

**SUPPORTING STATEMENT for the Paperwork Reduction Act Information Collection  
Submission for Regulation SCI**

This submission is being made pursuant to the Paperwork Reduction Act of 1995, 44 U.S.C. Section 3501 et seq.

**A. JUSTIFICATION**

1. Necessity of Information Collection

Section 11A(a)(2) of the Securities Exchange Act of 1934<sup>1</sup> (“Exchange Act”) directs the Commission, having due regard for the public interest, the protection of investors, and the maintenance of fair and orderly markets, to use its authority under the Exchange Act to facilitate the establishment of a national market system for securities in accordance with the Congressional findings and objectives set forth in Section 11A(a)(1) of the Exchange Act.<sup>2</sup> Among the findings and objectives in Section 11A(a)(1) is that “[n]ew data processing and communications techniques create the opportunity for more efficient and effective market operations”<sup>3</sup> and “[i]t is in the public interest and appropriate for the protection of investors and the maintenance of fair and orderly markets to assure . . . the economically efficient execution of securities transactions.”<sup>4</sup> In addition, Sections 6(b), 15A, and 17A(b)(3) of the Exchange Act impose obligations on national securities exchanges, national securities associations, and clearing agencies, respectively, to be “so organized” and “[have] the capacity to . . . carry out the purposes of [the Exchange Act].”<sup>5</sup>

For over two decades, Commission staff has worked with self-regulatory organizations (“SROs”) to assess their automated systems under the Commission’s Automation Review Policy (“ARP”) inspection program (“ARP Inspection Program”), a voluntary information technology review program created in response to the October 1987 market break.<sup>6</sup> In 1989, the Commission published ARP I, its first formal policy statement regarding steps that SROs should

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<sup>1</sup> 15 U.S.C. 78k-1(a)(2).

<sup>2</sup> 15 U.S.C. 78k-1(a)(1).

<sup>3</sup> See 15 U.S.C. 78k-1(a)(1)(B).

<sup>4</sup> See 15 U.S.C. 78k-1(a)(1)(C)(i). Further, the Senate Committee Report accompanying the Securities Acts Amendments of 1975 states that a paramount objective of a national market system is “the maintenance of stable and orderly markets with maximum capacity for absorbing trading imbalances without undue price movements.” Senate Comm. On Banking, Housing and Urban Affairs, Report to accompany S. 249, Sen. Rep. 94-75, 94th Cong., 1st Sess. at 7 (1975).

<sup>5</sup> See 15 U.S.C. 78f(b)(1), 78o-3(b)(2), 78q-1(b)(3), respectively. See also 15 U.S.C. 78b and 15 U.S.C. 78s.

<sup>6</sup> See Securities Exchange Act Release No. 27445 (November 16, 1989), 54 FR 48703, 48706 (November 24, 1989) (“ARP I”).

take in connection with their automated systems.<sup>7</sup> In 1991, the Commission published ARP II, in which the Commission further articulated its views on how SROs should conduct independent reviews and how SROs should notify the Commission of material systems changes and significant systems problems.<sup>8</sup>

The current ARP Inspection Program was developed by Commission staff to implement the ARP policy statements, and has garnered participation by all active registered clearing agencies, all registered national securities exchanges, the Financial Industry Regulatory Authority (“FINRA”), the only registered national securities association, one exempt clearing agency, and one ATS. In 1998, the Commission adopted Regulation ATS which, among other things, imposed by rule certain aspects of ARP I and ARP II on significant-volume ATSs.<sup>9</sup> Thereafter, administration of these aspects of Regulation ATS was incorporated into the ARP Inspection Program.

Under the ARP Inspection Program, staff in the Commission’s Division of Trading and Markets (“ARP staff”) conduct inspections of ARP entity systems, attend periodic technology briefings presented by ARP entity staff, monitor the progress of planned significant system changes, and respond to reports of system failures, disruptions, and other systems problems of ARP entities.<sup>10</sup>

Since the inception of the ARP Inspection Program, the securities markets have experienced sweeping changes, evolving from a collection of relatively few, mostly manual markets, to a larger number and broader variety of trading centers that are almost completely automated, and dependent upon sophisticated technology and extremely fast and interconnected systems. Regulatory developments also have impacted the structure of the markets. The increase in the number of trading venues, the dispersal of trading volume, and the resulting

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<sup>7</sup> See *id.*, at 48705-48706.

<sup>8</sup> See Securities Exchange Act Release No. 29185 (May 9, 1991), 56 FR 22490, 22490-91 (May 15, 1991) (“ARP II” and, together with ARP I, the “ARP policy statements”). In 2001, Commission staff sent a letter to the SROs and other participants in the ARP Inspection Program to clarify what should be considered a “significant system change” and a “significant system outage” for purposes of reporting systems changes and problems to Commission staff. Further, in 2009, Commission staff sent a letter to the national securities exchanges and FINRA expressing the staff’s view that SROs are obligated to ensure that their systems’ operations comply with the federal securities laws and rules and the SRO’s rules, and that failure to satisfy this obligation could lead to sanctions under Section 19(h)(1) of the Exchange Act.

