

SUPPORTING STATEMENT

for the Paperwork Reduction Act Information Collection Submission for

Rule 303

A. JUSTIFICATION

1. Necessity of Information Collection

Regulation ATS sets forth a regulatory regime for “alternative trading systems” (“ATSS”), which are entities that carry out exchange functions but which are not required to register as national securities exchanges under the Securities Exchange Act of 1934 (“Act”).¹ In lieu of exchange registration, an ATS can instead opt to register with the Securities and Exchange Commission (“SEC”) as a broker-dealer and, as a condition to not having to register as an exchange, must instead comply with Regulation ATS.

Regulation ATS is composed of Rules 300, 301, 302 and 303.² Rule 300 defines terms that provide the basis for ATS regulation. Rule 301 sets forth various obligations of ATSS.³ Rule 302 establishes a set of records relating to trading activity that the ATS must make. Rule 303 establishes requirements for the preservation of certain records that ATSS must make.

2. Purpose and Use of the Information Collection

Rule 303 describes the record preservation requirements for ATSS. Rule 303 also describes how such records must be maintained, what entities may perform this function, and how long records must be preserved.

Under Rule 303, ATSS are required to preserve all records made pursuant to Rule 302, which includes information relating to subscribers, trading summaries and time-sequenced order information. Rule 303 also requires ATSS to preserve any notices provided to subscribers, including, but not limited to, notices regarding the ATSS operations and subscriber access. For an ATS subject to the fair access requirements described in Rule 301(b)(5)(ii) of Regulation ATS, Rule 303 further requires the ATS to preserve at least one copy of its standards for access to trading, all documents relevant to the ATS's decision to grant, deny, or limit access to any person, and all other documents

¹ 15 U.S.C. 78a et seq.

² 17 CFR 242.300 to 242.303.

³ As part of the proposed Regulation Systems Compliance and Integrity, the SEC has recently proposed to eliminate Rule 301(b)(6), which pertains to volume threshold requirements regarding capacity, integrity and security of automated systems. See Securities Exchange Act Release No. 34-69077 (March 8, 2013), 78 FR 18084 (March 25, 2013).

made or received by the ATS in the course of complying with Rule 301(b)(5) of Regulation ATS. For an ATS subject to the capacity, integrity, and security requirements for automated systems under Rule 301(b)(6) of Regulation ATS, Rule 303 requires an ATS to preserve all documents made or received by the ATS related to its compliance, including all correspondence, memoranda, papers, books, notices, accounts, reports, test scripts, test results, and other similar records. As provided in Rule 303(a)(1), ATSs are required to keep all of these records, as applicable, for a period of at least three years, the first two in an easily accessible place. In addition, Rule 303 requires ATSs to preserve records of partnership articles, articles of incorporation or charter, minute books, stock certificate books, copies of reports filed pursuant to Rule 301(b)(2), and records made pursuant to Rule 301(b)(5) for the life of the ATS.

The information contained in the records required to be preserved by Rule 303 will be used by regulators (including the SEC and the self-regulatory organizations (“SROs”)) to ensure that ATSs are in compliance with Regulation ATS as well as other applicable rules and regulations. Without the data required by the Rule, regulators would be limited in their ability to comply with their statutory obligations, provide for the protection of investors, and promote the maintenance of fair and orderly markets.

3. Consideration Given to Information Technology

The SEC believes that improvements in telecommunications and data processing technology may reduce any burdens that result from the Rule. The SEC is not aware of any technical or legal obstacles to reducing the burden through the use of improved information technology.

4. Duplication

Most of the records required to be made under the Rule reflect practices that prudent ATSs would establish. Because most ATSs would maintain much of the information required by the Rule, no duplication would occur with respect to such information. To the extent that the Rule establishes new collections of information, there is no similar information available that could replace the information required.

5. Effect on Small Entities

Rule 303 applies generally to all ATSs and does not depend on the size of the system. Therefore, the Rule could apply to small businesses. An entity that complies with Regulation ATS must, among other things, register as a broker dealer.⁴ Thus, the SEC’s definition of small entity as it relates to broker-dealers also applies to ATSs. Pursuant to 17 CFR 240.0-10(c), the term “small business” or “small organization” when used in reference to a broker-dealer means a broker-dealer that has total capital (net worth plus subordinated liabilities) of less than \$500,000 on the date in the prior fiscal year as of which its audited financial statements were prepared pursuant to 17 CFR 240.17a-5(d) or, if not required to

⁴ See 17 CFR 242.301(b)(1).

file such statements, a broker-dealer that had total capital of less than \$500,000 on the last business day of the preceding fiscal year (or in the time that it has been in business); and is not affiliated with any person (other than a natural person) that is not a small business or small organization as defined in 17 CFR 240.0-10.

