

approximately \$170,000 ($\$49.87 \times 3,480 = \$173,548$).

We estimate that it would require a total of approximately one hour per year for all 12 of the broker-dealers to comply with the notification provisions of proposed Appendix G,⁸⁶ and that a senior compliance staff person would do the work. The staff estimates that the hourly salary of a senior compliance staff person is \$56.60 per hour,⁸⁷ for a total cost for the 12 firms of approximately \$60.

The cost estimates regarding the amendments to Rule 15c3-4 are based on the present Rule 15c3-4 PRA burden estimates, discussions with potential applicants, and the Commission's experience with implementation of Rule 15c3-4 for OTC derivatives dealers. The present Rule 15c3-4 PRA burden estimate is an average of 2,000 hours on a one-time basis to implement the risk management control system and an average of 200 hours per year to review and update the system. This estimate was based on the implementation of a risk management control system for a single entity: the OTC derivatives dealer. In this proposal, the broker-dealer is required to implement a risk management control system and the holding company is required to implement a group-wide risk management control system. Although the 12 broker-dealers we expect to apply under this proposal have already developed internal risk management control systems, not all of them have implemented and formally documented a group-wide system. We believe that it would take more than 2,000 hours for such a broker-dealer to implement a formal, documented group-wide risk management control system. On the other hand, if a firm already has a formally documented group-wide internal risk management control system, we believe that it would take less than 2,000 hours to bring that system into compliance with amended Rule 15c3-4. Of the 12 broker-dealers we expect will apply under this proposal, we estimate that 6 have formal, documented, group-wide

internal risk management control systems, and that 6 have internal risk management control systems that are not formally documented for the affiliate group. We estimate that a firm with a formal, documented group-wide internal risk management control system would spend approximately 1,000 hours on a one-time basis to comply with the proposed amendments to Rule 15c3-4 and that a firm that does not have a formally documented group-wide internal control system will spend up to approximately 3,600 hours on a one-time basis to comply with the proposed amendments to Rule 15c3-4. The total for the twelve firms would therefore be approximately 27,600 hours ($(6 \times 1,000) + (6 \times 3,600)$) on a one-time basis and, on the basis of an estimate of approximately 250 hours per year to review and update its risk management control system, a total of 3,000 hours per year for the 12 firms. We expect that a senior compliance staff person would do the work. The staff estimates that the hourly salary of a senior compliance staff person is \$56.60 per hour,⁸⁸ for a total one-time cost of approximately \$1.6 million ($\$56.60 \times 27,600 = \$1,562,160$) and a total annual cost of approximately \$170,000 ($\$56.60 \times 3,000 = \$169,800$).

The information technology systems used by CSEs to manage risk, make and retain records, and report and calculate capital differ widely depending on the size of the CSE and the types of business it engages in. These information technology systems may be in varying stages of readiness to enable the CSE to meet the requirements of the proposal. Based on Commission experience and informal discussions with potential applicants, we estimate that it will cost a CSE that has well-developed information technology systems approximately \$5 million to upgrade its systems, that it will cost a CSE that has less well-developed systems approximately \$50 million to upgrade its systems, and that, on average, it will cost a CSE approximately \$27.5 million to upgrade its systems. Consequently, we estimate that the 12 broker-dealers we expect to apply under the proposal would spend a total of approximately \$330 million to upgrade their information technology systems. We believe that this would be a one-time cost.

We estimate that the average amount of time necessary to prepare and file the additional monthly reports required by

the proposed amendment to Rule 17a-5 would be about 4 hours per month, or approximately 48 hours per year; that the average amount of time necessary to prepare and file the additional quarterly reports would be about 8 hours per quarter, or approximately 32 hours per year; and that the average amount of time necessary to prepare and file the additional supplemental reports with the annual audit would be approximately 40 hours per year. Consequently, the 12 broker-dealers would spend approximately 1,440 hours ($(48 + 32 + 40) \times 12$) per year to comply, and we expect that a senior accountant would do the work. The staff estimates that the hourly salary of a senior accountant is \$49.87 per hour,⁸⁹ for a total annual cost of approximately \$72,000 ($\$49.87 \times 1,440 = \$71,813$).

We estimate that approximately 10% of active broker-dealers filed a Rule 17a-11 notice during calendar year 2001 and that it would take approximately one hour to file such a notice. Therefore, we estimate that of the 12 broker-dealers we expect to apply under this proposal, at most one may be required to file notice pursuant to the proposed amendments to Rule 17a-11 each year. Thus, we estimate that the total for the 12 broker-dealers we expect to apply under the proposal would be about one hour. The staff estimates that the hourly salary of a senior compliance staff person is \$56.60 per hour,⁹⁰ for a total cost of approximately \$60.

VI. Burden on Competition and Promotion of Efficiency, Competition, and Capital Formation

Section 3(f) of the Exchange Act⁹¹ requires us, when engaging in rulemaking that requires us to consider or determine whether an action is necessary or appropriate in the public interest, to consider whether the action will promote efficiency, competition, and capital formation. Section 23(a)(2) of the Exchange Act⁹² requires us to consider the anticompetitive effects of any rules that we adopt under the Exchange Act. Section 23(a)(2) prohibits us from adopting any rule that would impose a burden on competition not necessary or appropriate in furtherance of the purposes of the Exchange Act.

⁸⁹ SIA Report, (Senior Accountant) + 35% overhead (based on end-of-year 2002 figures) (\$66,500 per year/1800 hours/year * 1.35 = \$49.87 per hour).

⁹⁰ SIA, Management and Professional Earnings, (Senior Compliance Staff) + 35% overhead (based on end-of-year 2002 figures) (\$75,464 per year/1800 hours/year * 1.35 = \$56.60 per hour).

⁹¹ 15 U.S.C. 78c(f).

⁹² 15 U.S.C. 78w(a)(2).

⁸⁶ The Commission received 692 Rule 17a-11 notifications during calendar year 2001, when there were approximately 7,217 broker-dealers registered with the Commission. Thus, approximately 10% of registered broker-dealers filed a Rule 17a-11 notice in 2001. We therefore estimate that of the 12 broker-dealers we expect will apply under the proposal, one may be required to file an Appendix G notice each year. We estimate that, consistent with the Rule 17a-11 PRA burden estimate, it will take approximately one hour to file that notice.

⁸⁷ SIA Report, (Senior Compliance Staff) + 35% overhead (based on end-of-year 2002 figures) (\$75,464 per year/1800 hours/year * 1.35 = \$56.60 per hour).

⁸⁸ SIA Report, (Senior Compliance Staff) + 35% overhead (based on end-of-year 2002 figures) (\$75,464 per year/1800 hours/year * 1.35 = \$56.60 per hour).