<sup>9</sup> See 17 CFR 242.301(b)(6).

<sup>10</sup> ARP inspections are typically conducted independently from the inspections and examinations of SROs, ATSs, and broker-dealers conducted by staff in the Commission’s Office of Compliance Inspections and Examinations for compliance with the federal securities laws and rules thereunder.

reliance on a variety of automated systems and intermarket linkages increased competition and thus investor choice, but also have substantially heightened the potential for systems problems originating from any number of sources to broadly affect the market.

While the Commission generally considers the ARP Inspection Program to have been successful in improving the automated systems of the SROs and other entities participating in the program over the past 20 years, the Commission is mindful of its limitations. For example, because the ARP Inspection Program is established pursuant to Commission policy statements, rather than Commission rules, the Commission's ability to assure compliance with ARP standards with certainty or adequate thoroughness is limited. In particular, the Commission may not be able to fully address major or systemic market problems at all entities that would meet the proposed definition of SCI entity. Further, the Government Accountability Office ("GAO") has identified the voluntary nature of the ARP Inspection Program as a limitation of the program and recommended that the Commission make compliance with ARP guidelines mandatory.<sup>11</sup>

The Commission believes that the continuing evolution of the securities markets to the current state, where they have become almost entirely electronic and highly dependent on sophisticated trading and other technology, has posed challenges for the ARP Inspection Program. Accordingly, the Commission believes that the guidance in the ARP policy statements should be updated, formalized, and clarified. Furthermore, given the importance of ensuring that an SRO's trading and other systems are operated in accordance with its rules, the Commission believes that improvements in SRO procedures could help to ensure that such systems are operating in compliance with relevant rules, and to promptly identify and address any instances of non-compliance.

The Commission believes that recent events further highlight why rulemaking in this area may be warranted. Recent events in the markets, including the problems experienced on May 6, 2010,<sup>12</sup> reports of cyber security and systems weaknesses at certain exchanges (NASDAQ<sup>13</sup> and EDGX/EDGA<sup>14</sup>), the problems associated with the Facebook<sup>15</sup> and BATS<sup>16</sup> initial public

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<sup>11</sup> See GAO, Financial Market Preparedness: Improvements Made, but More Action Needed to Prepare for Wide-Scale Disasters, Report No. GAO-04-984 (September 27, 2004).

<sup>12</sup> See Findings Regarding The Market Events Of May 6, 2010, Report Of The Staffs Of The CFTC And SEC To The Joint Advisory Committee On Emerging Regulatory Issues, September 30, 2010.

<sup>13</sup> See announcement by Nasdaq OMX (February 5, 2011), available at: <http://www.nasdaq.com/includes/announcement-2-5-11.aspx> (accessed May 20, 2011). See also Devlin Barrett, "Hackers Penetrate NASDAQ Computers," Wall St. J., February 5, 2011, at A1; Devlin Barrett et al., "NASDAQ Confirms Breach in Network," Wall St. J., February 7, 2011, at C1.

<sup>14</sup> See Securities Exchange Act Release No. 65556, In the Matter of EDGX Exchange, Inc., EDGA Exchange, Inc. and Direct Edge ECN LLC (settled action: October 13, 2011),

offerings, technology issue at Knight Capital Group,<sup>17</sup> and, most recently, the two-day closure of the markets in the wake of Superstorm Sandy,<sup>18</sup> among others, indicate that competition among the markets has not sufficiently mitigated the occurrence of certain systems problems.

On October 2, 2012, the Commission conducted a roundtable entitled “Technology and Trading: Promoting Stability in Today’s Markets” (“Roundtable”). The Roundtable examined the relationship between the operational stability and integrity of the securities market and the ways in which market participants design, implement, and manage complex and interconnected trading technologies.<sup>19</sup> The Commission believes that the information presented at the Roundtable and received from commenters highlights that quality standards, testing, and improved error response mechanisms are among the issues needing very thoughtful and focused attention in today’s securities markets.

The Commission is therefore proposing Regulation SCI, which would require an SCI entity to: (1) establish, maintain, and enforce written policies and procedures reasonably designed to ensure that certain systems have levels of capacity, integrity, resiliency, availability, and security, adequate to maintain the SCI entity’s operational capability and promote the maintenance of fair and orderly markets; (2) establish, maintain, and enforce written policies and procedures reasonably designed to ensure that certain systems operate in the manner intended;

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available at: <http://www.sec.gov/litigation/admin/2011/34-65556.pdf>; see also Commission News Release, 2011-208, “SEC Sanctions Direct Edge Electronic Exchanges and Orders Remedial Measures to Strengthen Systems and Controls” (October 13, 2011). EDGX, EDGA, and their affiliated routing broker, Direct Edge ECN LLC (dba DE Route), consented to an Order Instituting Administrative and Cease-and-Desist Proceedings Pursuant to Sections 19(h) and 21C of the Securities Exchange Act of 1934, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order.

<sup>15</sup> See “Post-Mortem for NASDAQ issues related to the Facebook Inc. (FB) IPO Cross on Friday, May 18, 2012” by NASDAQ, May 18, 2012, available at: <http://www.nasdaqtrader.com/TraderNews.aspx?id=ETA2012-20> (accessed July 2, 2012).

