

SUPPORTING STATEMENT

A. Justification

(1) Necessity for Information Collection

On March 16, 1976, the Commission adopted Rule 17f-2, implementing Section 17(f)(2) of the Securities Exchange Act of 1934 (the "Act"). Paragraph (a) of that Section and Rule 17f-2(a) thereunder provide that every member of a national securities exchange, broker, dealer, registered transfer agent and registered clearing agency ("covered entities") must require each of its partners, directors, officers, and employees to be fingerprinted and must submit or cause to be submitted such fingerprints to the designee of the Attorney General of the United States (the FBI) for appropriate identification and processing.

Section 17(f)(2) of the Act was a response by Congress to the large number of securities thefts which occurred in the late 1960's. Testimony at the hearing conducted before the Senate permanent Subcommittee on Investigations between 1971 and 1974 indicated that the trafficking in stolen securities was a profitable area for organized crime and that the failure to have available to the financial community a means of easily identifying security-risk personnel was a contributing factor to that problem.

The purpose of Rule 17f-2(a) is to facilitate the identification of security-risk personnel (i.e., persons with criminal history records for serious offenses), to provide criminal history record information so that employers can make fully informed employment decisions, and to deter such persons from seeking employment or association with covered entities. Fingerprint cards submitted under Rule 17f-2(a) must be retained for a period of not less than three years after termination of the person's employment relationship with the organization.

(2) Purpose of and Consequences of Not Requiring the Information Collection

Fingerprint cards are provided to covered entities by the appropriate self-regulatory organization ("SRO"). The SRO then forwards the cards to the FBI. The FBI processes the cards and returns those cards with any criminal history to the SRO. The SRO, in turn, returns the cards, together with any criminal history record information, to the covered entity that initially submitted the fingerprint cards. Processed fingerprint cards and criminal histories (if any) are reviewed by the covered entity to identify security-risk personnel, to allow for fully-informed decisions regarding employment or association of persons with a covered entity, and to deter persons with criminal histories from seeking employment or association with a covered entity. Without paragraph (a) of Rule 17f-2, benefits of the Rule to the securities industry would be lost, and the only nationwide, uniform fingerprinting program for the securities industry would be rendered inoperable.

(3) Role of Improved Information Technology and Obstacles to Reducing Burden

Not applicable.

(4) Efforts to Identify Duplication

Not applicable.

(5) Effect on Small Entities

The reporting requirement only applies to newly hired personnel in the securities industry. A small entity, therefore, would be affected by the Rule only when it hires new personnel.

(6) Consequences of Less Frequent Collection

The reporting requirement is on "an event" basis only.

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

The collection is conducted in a manner consistent with the guidelines in 5 CFR 1320.5(d)(2).

(8) Consultations Outside the Agency

The Commission staff from time to time consults on fingerprint matters with outside agencies, most frequently with personnel at the FBI and FINRA. Consultations with the FBI typically involve statutory issues under the Act. Consultations with FINRA, an SRO, typically involve fingerprint operations. FINRA, the largest processor of fingerprint cards in the securities industry, has an electronic fingerprint channel to the FBI and processes about 335,000 sets of fingerprints annually.

(9) Payment of Gift to Respondents

Not applicable.

(10) Assurance of Confidentiality

No assurance of confidentiality is provided.

(11) Sensitive Questions

No questions of a sensitive nature are asked.

(12) Estimate of Respondent Reporting Burden

Approximately 10,000 covered entities are required to fingerprint their partners, directors, officers, or employees, unless otherwise exempt. The SROs, through their fingerprinting plans, handle the majority of fingerprint cards submitted to the FBI. On the basis of their estimates, we have concluded that approximately 550,000 fingerprint cards are prepared annually, or an average of approximately 55 cards per respondent. We believe that one-half hour is required to complete a fingerprint card. Therefore, we estimate the total annual burden to be 275,000 hours, based upon past submissions.

(13) Estimate of Total Annualized Cost Burden

It is not anticipated that respondents will have to incur any capital and start up cost to comply with the rule, nor is it anticipated that the respondents will have to incur any additional operational or maintenance cost, other than provided for in item number 12, to comply with the rule. As stated above, we estimate the total annual burden to be 275,000 hours, and we estimate the average cost per hour to be approximately \$50.00. Therefore, the total cost of compliance for respondents is approximately \$13,750,000 per annum.

(14) Estimate of Cost to the Federal Government

Costs to the Federal Government in administering Rule 17f-2(a) are minimal. The Commission staff presently receives no more than 2 or 3 inquiries per week. Each such inquiries usually can be answered within a half hour. The staff estimates that approximately 70 hours of staff time per year will be devoted to answering these oral inquiries at a cost of \$5,600 per year. Additionally, the staff estimates that approximately 50 hours of staff time per year will be devoted to responding in writing to letters that request exemptions from the rule, which represents a cost of \$4,000 per year. Such exemptions typically are based upon a showing of physical disabilities that render persons unable to be fingerprinted. Accordingly, the Commission's total administrative cost for administering Rule 17f-2(a) is estimated at \$9,600.

(15) Explanation of Changes in Burden

Burden on respondents is unchanged.

(16) Information Collection Planned for Statistical Purposes

Not applicable.

(17) Explanation as to why Expiration Date Will Not be Displayed

Not applicable.

(18) Exceptions to Certification

Not applicable.

B. Collection of Information Employing Statistical Methods

No statistical methods are employed in connection with the collections of information.