for an outside counsel at \$400 per hour.<sup>64</sup> The total costs for all respondents will be \$160,000.<sup>65</sup>

Nature of Information Collection Burden	Type of Burden	Total Number of Respondents	Total Number of Responses Per Year	Initial Burden Per Response Per Year Per Respondent	Ongoing Burden Per Response Per Year Per Respondent	Total Annualized Burden Per Year Per Respondent	Total Annualized Reporting Burden For All Respondents	Small Business Entities Affected
Opinion of counsel to file consolidated financial reports under Appendix C	Reporting	20	1	\$0.00	\$8,000.00	\$8,000.00	\$160,000.00	0
<b>Totals</b>							<b>\$160,000.00</b>	

#### 2019 Amendments

The amendments to Rule 15c3-3 added new collections of information cost burdens. The new collections of information are summarized in the chart below and explained in the following discussion.

Nature of Information Collection Burden	Type of Burden	Total Number of Respondents	Total Number of Responses Per Year	Initial Burden Per Response Per Year Per Respondent	Ongoing Burden Per Response Per Year Per Respondent	Total Annualized Burden Per Year Per Respondent	Total Annualized Reporting Burden For All Respondents	Small Business Entities Affected
---	----------------	-----------------------------	------------------------------------	---	---	---	---	----------------------------------

<sup>63</sup> 65,915.31 (existing ICs) + 8,759.36 (2019 amendment ICs) = 74,674.67 hours.

<sup>64</sup> \$400 x 20 hours = \$8,000. See PRA Analysis in *Financial Responsibility Rules for Broker-Dealers*, Exchange Act Release No. 70072 (July 30, 2013), 78 FR 51823 (Aug. 21, 2013) (citing PRA Analysis in *Product Definitions Adopting Release*, 77 FR at 48334 (providing an estimate of \$400 an hour to engage an outside attorney)). See also *Crowdfunding: Final Rule*, Exchange Act Release No. 76324 (Oct. 30, 2015), 80 FR 71387 (Nov. 16, 2015). The Commission recognizes that the costs of retaining outside professionals may vary depending on the nature of the professional services, but for purposes of this PRA analysis, the Commission estimates that such costs will be an average of \$400 per hour.

<sup>65</sup> 20 opinions x \$8,000 = \$160,000.

NEW: 15c3-1 Risk Management Control System	Recordkeeping	6	1	\$5,333.33	\$20,500.00	\$25,833.33	\$155,000.00	0
NEW: 15c3-1 Account Control Agreements – Outside Counsel Review	Recordkeeping	16	1	\$2,666.67	\$0.00	\$2,666.67	\$42,666.72	0
NEW: 15c3-1 Account Control Agreements – Opinion of Counsel	Recordkeeping	8	1	\$2,666.67	\$0.00	\$2,666.67	\$21,333.36	0
<b>Totals</b>							<b>\$219,000.08</b>	

### Risk Management Control System<sup>66</sup>

As described in the proposing release that preceded the 2019 amendments in the SBSB Adopting Release, nonbank SBSBs may incur start-up costs to comply with the provisions of Rule 15c3-4 incorporated into the amendments to Rule 15c3-1, including information technology costs. The information technology systems of broker-dealer SBSBs that are not ANC broker-dealers may be in varying stages of readiness to enable these firms to meet the requirements of the new rules so the cost of modifying their information technology systems could vary significantly. Based on the estimates for similar collections of information,<sup>67</sup> it is expected that a broker-dealer SBSB that is not an ANC broker-dealer will incur an average of approximately \$16,000 for initial hardware and software expenses, and an average ongoing cost of \$20,500, for a total industry-wide initial cost of \$96,000, and ongoing cost of \$123,000.<sup>68</sup> **These estimates for the initial and ongoing costs result in total costs for all respondents of \$155,000.**<sup>69</sup>

### Account Control Agreements

Outside Counsel Review. Finally, discussed in Item 12 above, as a result of comments received,<sup>70</sup> under the final amendments under Rule 15c3-1, a broker-dealer/SBSB may treat collateral held by a third-party custodian to meet an initial margin requirement of a security-based swap or swap customer as being held by the broker-dealer for purposes of the capital in lieu of margin charge provisions of the rule if certain conditions are met. Two of these conditions include: (1) the execution of an account control agreement governing the terms under which the custodian holds and releases collateral pledged by the counterparty as initial margin; and (2) that the broker-dealer obtains a written opinion from outside counsel that the account control agreement is legally valid, binding, and enforceable in all material respects, including in the event of bankruptcy, insolvency, or a similar proceeding. The Commission staff estimates that 16 broker-dealer SBSBs will engage outside counsel to draft and review the account control agreement at a cost of \$400 per hour for an average of 20 hours per respondent. **This results in a one-time cost burden of \$128,000 for the 16 broker-dealer/SBSBs, annualized to \$42,666.72**

<sup>66</sup> This cost burden was included in the proposing release for the 2019 amendments, but was inadvertently left out of the supporting statement for Rule 15c3-1, as proposed.