<sup>16</sup> See “BATS BZX Exchange Post-Mortem” by BATS, March 23, 2012, available at: [www.batstrading.com/alerts](http://www.batstrading.com/alerts) (accessed July 2, 2012).

<sup>17</sup> See Knight Capital Group Provides Update Regarding August 1st Disruption To Routing In NYSE-listed Securities (August 2, 2012), available at: <http://www.knight.com/investorRelations/pressReleases.asp?compid=105070&releaseID=1721599>.

<sup>18</sup> See, e.g., “A giant storm and the struggle over closing Wall Street,” October 31, 2012, available at: <http://www.reuters.com/article/2012/10/31/us-storm-sandy-nyse-insight-idUSBRE89T0F920121031>.

<sup>19</sup> See Securities Exchange Act Release No. 67725 (August 24, 2012), 77 FR 52766 (August 30, 2012) (File No. 4-652).

(3) begin to take appropriate corrective action as soon as reasonably practicable upon any responsible SCI personnel becoming aware of an SCI event; (4) provide immediate Commission notification of certain SCI events (“immediate notification SCI events”) and written Commission notification of all SCI events; (5) disseminate information to its members or participants relating to certain SCI events (“dissemination SCI events”); (6) provide Commission notification of planned material systems changes; (7) conduct an SCI review of its compliance with Regulation SCI not less than once each calendar year and submit a report of the review to its senior management; (8) provide to the Commission a report of the SCI review and any response by senior management, as well as a semi-annual report on material systems changes; and (9) require participation by designated members or participants in the testing of the operation of its business continuity and disaster recovery plans and coordinate such testing on an industry- or sector-wide basis with other SCI entities, as well as notify and update the Commission of its list of designated members or participants and its standards for such designation. Proposed Regulation SCI would further specify that records relating to the matters covered by Regulation SCI must be made, kept, and preserved by SCI entities, and provided to Commission representatives upon request. In addition, proposed Regulation SCI would specify that except with respect to Commission notification of immediate notification SCI events and oral Commission notification of material systems changes, any notification, review, description, analysis, or report to the Commission required by Regulation SCI must be submitted electronically on Form SCI.

The Commission preliminarily estimates that there are currently 44 respondents that would fall within the definition of SCI entity and be subject to the information collection requirements of proposed Regulation SCI. Of these 44 respondents, the Commission preliminarily estimates that 26 would fall within the definition of SCI SRO; 15 would fall within the definition of SCI ATS; 2 would fall within the definition of plan processor, and 1 would fall within the definition of exempt clearing agency subject to ARP. Also, of these 44 respondents, the Commission preliminarily estimates that 29 currently participate in the ARP Inspection Program, whereas 15 do not.

## 2. Purpose and Use of the Information Collection

The proposed requirements that SCI entities establish certain written policies and procedures with respect to certain systems, and that they require designated members or participants to participate in the testing of their business continuity and disaster recovery plans, would further the goals of the national market system and reinforce Exchange Act obligations by requiring entities important to the functioning of the U.S. securities markets to carefully design, develop, test, maintain, and surveil systems integral to their operations, and operate them in compliance with relevant federal securities laws and the rules and regulations thereunder, as well as their own rules and policies.

The information that would be collected pursuant to the proposed requirements for notifications, disseminations of information, and reports would assist the Commission in its oversight of SCI entities and the securities markets, help ensure the orderly operation of the U.S. securities markets, and help protect investors and the public interest. In particular, the proposed requirements that SCI entities notify the Commission of all SCI events, disseminate information

to members or participants, undertake and submit to the Commission an SCI review not less than once each calendar year, and submit reports of material systems changes are designed to help ensure compliance with the other provisions of proposed Regulation SCI and accountability of SCI entities in the event of systems problems. Further, the Commission preliminarily believes that the information dissemination requirement for dissemination SCI events would make members or participants aware that their trading activity might have been or might be impacted by the occurrence of a dissemination SCI event, so that they could consider that information in, among other things, making trading decisions, seeking corrective action, or pursuing remedies. The Commission also preliminarily believes that the prospect of disseminating information regarding dissemination SCI events to members or participants would provide an incentive for SCI entities to better focus on improving the integrity and compliance of their systems.

The proposed requirement that SCI entities begin to take appropriate corrective action upon any responsible SCI personnel becoming aware of an SCI event would help ensure that SCI entities dedicate adequate resources to timely address an SCI event and place an emphasis on mitigating potential harm to investors and market integrity. The proposed threshold for notification of certain SCI events to the Commission under proposed Rule 1000(b)(4)(i) would help ensure that the Commission is made aware of significant SCI events when any responsible SCI personnel becomes aware of such events. The proposed definition of dissemination SCI event would help ensure that potentially impacted members or participants have information about SCI events so that they might be able to better assess whether they should use the services of an SCI entity.