Because the risks that the SEC monitors in the operation of an ATS can occur in any size business, the SEC has determined that the Rule must apply in the same manner to small as well as large entities. Hence, the Rule does not contain an exemption for small entities.

The Commission notes that there are approximately 92 ATSs that are subject to Regulation ATS. The Commission staff estimates that currently five broker-dealers operating as ATSs registered with the Commission are small entities as currently defined by the Act.

6. Consequences of Not Conducting Collection

The information required to be collected under the Rule should increase the abilities of the SEC, state securities regulatory authorities, and the SROs to ensure that ATSs are in compliance with Regulation ATS as well as other applicable rules and regulations. If the information is not collected or collected less frequently, regulators would be limited in their ability to comply with their statutory obligations, provide for the protection of investors, and promote the maintenance of fair and orderly markets.

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

The respondents receive no payments or gifts.

10. Confidentiality

The records required by Rule 303 are available only for the examination of the SEC staff, state securities authorities, and the SROs. Subject to the provisions of the Freedom of Information Act, 5 U.S.C. § 522 (“FOIA”), and the SEC’s rules thereunder (17 CFR 200.80(b)(4)(iii)), the SEC does not generally publish or make available information contained in any reports, summaries, analyses, letters, or memoranda arising out of, in anticipation of, or in connection with an examination or inspection of the books and records

of any person or any other investigation.

11. Sensitive Questions

Not applicable. The Rule does not require any questions of a sensitive nature, as described in the instructions to this Item 11.

12. Burden of Information Collection

ATs that choose to register as broker-dealers and comply with Regulation ATS are required to comply with record preservation requirements under Rule 303. The SEC estimates that the average hour burden for each respondent to comply with the record preservation requirements under the Rule is approximately 15 hours per year. The SEC derived this estimate from the following: (Compliance Manager at 3 hours per year) + (Compliance Clerk at 12 hours per year) = 15 hours per year. The SEC estimates the related internal compliance cost for this hour burden per respondent at approximately \$1,563 per year.⁵ The SEC derived this cost estimate from the following: ((Compliance Manager at \$269/hour) x (3 hours) = \$807 + (Compliance Clerk at \$63/hour) x (12 hours) = \$756) = \$1,563.⁶

The SEC estimates that there are approximately 92 ATs registered as broker-dealers that have filed initial operation reports in compliance with Regulation ATS. The SEC estimates the average aggregate hour burden to comply with Rule 303 is 1,380 hours per year (92 ATs at 15 hours per ATs per year). The SEC estimates that the aggregate internal compliance cost for respondents for the hour burden to comply with Rule 303 is \$143,796 per year (92 ATs at \$1,563 per ATs per year).

13. Costs to Respondents

The SEC believes that compliance with Rule 303 of Regulation ATS does not require any capital or start up costs, or any recurring annual external operating and maintenance costs separate from the wages, salaries, or fees represented in the estimated hourly burdens discussed above.

⁵ The SEC estimates that the average cost per burden hour is \$104.20 ($\$1563 \text{ per ATs per year} / (15 \text{ hours per year}) = \104.20 per hour).

⁶ The hourly cost figure for a Compliance Manager is from SIFMA's Management & Professional Earnings in the Securities Industry 2012, modified by SEC staff to account for an 1800-hour work-year and multiplied by 5.35 to account for bonuses, firm size, employee benefits, and overhead. The hourly cost figure for a Compliance Clerk is from SIFMA's Office Salaries in the Securities Industry 2012, modified by SEC staff to account for an 1800-hour work-year and multiplied by 2.93 to account for bonuses, firm size, employee benefits, and overhead.

14. Costs to Federal Government

The government does not experience significant costs based on the recordkeeping required pursuant to Rule 303. The information collected by the respondents would typically be reviewed only as part of an investigation. As a matter of routine, however, the SEC does not review the records kept by the respondents.

15. Changes in Burden

The estimated hour burden associated with Rule 303 of Regulation ATS has increased from 1,215 hours per year to 1,380 hours per year as a result of an increase in the number of ATSS from 81 to 92.

16. Information Collection Planned for Statistical Purposes

Not applicable. The information is not published for statistical use.

17. Approval to Omit OMB Expiration Date

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

18. Exceptions to Certification for Paperwork Reduction Act Submissions

This collection complies with the requirements in 5 CFR 1320.9.

B. COLLECTION OF INFORMATION EMPLOYING STATISTICAL METHODS

This collection does not employ statistical methods.