<sup>67</sup> See e.g., *Risk Management Controls for Brokers or Dealers with Market Access*, Exchange Act Release No. 63421 (Nov. 3, 2010), 75 FR 69792, 69814 (Nov. 15, 2010).

<sup>68</sup> (16 broker-dealer SBSBs – 10 ANC broker-dealers) x \$16,000 = \$96,000. The annualized amount per year/ per respondent would be \$16,000/3 = \$5,333.33; 6 non-broker-dealer/non- ANC SBSBs x \$20,500 = \$123,000.

<sup>69</sup> (\$5,333.33 x 6 broker-dealer SBSBs) + \$123,000 = \$154,999.98, rounded to \$155,000.

<sup>70</sup> See *supra* note 57.

per year.<sup>71</sup>

*Opinion of Counsel.* In addition, the Commission estimates that 16 broker-dealer SBSBs will need to maintain written documentation of their legal analysis of the account control agreement. Based on staff experience, the Commission estimates that SBSB broker-dealers will meet this requirement split evenly between obtaining a written opinion of outside legal counsel or through the firm’s own “in-house” analysis. The Commission estimates that the approximate cost to obtain an opinion of counsel will be \$8,000, resulting in a one-time cost burden of \$64,000 for these 8 entities. **This results in an annualized cost of \$21,333.36 for the industry.**<sup>72</sup>

#### Total Industry Annual Cost Burden with 2019 Amendments

Thus, the total annual industry cost burden attributable to the SBSB Adopting Release will be \$219,000.08 per year.<sup>73</sup> Therefore, the resulting estimated total yearly ongoing cost burden to comply with Rule 15c3-1, as amended by the SBSB Adopting Release, will be approximately **\$379,000.08.**<sup>74</sup>

#### **14. Costs to Federal Government**

Not applicable. Rule 15c3-1 would not result in any costs to the federal government beyond normal full-time employee labor costs, nor does Rule 15c3-1 require the Commission to hire any new employees or reallocate existing employees to ensure compliance with the rule.

#### **15. Changes in Burden**

The increase in the annual hour burden of 8,759.36 hours is attributable to the amendments in the SBSB Adopting Release, described in paragraph 12 above. The increase in the cost estimate of \$219,000.08 is also attributable to the amendments in the SBSB Adopting Release.

<b>Name of Information Collection</b>	<b>Annual Industry Burden</b>	<b>Annual Industry Burden Previously Reviewed</b>	<b>Change in Burden</b>	<b>Reason for Change</b>
Liquidity Stress Test	0	6,000	(6,000)	Previously proposed, but not adopted in the amendments to Rule

<sup>71</sup> 16 broker-dealer SBSBs x \$400 per hour x 20 hours = \$128,000. The annualized amount per year/ per respondent would be \$8,000/3 = \$2,666.67, or a total of \$42,666.72 (\$2,666.67 x 16 broker-dealer SBSBs).

<sup>72</sup> 8 broker-dealer SBSBs x \$8,000 = \$64,000. The annualized amount per year/ per respondent would be \$8,000/3 = \$2,666.67, or a total of \$21,333.36 (\$2,666.67 x 8 broker-dealer SBSBs).

<sup>73</sup> \$155,000 + \$42,666.72 + \$21,333.36 = \$219,000.08.

<sup>74</sup> \$160,000 (existing IC) + \$219,000.08 (2019 amendment ICs) = \$379,000.08.

				15c3-1 described in the SBSD Adopting Release based on comments received.
NEW: Rule 15c3-4: Risk management control system	5,500	5,500	0	No change from proposal.
NEW: 15c3-1(c)(2)(vi)(O)(I)(iii): Industry sector classification	6	6	0	No change from proposal.
NEW: 15c3-1(c)(2)(xiv): Account control agreements – outside counsel review	3,200	0	3,200	New provision adopted in the amendments to Rule 15c3-1 described in the SBSD Adopting Release, based on comments received (see footnote 57).
NEW: 15c3-1(c)(2)(xiv): Account control agreements – opinion of counsel	53.36	0	53.36	New provision adopted in the amendments to Rule 15c3-1 described in the SBSD Adopting Release, based on comments received (see footnote 57).
NEW: Risk Management Control System (cost burden)	\$155,000.00	0	\$155,000.00	Described in the proposing release to the 2019 amendments, but inadvertently left out of the supporting statement for the proposed rule.
NEW: Account Control Agreements – outside counsel review (cost burden)	\$42,666.72	0	\$42,666.72	New provision adopted in the amendments to Rule 15c3-1 described in the SBSD Adopting Release, based on comments received (see footnote 57).
NEW: Account Control Agreements – opinion of counsel (cost burden)	21,333.36	0	21,333.36	New provision adopted in the amendments to Rule 15c3-1 described in the SBSD Adopting Release, based on comments received (see footnote 57).

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

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

**17. OMB Expiration Date Display Approval**

The Commission is not seeking approval to not display the OMB approval 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.