The proposed recordkeeping requirements in Rules 1000(c) and (e) would assist Commission staff during an examination of an SCI entity to assess its compliance with the proposed rules. In addition, access to the records of SCI entities would help Commission staff to carry out its oversight responsibilities of SCI entities and the securities markets. Further, the proposed recordkeeping requirements would aid SCI entities and the Commission in documenting, reviewing, and correcting any SCI event, as well as in identifying market participants that may have been harmed by such an event.

### 3. Consideration Given to Information Technology

Proposed Regulation SCI would require SCI entities to submit any written notification, review, description, analysis, or report to the Commission electronically using proposed Form SCI (except any written notification under proposed Rule 1000(b)(4)(i) relating to immediate notification SCI events). Proposed Regulation SCI is designed to streamline the reporting processes and make the processes efficient by specifying the information required to be provided and requiring SCI entities to electronically file Form SCI.

The Commission's proposal contemplates the use of an online filing system, similar to the electronic Form 19b-4 filing system ("EFFS"), which is currently used by SROs to file proposed rule changes electronically with the Commission pursuant to Section 19 of the Exchange Act. The Commission is contemplating the use of such a system because SROs are already familiar with the system.

#### 4. Duplication

Proposed Regulation SCI would replace the two ARP policy statements and related staff guidance. However, as noted in Item 1 above, although proposed Regulation SCI would codify in a Commission rule many of the principles of the ARP policy statements, the proposed rule would have a broader scope than those statements.

In addition, pursuant to Rule 301(b)(6) of Regulation ATS, certain aspects of the ARP policy statements apply mandatorily to significant-volume ATSs, as they are currently defined under that rule. Because proposed Regulation SCI would duplicate the requirements under Rule 301(b)(6) of Regulation ATS, the Commission is proposing to delete that rule.<sup>20</sup>

Because proposed Regulation SCI would replace the ARP policy statements and related staff guidance, and the Commission is proposing to delete Rule 301(b)(6) of Regulation ATS, proposed Regulation SCI would not duplicate any existing information collection.

#### 5. Effect on Small Entities

Not applicable. None of the respondents subject to the information collection will be a small entity.

#### 6. Consequences of Not Conducting Collection

The collection of information is designed to ensure that SCI entities operate with adequate capacity, integrity, resiliency, availability, and security, and in compliance with relevant laws and rules. Any less frequent collection would deprive the Commission of timely information regarding systems issues and systems changes at SCI entities and SCI entities' compliance with proposed Regulation SCI. Any less frequent collection also would deprive the Commission and the members or participants of SCI entities of timely information regarding the occurrence and resolution of systems issues.

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

Several provisions of proposed Regulation SCI would require respondents to report information to the agency more often than quarterly.

Depending on the frequency of SCI events, SCI entities may be required to provide information to the Commission or disseminate information to their members or participants more than once per quarter. However, the Commission believes that timely and comprehensive reporting of SCI events to the Commission would facilitate its regulatory oversight of the

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<sup>20</sup> The Commission is separately submitting a PRA package for the proposed deletion of Rule 301(b)(6) of Regulation ATS (OMB Control No. 3235-0509).

national securities markets. Specifically, timely receipt of information after a responsible SCI personnel becomes aware of an SCI event will help the Commission and its staff to quickly assess the nature and scope of that SCI event, and help the SCI entity identify the appropriate response. The aggregated data that would result from the reporting of SCI events also would permit the Commission to efficiently perform analysis on such data. This ability to more efficiently analyze a comprehensive set of data would help the Commission carry out its oversight responsibilities because it would help the Commission to identify more effectively, for example, areas of persistent or recurring problems across the systems of all SCI entities. Further, the Commission believes the timely dissemination of information about dissemination SCI events to member or participants of SCI entities would aid market participants in determining whether their trading activity might have been or might be impacted by the occurrence of an SCI event at an SCI entity, so that they could consider that information in, among other things, making trading decisions, seeking corrective action, or pursuing remedies. The Commission also believes that the prospect of disseminating information about dissemination SCI events could provide an incentive for SCI entities to better focus on improving the integrity and compliance of their systems.

Depending on the frequency of material systems changes, SCI entities may be required to provide disclosure to the Commission more than once per quarter. The Commission believes that this requirement would help Commission staff to timely evaluate the issues raised by a planned material systems change.

Proposed Rule 1000(c) would require SCI entities other than SCI SROs to make, keep, and preserve at least one copy of all documents relating to its compliance with Regulation SCI for a period of not less than five years, the first two years in a place that is readily accessible to the Commission or its representatives for inspection and examination. The Commission notes that the recordkeeping time periods are consistent with those applicable to SROs under Rule 17a-1 under the Exchange Act.

#### 8. Consultations Outside the Agency

The Commission has issued a release soliciting public comment on the new collection of information requirements and associated paperwork burdens. A copy of the release is attached. Comments on releases are generally received from registrants, investors, and other market participants. In addition, the Commission and staff participate in ongoing dialogue with representatives of various market participants through public conferences, meetings, and informal exchanges. Any comments received on this proposed rulemaking will be posted on the Commission's public website, and made available using the following link <http://sec.gov/comments/s7-01-13/s70113.shtml>. The Commission will consider all comments received prior to publishing the final rule, and will explain in any adopting release how the final rule responds to such comments, in accordance with 5 CFR 1320.11(f).

