

SUPPORTING STATEMENT
For the Paperwork Reduction Act Information Collection Submission for
Form Custody
OMB Control Number 3235-0691

A. JUSTIFICATION

1. Information Collection Necessity

Section 17(a)(1) of the Securities Exchange Act of 1934 (15 U.S.C. 78a *et seq.*) (“Exchange Act”) provides that broker-dealers registered with the Securities and Exchange Commission (“Commission”) must make and keep records,¹ furnish copies of the records, and make and disseminate reports as the Commission, by rule, prescribes. Pursuant to this authority, the Commission adopted Rule 17a-5 (17 CFR 240.17a-5), which is one of the primary financial and operational reporting rules for broker-dealers.² Paragraph (a)(5) of Rule 17a-5 requires every broker-dealer registered with the Commission to file Form Custody (17 CFR 249.639) with its designated examining authority (“DEA”) within 17 business days after the end of each calendar quarter and within 17 business days after the end of the broker-dealer’s fiscal year if that date is not the end of a calendar quarter. Form Custody is designed to elicit information about whether a broker-dealer maintains custody of customer and non-customer assets, and, if so, how such assets are maintained.³

2. Information Collection Purpose and Use

The purpose of Form Custody is to provide information about the custodial activities of broker-dealers that can serve as a starting point for Commission and DEA examiners to undertake more in-depth reviews of these activities as they deem appropriate.

3. Consideration Given to Information Technology

Form Custody is generally filed electronically with the broker-dealer’s DEA.

4. Duplication

The Commission is aware that some overlap exists between the information collected from investment advisers on Form ADV and the information collected from broker-dealers dually-registered as investment advisers in Item 8 of Form Custody. However, these two forms also contain a significant amount of non-overlapping material, reflecting their different purposes

¹ The record retention requirements for broker-dealer records, including information in support of amounts included in the Form Custody, are in Rule 17a-4 (OMB Control No. 3235-0279). Such records must be preserved for a period of not less than three years, the first two in an easily accessible place.

² Rule 17a-5 is subject to a separate Paperwork Reduction Act (“PRA”) filing (Office of Management and Budget (“OMB”) Control Number 3235-0123).

³ An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information under the PRA unless it displays a currently valid OMB control number.

and uses. Form Custody is intended to be a single source of readily-available information to assist Commission and DEA examiners in preparing for and performing focused custody exams, and it is particularly important that such information be readily available in the case of dually-registered firms.

5. Effect on Small Entities

The Commission believes that the burden associated with Form Custody would generally be lower for smaller broker-dealers because smaller broker-dealers generally do not clear transactions or carry customer accounts, and such a firm would generally not need to enter detailed information on the form.

6. Consequences of Not Conducting Collection

If the required reports were not made, or were made less frequently, it would impair the Commission's and the DEAs' ability to detect fraudulent conduct by investment advisers and broker-dealers, including, among other things, misappropriation or other misuse of customer securities and funds. Further, if the required collections were conducted less frequently, the information in the reports would become outdated.

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 required Federal Register notice with a 60-day comment period soliciting comments on this collection of information was published. No public comments were received.

9. Payment or Gift

No payment or gift was provided to respondents.

10. Confidentiality

Pursuant to paragraph (a)(3) of Rule 17a-5, Form Custody is deemed to be confidential.

11. Sensitive Questions

The Information Collection does not collect information about individuals, therefore, a PIA, SORN, and PAS are not required.

12. Information Collection Burden

As noted above, all broker-dealers registered with the Commission are required to file Form Custody with their DEA once each calendar quarter. The Commission estimates that there are approximately 3,470 broker-dealers registered with the Commission. Based on staff experience, the Commission estimates that, on average, it would take a broker-dealer approximately 12 hours to complete and file Form Custody, for an annual industry-wide reporting burden of approximately 166,560 hours.⁴ Assuming an average cost per hour of approximately \$344 for a compliance manager, the total internal cost of compliance for the respondents is approximately \$57,296,640 per year.⁵

Rule	Burden Type	Number of Respondents	Number of Annual Responses per Respondent	Time per Response	Total Burden
Form Custody	Periodic Reporting	3,470	4	12	166,560

13. Costs to Respondents

Other than the costs associated with the burden of information collection discussed in Item 12 above, Form Custody does not impose any additional costs on respondents.

14. Costs to Federal Government

The SEC is in the process of revising its methodologies to estimate annualized costs to the Federal government for all its relevant collections of information. The SEC anticipates that future extensions of this collection of information will reflect the revised methodologies.

15. Changes in Burden

The annual reporting burden has decreased from 169,632 hours to 166,560 hours due to a decrease in the number of respondents from 3,534 to 3,470.

16. Information Collection Planned for Statistical Purposes

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

17. Approval to Omit OMB Expiration Date

The Commission is not seeking approval to omit the expiration date.

⁴ 3,470 brokers-dealers x 4 times per year x 12 hours = 166,560 hours.

⁵ 166,560 hours x \$344 per hour = \$57,296,640. \$344 per hour for a compliance manager is from SIFMA's Management & Professional Earnings in the Securities Industry 2013, modified by Commission staff for an 1800-hour work-year and to account for bonuses, firm size, employee benefits, and overhead, and adjusted for inflation.

18. Exceptions to Certification for PRA 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.