

amendments to 17a-3, certain exception reports and special regulatory reports, and written compliance, supervisory and procedure manuals. Finally, the amendments to Rules 17a-3 and 17a-4 also set forth, (i) the definition of "office," (ii) what records must be created as to each office, and (iii) what records must be maintained at each office.

## II. Collection of Information Requirements

As explained in the Adopting Release, certain provisions of the amendments to the Books and Records Rules contain "collection of information" requirements<sup>4</sup> within the meaning of the Paperwork Reduction Act of 1995.<sup>5</sup> In the Adopting Release, the Commission estimated the burden hours for these collection of information requirements and solicited comments on the collection of information requirements and the burden estimate. The Commission submitted the proposed collection of information requirements to OMB for review as required pursuant to 44 U.S.C. 3507 and 5 CFR 1320.11. The titles for the collections of information are: (1) "Rule 17a-3; Records to be Made by Certain Exchange Members, Brokers and Dealers;" and (2) "Rule 17a-4; Records to be Preserved by Certain Exchange Members, Brokers and Dealers." The Commission did not receive any comments on the collection of information requirements of the amendments to the Books and Records Rules.

The purpose of requiring that broker-dealers create and maintain the records specified in the amendments to the Books and Records Rules is to enhance the ability of regulators to protect investors. These records and the information contained therein will be used by examiners and other representatives of the Commission, State<sup>6</sup> securities regulatory authorities, and the self-regulatory organizations ("SROs") to determine whether broker-dealers 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.

### A. Respondents

As of the end of 2000, broker-dealers reported that they maintained a total of approximately 97,600,000 customer

accounts. The Commission estimates that the total number of accounts that would need to be contacted for updating is approximately 70,500,000. Approximately 70 of the 7,217 active, registered broker-dealers<sup>7</sup> maintain over 100,000 accounts, and the remaining broker-dealers (7,147) maintain less than 100,000 accounts each. Of the approximately 70,500,000 accounts that may be affected by these Adopted Amendments to Rule 17a-3, approximately 68,385,000 (or 97%) are maintained at these large broker-dealers, and 2,115,000 (or 3%) are maintained at broker-dealers with fewer than 100,000 accounts each.

### B. Total Annual Reporting and Recordkeeping Burden of Amendments to Rule 17a-3

New paragraph (a)(17) of Rule 17a-3 requires that broker-dealers collect certain account information for each account, and send account information to customers for verification within 30 days of account opening and at least every 36 months thereafter. This new paragraph is designed to: (1) Assure that broker-dealers have customer account information to provide to regulators which enable the regulators to review for compliance with suitability rules, and (2) reduce the number of misunderstandings between customers and broker-dealers regarding the customer's situation or investment objectives. The Commission estimates that the total annual burden of new paragraph (a)(17) of Rule 17a-3 will be 1,283,786 hours.<sup>8</sup>

<sup>7</sup> Of approximately 7,739 broker-dealers registered with the Commission, approximately 341 are not yet active because their registration is pending SRO approval and approximately 181 are inactive because they have ceased doing a securities business and have filed a Form BDW with the Commission. Of these 7,217 active, registered broker-dealers, three are registered OTC Derivatives Dealers. OTC Derivatives Dealers are a special class of broker-dealers that limit their business to dealer activities in eligible over-the-counter derivative instruments and that meet certain financial responsibility and other requirements.

<sup>8</sup> The Commission estimates that, as their processes are more automated, it will take large broker-dealers an average of 1½ additional minutes per account every three years, thus requiring large broker-dealers to spend an additional 569,875 hours per year (68,385,000 account records / 3 years × 1.5 minutes / 60 minutes) to send account information to customers. As small broker-dealers utilize processes that are more manual in nature, the Commission estimates that it will take small broker-dealers an average of 7 minutes per account every three years, thus requiring small broker-dealers to spend an additional 82,250 hours per year (2,115,000 account records / 3 years × 7 minutes / 60 minutes) to send account records to customers. Thus, the total additional burden on the industry to send account records to customers is approximately 652,125 hours per year.

The Commission estimates that approximately 20% of the customers from whom information is

Amendments to paragraph (a)(12) and new paragraph (a)(19) of Rule 17a-3 require broker-dealers to keep certain records regarding their associated persons. These amendments will allow securities regulators to identify where associated persons work, read various records which may identify the associated persons solely through the use of identification numbers, and quickly identify compensation trends and focus examinations. The Commission estimates that, on average, these amendments would require each broker-dealer to spend approximately 30 minutes each year to ensure that it is in compliance with these amendments to Rule 17a-3, which would result in a total annual compliance burden of about 3,609 hours.<sup>9</sup>

The amendments to Rule 17a-3 also require broker-dealers to make records: That indicate that they have either complied with or adopted procedures designed to establish compliance with applicable regulations of certain securities regulatory authorities,<sup>10</sup> that list persons who can explain the information in the broker-dealer's records,<sup>11</sup> and that list principals responsible for establishing compliance policies and procedures.<sup>12</sup> These

requested will update their account records, resulting in 4,700,000 updated account records each year (70,500,000 / 3 years × 20%). Thus, the Commission estimates that it would take, on average, 5 minutes for large broker-dealers to update each account and 10 minutes for small broker-dealers to update each account, resulting in an additional burden of approximately 403,417 hours per year ((4,559,000 account records × 5 minutes / 60 minutes) + (141,000 account records × 10 minutes / 60 minutes)).

If a customer has provided the broker-dealer with updated account record information, under Paragraphs (a)(17)(B)(2) and (3) of Rule 17a-3 the broker-dealer must send a copy of the revised account record to the customer within 30 days after the broker-dealer received notification of the change or, under (a)(17)(B)(3), the broker-dealer may send the notification with the next statement mailed to the customer. The Commission estimates that, in addition to the 70,500,000 updated account records discussed above, approximately 3,525,000 customers (5% of the 70,500,000 accounts for which firms will be required to make the account record) will initiate changes to their account records on a yearly basis, just as they do now, with no prompting from any account record mailing. The Commission estimates, as stated above, that it will take large broker-dealers 1½ minutes and smaller broker-dealers 7 minutes to send out account information to each customer who updated their account. The Commission estimates that 8,225,000 (4,700,000 + 3,525,000) customers will update their account record, and that broker-dealers will spend an additional 228,244 hours each year ((7,978,250 account records × 1.5 minutes / 60 minutes) + (246,750 account records × 7 minutes / 60 minutes)) sending the updated account records to customers.

<sup>9</sup> (7,217 broker-dealers × 30 minutes) / 60 minutes.

<sup>10</sup> 17 CFR 240.17a-3(a)(17)(iii) and 17 CFR 240.17a-3(a)(20).

<sup>11</sup> 17 CFR 240.17a-3(a)(21).

<sup>12</sup> 17 CFR 240.17a-3(a)(22).

<sup>4</sup> 66 FR 55818, at 55834 through 55837 (Nov. 2, 2001).

<sup>5</sup> 44 U.S.C. 3501 *et seq.*

<sup>6</sup> 15 U.S.C. 78c(a)(16).