#### 9. Payment or Gift

Not applicable.



10. Confidentiality

To the extent the Commission receives confidential information pursuant to SCI entities' submissions on proposed Form SCI, such information would be kept confidential, subject to the provisions of applicable law (e.g., Freedom of Information Act, 5 U.S.C. 552).

11. Sensitive Questions

Not applicable. No questions of a sensitive nature are involved.

12. Burden of Information Collection

A. Policies and Procedures Required by Proposed Rule 1000(b)(1)

Proposed Rule 1000(b)(1) would establish recordkeeping burdens for all 44 SCI entities. However, certain burdens would be different for SCI entities that participate in the ARP Inspection Program (29 SCI entities) and SCI entities that do not (15 SCI entities).

Proposed Rule 1000(b)(1) would require SCI entities to establish, maintain, and enforce written policies and procedures reasonably designed to ensure that their SCI systems and, for purposes of security standards, SCI security systems, have levels of capacity, integrity, resiliency, availability and security, adequate to maintain the SCI entity's operational capability and promote the maintenance of fair and orderly markets.

With respect to proposed Rule 1000(b)(1) (except for policies and procedures for standards that result in systems designed, developed, tested, maintained, operated, and surveilled in a manner that facilitates the successful collection, processing, and dissemination of market data, which are addressed below), the Commission preliminarily estimates that an SCI entity that does not participate in the ARP Inspection Program (15 SCI entities in total) would require 210 hours initially to develop and draft such policies and procedures. The Commission preliminarily estimates that an SCI entity that participates in the ARP Inspection Program (29 SCI entities in total) would require 105 hours initially to develop and draft such policies and procedures. Thus, the total initial recordkeeping burden to comply with proposed Rule 1000(b)(1) (except for policies and procedures for standards that result in systems designed, developed, tested, maintained, operated, and surveilled in a manner that facilitates the successful collection, processing, and dissemination of market data) would be 6,195 hours (210 hours  $\times$  15 SCI entities that do not participate in the ARP Inspection Program + 105 hours  $\times$  29 SCI entities that participate in the ARP Inspection Program). The weighted average initial recordkeeping burden to comply with proposed Rule 1000(b)(1) (except for policies and procedures for standards that result in systems designed, developed, tested, maintained, operated, and surveilled in a manner that facilitates the successful collection, processing, and dissemination of market data) would be 104.80 hours per SCI entity (6,195 hours  $\div$  44 SCI entities).

With respect to proposed Rule 1000(b)(1) (except for policies and procedures for standards that result in systems designed, developed, tested, maintained, operated, and surveilled in a manner that facilitates the successful collection, processing, and dissemination of market data), the Commission preliminarily estimates that an SCI entity that does not participate in the ARP Inspection Program (15 SCI entities in total) would require 60 hours annually to review its policies and procedures. The Commission preliminarily estimates that an SCI entity that participates in the ARP Inspection Program (29 SCI entities in total) would require 30 hours annually to review its policies and procedures. Thus, the total ongoing annual recordkeeping burden to comply with proposed Rule 1000(b)(1) (except for policies and procedures for standards that result in systems designed, developed, tested, maintained, operated, and surveilled in a manner that facilitates the successful collection, processing, and dissemination of market data) would be 1,770 hours (60 hours  $\times$  15 SCI entities that do not participate in the ARP Inspection Program + 30 hours  $\times$  29 SCI entities that participate in the ARP Inspection Program). The weighted average ongoing annual recordkeeping burden to comply with proposed Rule 1000(b)(1) (except for policies and procedures for standards that result in systems designed, developed, tested, maintained, operated, and surveilled in a manner that facilitates the successful collection, processing, and dissemination of market data) would be 40.23 hours per SCI entity (1,770 hours  $\div$  44 SCI entities).

With respect to proposed Rule 1000(b)(1)(i)(F) (policies and procedures for standards that result in systems designed, developed, tested, maintained, operated, and surveilled in a manner that facilitates the successful collection, processing, and dissemination of market data), the Commission preliminarily estimates that each SCI entity would spend 130 hours initially to develop and draft the required policies and procedures, and 130 hours annually to review such policies and procedures. Thus, the total initial and annual recordkeeping burden to comply with proposed Rule 1000(b)(1)(i)(F) would be 5,720 hours (130 hours initially and annually  $\times$  44 SCI entities).

The annualized recordkeeping burden for complying with proposed Rule 1000(b)(1) would be 8,965 hours for all SCI entities (((6,195 + 5,720 hours for the first year) + (1,770 + 5,720 hours for the second year) + (1,770 + 5,720 hours for the third year))  $\div$  3 years), or 203.75 hours per SCI entity (8,965 hours  $\div$  44 SCI entities).

#### B. Policies and Procedures Required by Proposed Rule 1000(b)(2)

Proposed Rule 1000(b)(2)(i) would establish recordkeeping burdens for all 44 SCI entities. However, certain burdens would be different for SCI entities that are SCI SROs (26 SCI entities) and SCI entities that are not SCI SROs (18 SCI entities).

