

SUPPORTING STATEMENT

1. Necessity for Information Collection

Section 11A(a)(2) of the Securities Exchange Act of 1934 (“Exchange Act”) directs the Securities and Exchange Commission (“Commission”) to use its authority under the Act to facilitate the establishment of a national market system in which, among other things, brokers, dealers, and investors have access to information on securities quotations and transactions. Rule 11Ac1-1 (“Quote Rule”) is intended to assure the prompt, accurate, and reliable distribution of quotation information and to assure the fairness and usefulness of the form and content of this information.

The Quote Rule contains two related collections of information necessary to disseminate to the public market makers’ published quotations to buy and sell securities. The first collection of information is found in Rule 11Ac1-1(c), 17 CFR 11Ac1-1(c). This reporting requirement obligates each “responsible broker or dealer,” as defined under the rule, to communicate to its exchange or association its best bids, best offers, and quotation sizes for any subject security, as defined under the rule. The second collection of information is found in Rule 11Ac1-1(b), 17 CFR 11Ac1-1(b). This reporting requirement obligates each exchange and association to make available to quotation vendors for dissemination to the public the best bid, best offer, and aggregate quotation size for each subject security.¹ Brokers, dealers, other market participants, and members of the public rely on published quotation information to determine the best price and market for execution of customer orders.

2. Purposes of, and Consequences of Not Requiring, the Information Collection

The purpose of the collections of information contained in the Quote Rule is to assure that significant market makers responsible for more than 1% of the trading volume in a listed security and exchange specialists whose exchanges are responsible for more than 1% of the trading volume in a listed exchange-traded security, display bid and ask quotes for that stock to the public and assure that exchanges and OTC market makers disseminate such quotation information in an accurate and timely manner to the investing public. In the absence of these

¹ A third requirement under the Quote Rule, as amended at 17 CFR 11Ac1-1(c)(5), gives electronic communications networks (“ECNs”) the option of reporting to an exchange or association for public dissemination, on behalf of their OTC market maker or exchange specialist customers, the best priced orders and the full size for such orders entered by market makers, to satisfy such market makers’ reporting obligation under Rule 11Ac1-1(c). Because this reporting requirement is an alternative method of meeting the market makers’ reporting obligation, and because it is directed to nine or fewer persons (ECNs), this collection of information is not subject to OMB review under the PRA.

collections of information, investors may not be aware of the best bids and offers available from all significant market makers or specialists in these securities.

3. Role of Improved Information Technology and Obstacles to Reducing Burden

Improved information technology permits dissemination of quotation information in an accurate and timely fashion. The Commission believes that improved information technology lessens the burden imposed by the collections of information because such technology may permit parties subject to the rule to collect the required information automatically. Thus, improved technology may reduce the burden imposed by these information collections.

4. Efforts to Identify Duplication

The Commission has sought to effect the dissemination of quote information through existing channels. The rules of the various exchanges and the association generally already require exchange specialist and market makers to publish continuous two-sided quotations in those securities for which they act as market makers.

5. Effects on Small Entities

The Commission believes the 1% volume threshold prevents small broker-dealers from having to publicly display two-sided quotes in any additional Nasdaq stocks in which they make markets. Approximately 80-90 of the small broker-dealers that are affected by the rule are not significantly affected because they already publicly display two-sided quotes for most of the Nasdaq stocks in which they make markets. In addition, association rules would require these market makers to display publicly continuous two-sided quotes even if the current and proposed information collections did not apply to small broker-dealers.

6. Consequences of Less Frequent Collection

Less frequent dissemination of information under the Quote Rule would compromise investor protection.

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

Not applicable; the information is collected in a manner consistent with 5 CFR 1320.5(d)(2).

8. Consultations Outside the Agency

The Quote Rule was adopted by the Commission after notice and comment, including a request for comments regarding the collections of information in a special Paperwork Reduction Act ("PRA") section.

9. Payment or Gifts to Respondents

Not applicable.

10. Assurances of Confidentiality

No assurances of confidentiality are necessary because the information will be made available to the public.

11. Sensitive Questions

Not applicable; no questions of a sensitive nature are asked.

12. Estimate of Respondent Reporting Burden

For the reporting obligations under Rule 11Ac1-1(c), the likely respondents are OTC market makers and exchange specialists. The Commission estimates that there are approximately 180 exchange specialists and 541 OTC market makers that are respondents to this collection of information. Each exchange specialist will respond on average approximately 806,000 times per year, while each OTC market maker will respond on average 188,000 times per year. These figures are based on a 252 trading day year. The total annual time burden for each exchange specialist is estimated to be 672 hours, while the total annual time burden for each OTC market maker is estimated to be 156 hours. These figures are based on an estimate of three seconds per response (i.e. the time it takes to update a quote). The annual aggregate burden for all respondents combined is estimated to be 120,960 hours for exchange specialists, and 84,396 hours for OTC market makers, for a total of 205,356 hours. The Commission notes that the rules of the various exchanges and the association generally already require exchange specialists and market makers to publish continuous two-sided quotations in those securities for which they act as market makers.²

Moreover, there are currently five SROs which trade options. It maybe necessary for these SROs to amend their rules from time to time to comply with the recent amendment to the Quote Rule. The Commission estimates that the five option SROs would amend their respective rules at most once a year, for a total of five proposed rule changes. The Commission estimates that a routine proposed rule change entails 25 hours of legal review, plus one hour of secretarial time. The total reported burden to the SROs, therefore would be 130 hours (26 hours x 5

² For the reporting obligation under Rule 11Ac1-1(b), the likely respondents are the eight national securities exchanges and one registered national securities association. Under the PRA the Commission is not required to submit a collection of information to OMB for review unless it applies to ten or more persons. Accordingly, the Commission is not soliciting comments on this reporting obligation.

SROs). The 130 hours when added to the number above, 205,356 combines for a total of 205,486 burden hours.

13. Estimate of Total Annualized Cost Burden

Not Applicable.

14. Estimate of Cost to Federal Government

Not Applicable.

15. Explanation of Changes in Burden

No change.

16. Information Collections Planned for Statistical Purposes

Not applicable; the Commission does not itself collect the information required by Rule 11Ac1-1-1 and will not utilize an agent to publish this information on its behalf for any purpose.

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

Not Applicable.