Proposed Rule 1000(b)(2)(i) would require SCI entities to establish, maintain, and enforce written policies and procedures reasonably designed to ensure that their SCI systems operate in the manner intended, including in a manner that complies with the federal securities laws and rules and regulations thereunder, and the entities' rules and governing documents, as applicable. The Commission preliminarily believes that each SCI entity would elect to comply

with the safe harbor provisions in proposed Rules 1000(b)(2)(ii) and (iii) for purposes of complying with proposed Rule 1000(b)(2).

The Commission preliminarily estimates that each SCI entity would require 180 hours initially to design policies and procedures to ensure that they are in compliance with proposed Rule 1000(b)(2). The total initial recordkeeping burden to comply with proposed Rule 1000(b)(2) would be 7,920 hours (180 hours  $\times$  44 SCI entities).

The Commission preliminarily estimates that each SCI SRO (26 SCI SROs in total) would require 120 hours annually to review the policies and procedures and each of the other SCI entities (18 SCI entities in total) would require 60 hours annually to review the policies and procedures. The total ongoing annual recordkeeping burden to comply with proposed Rule 1000(b)(2) would be 4,200 hours (120 hours  $\times$  26 SCI SROs + 60 hours  $\times$  18 SCI entities other than SCI SROs). With respect to all SCI entities, the weighted average ongoing annual recordkeeping burden to comply with proposed Rule 1000(b)(2) would be 95.45 hours per SCI entity (4,200 hours  $\div$  44 SCI entities).

The annualized recordkeeping burden for complying with proposed Rule 1000(b)(2) would be 5,440 hours ((7,920 hours for the first year + 4,200 hours for the second year + 4,200 hours for the third year)  $\div$  3 years), or 123.64 hours per SCI entity (5,440 hours  $\div$  44 SCI entities).

C. Mandate Participation in Certain Testing Required by Proposed Rule 1000(b)(9)

Proposed Rule 1000(b)(9) would establish recordkeeping and reporting burdens for SCI entities that are not plan processors (42 SCI entities).

Proposed Rule 1000(b)(9)(i)-(ii) would require each SCI entity to require participation by designated members or participants in the testing of its business continuity and disaster recovery plans, including its backup systems, as well as to coordinate such testing on an industry- or sector-wide basis with other SCI entities.

The Commission preliminarily estimates that each SCI entity (other than plan processors, who would outsource this work) would spend approximately 130 hours initially to mandate participation by designated members or participants in testing and to coordinate testing with other SCI entities. The total initial recordkeeping burden to comply with proposed Rule 1000(b)(9)(i)-(ii) would be 5,460 hours (130 hours  $\times$  42 SCI entities other than plan processors).

The Commission preliminarily estimates that each SCI entity (other than plan processors, who would outsource this work) would spend approximately 95 hours annually to review its written rules or requirements related to testing and to coordinate testing with other SCI entities. The total annual ongoing recordkeeping burden to comply with proposed Rule 1000(b)(9)(i)-(ii) would be 3,990 hours (95 hours  $\times$  42 SCI entities other than plan processors).

The annualized recordkeeping burden for complying with proposed Rule 1000(b)(9)(i)-(ii) would be 4,480 hours ((5,460 hours for the first year + 3,990 hours for the second year + 3,990 hours for the third year) ÷ 3 years), or 106.67 hours per SCI entity (4,480 hours ÷ 42 SCI entities other than plan processors).

Proposed Rule 1000(b)(9)(iii) would require each SCI entity to designate those members or participants who must participate in the testing of its business continuity and disaster recovery plans, as well as to notify the Commission of its list of designees and its standards for designation.

The Commission preliminarily estimates that each SCI entity (other than plan processors, who would outsource this work) would spend approximately 35 hours initially to establish and submit to the Commission its standards for designation, as well as to determine, compile, and submit its list of designees. The total initial reporting burden to comply with proposed Rule 1000(b)(9)(iii) would be 1,470 hours (35 hours × 42 SCI entities other than plan processors).

The Commission preliminarily estimates that each SCI entity (other than plan processors, who would outsource this work) would spend approximately 3 hours annually to review the designation standards, to review its list of designees, and to update prior Commission notifications with respect to the standards for designation and the list of designees. The total annual ongoing reporting burden to comply with proposed Rule 1000(b)(9)(iii) would be 126 hours (3 hours × 42 SCI entities other than plan processors).

The annualized reporting burden for complying with proposed Rule 1000(b)(9)(iii) would be 574 hours ((1,470 hours for the first year + 126 hours for the second year + 126 hours for the third year) ÷ 3 years), or 13.67 hours per SCI entity (574 hours ÷ 42 SCI entities other than plan processors).

#### D. Notice Required by Proposed Rule 1000(b)(4)

Proposed Rule 1000(b)(4) would establish reporting burdens for all 44 SCI entities.

Proposed Rule 1000(b)(4)(i) would require an SCI entity, upon any responsible SCI personnel becoming aware of a systems disruption that the SCI entity reasonably estimates would have a material impact on its operations or on market participants, any systems compliance issue, or any systems intrusion (“immediate notification SCI event”), to notify the Commission of such event. The Commission preliminarily estimates that each SCI entity would experience 40 immediate notification SCI events per year, ten of which would be reported to the Commission in writing (as opposed to orally). The Commission also preliminarily estimates that each written notification would require 0.5 hour to prepare and submit. The total annual reporting burden to comply with proposed Rule 1000(b)(4)(i) would be 220 hours for all SCI entities (10 immediate notification SCI events × 0.5 hour per written notice × 44 SCI entities), or 5 hours per SCI entity (10 immediate notification SCI events × 0.5 hour per written notice).

Proposed Rule 1000(b)(4)(ii) would require an SCI entity, within 24 hours of any responsible SCI personnel becoming aware of any SCI event, to submit a written notification pertaining to such SCI event to the Commission. The Commission preliminarily estimates that each SCI entity would experience 65 SCI events per year and that each initial notification would require 20 hours. The total annual reporting burden to comply with proposed Rule 1000(b)(4)(ii) would be 57,200 hours for all SCI entities (65 SCI events  $\times$  20 hours per notification  $\times$  44 SCI entities), or 1,300 hours per SCI entity (65 SCI events  $\times$  20 hours per notification).

Proposed Rule 1000(b)(4)(iii) would require an SCI entity to provide to the Commission written updates pertaining to SCI events on a regular basis, or at such frequency as reasonably requested by a representative of the Commission, until the SCI event is resolved. The Commission preliminarily estimates that each SCI entity would submit 5 updates each year and each update would require 3 hours. The total annual reporting burden to comply with proposed Rule 1000(b)(4)(iii) would be 660 hours for all SCI entities (5 updates  $\times$  3 hours per update  $\times$  44 SCI entities), or 15 hours per SCI entity (5 updates  $\times$  3 hours per update).

The total annual reporting burden to comply with proposed Rule 1000(b)(4) would be 58,080 hours for all SCI entities (220 hours to comply with proposed Rule 1000(b)(4)(i) + 57,200 hours to comply with proposed Rule 1000(b)(4)(ii) + 660 hours to comply with proposed Rule 1000(b)(4)(iii)), or 1,320 hours per SCI entity (58,080 hours  $\div$  44 SCI entities). Because proposed Rule 1000(b)(4) would impose 80 reporting requirements per SCI entity per year (10 requirements under proposed Rule 1000(b)(4)(i) + 65 requirements under proposed Rule 1000(b)(4)(ii) + 5 requirements under proposed Rule 1000(b)(4)(iii)), each notification would require an average of 16.5 hours per SCI entity (1,320 hours  $\div$  80 requirements).

E. Dissemination of Information Required by Proposed Rule 1000(b)(5)

Proposed Rule 1000(b)(5) would establish third party disclosure burdens for all 44 SCI entities.

Proposed Rule 1000(b)(5)(i)(A) would require an SCI entity, promptly after any responsible SCI personnel becomes aware of a dissemination SCI event other than a systems intrusion, to disseminate to its members or participants certain information about the event. The Commission preliminarily estimates that each SCI entity would experience 14 dissemination SCI events each year other than systems intrusions, and that each dissemination of information would require 3 hours to prepare and make available to members or participants. Thus, the total annual third party disclosure burden to comply with proposed Rule 1000(b)(5)(i)(A) would be 1,848 hours for all SCI entities (14 dissemination SCI events other than systems intrusions  $\times$  3 hours per dissemination  $\times$  44 SCI entities), or 42 hours per SCI entity (14 dissemination SCI events other than systems intrusions  $\times$  3 hours per dissemination).

Proposed Rule 1000(b)(5)(i)(B) would require an SCI entity, when known, to disseminate additional information to its members or participants regarding a dissemination SCI event. The Commission preliminarily estimates that each SCI entity would make one such dissemination per dissemination SCI event and that each dissemination would require 5 hours to prepare and make

available. The total annual third party disclosure burden to comply with proposed Rule 1000(b)(5)(i)(B) would be 3,080 hours for all SCI entities (14 dissemination SCI events other than systems intrusions  $\times$  1 dissemination per event  $\times$  5 hours per dissemination  $\times$  44 SCI entities), or 70 hours per SCI entity (14 dissemination SCI events other than systems intrusions  $\times$  1 dissemination per event  $\times$  5 hours per dissemination).

Proposed Rule 1000(b)(5)(i)(C) would require an SCI entity to provide regular updates to its members or participants with respect to dissemination SCI events. The Commission preliminarily estimates that each SCI entity would make one such dissemination per dissemination SCI event and that each dissemination would require 1 hour to prepare and make available to members or participants. The total annual third party disclosure burden to comply with proposed Rule 1000(b)(5)(i)(C) would be 616 hours for all SCI entities (14 dissemination SCI events other than systems intrusions  $\times$  1 dissemination per event  $\times$  1 hour per dissemination  $\times$  44 SCI entities), or 14 hours per SCI entity (14 dissemination SCI events other than systems intrusions  $\times$  1 dissemination per event  $\times$  1 hour per dissemination).

Under proposed Rule 1000(b)(5)(ii), an SCI entity would be required, promptly after any responsible SCI personnel becomes aware of a systems intrusion, to disseminate to its members or participants certain information about the systems intrusion, unless the SCI entity determines that dissemination of such information would likely compromise the security of the SCI entity's SCI systems or SCI security systems, or an investigation of the systems intrusion, and documents the reasons for such determination. The Commission preliminarily estimates that each SCI entity would experience 1 systems intrusion per year, and that each dissemination would require 3 hours to prepare and make available. The annual third party disclosure burden to comply with proposed Rule 1000(b)(5)(ii) would be 132 hours for all SCI entities (1 systems intrusion  $\times$  3 hours per dissemination  $\times$  44 SCI entities), or 3 hours per SCI entity (1 systems intrusion  $\times$  3 hours per dissemination).

The total annual third party disclosure burden to comply with proposed Rule 1000(b)(5) would be 5,676 hours for all SCI entities (1,848 hours to comply with proposed Rule 1000(b)(5)(i)(A) + 3,080 hours to comply with proposed Rule 1000(b)(5)(i)(B) + 616 hours to comply with proposed Rule 1000(b)(5)(i)(C) + 132 hours to comply with proposed Rule 1000(b)(5)(ii)), or 129 hours per SCI entity (5,676 hours  $\div$  44 SCI entities). Because proposed Rule 1000(b)(5) would impose 43 third party disclosure requirements per SCI entity per year (14 requirements under proposed Rule 1000(b)(5)(i)(A) + 14 requirements under proposed Rule 1000(b)(5)(i)(B) + 14 requirements under proposed Rule 1000(b)(5)(i)(C) + 1 requirement under proposed Rule 1000(b)(5)(ii)), each requirement would require an average of 3 hours per SCI entity (129 hours  $\div$  43 requirements).

#### F. Notice Required by Proposed Rule 1000(b)(6)

Proposed Rule 1000(b)(6) would establish reporting burdens for all 44 SCI entities. However, certain burdens would be different for SCI entities that participate in the ARP Inspection Program (29 SCI entities) and SCI entities that do not (15 SCI entities).

Proposed Rule 1000(b)(6) would require an SCI entity, absent exigent circumstances, to notify the Commission at least 30 calendar days before the implementation of any planned material systems change. If exigent circumstances exist, or if the information previously provided to the Commission regarding any planned material systems change has become materially inaccurate, an SCI entity would be required to notify the Commission, either orally or in writing, with any oral notification to be memorialized within 24 hours after such oral notification by a written notification, as early as reasonably practicable.

The Commission preliminarily estimates an average of 60 planned material systems changes per SCI entity per year.<sup>21</sup> However, because participants in the ARP Inspection Program already notify Commission staff of certain systems changes, the Commission preliminarily estimates that each participant will notify the Commission of 30 additional planned material systems changes each year. The Commission preliminarily estimates that each notification would require an SCI entity 2 hours to prepare and submit. The total annual reporting burden to comply with proposed Rule 1000(b)(6) would be 3,540 hours for all SCI entities (60 planned material systems changes  $\times$  2 hours per notification  $\times$  15 SCI entities that do not participate in the ARP Inspection Program + 30 additional planned material systems changes  $\times$  2 hours per notification  $\times$  29 SCI entities that participate in the ARP Inspection Program), or an average of 40.23 material systems changes per SCI entity ((60 planned material systems changes  $\times$  15 SCI entities that do not participate in the ARP Inspection Program + 30 planned material systems changes  $\times$  29 SCI entities that participate in the ARP Inspection Program)  $\div$  44 SCI entities) and 80.45 hours per SCI entity (3,540 hours  $\div$  44 SCI entities).

G. SCI Review Required by Proposed Rule 1000(b)(7)

Proposed Rule 1000(b)(7) would establish recordkeeping burdens for all 44 SCI entities.

Proposed Rule 1000(b)(7) would require an SCI entity to conduct an SCI review of its compliance with proposed Regulation SCI not less than once each calendar year, and submit a report of the SCI review to senior management of the SCI entity for review no more than 30 calendar days after completion of such SCI review. The Commission preliminarily estimates that each SCI entity would require 625 hours annually to conduct and submit the SCI review. The total annual recordkeeping burden to comply with the SCI review requirement would be 27,500 hours (625 hours per SCI review  $\times$  44 SCI entities).

H. Reports Required by Proposed Rule 1000(b)(8)

Proposed Rule 1000(b)(8) would establish reporting burdens for all 44 SCI entities.

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<sup>21</sup> This estimate includes instances where the information previously provided to the Commission regarding any planned material systems change becomes materially inaccurate.

Proposed Rule 1000(b)(8)(i) would require each SCI entity to submit to the Commission a report of the SCI review required by proposed Rule 1000(b)(7), together with any response by senior management of the SCI entity, within 60 calendar days after its submission to senior management of the SCI entity. The Commission preliminarily estimates that each SCI entity would require 1 hour to submit the SCI review. The total annual reporting burden to comply with proposed Rule 1000(b)(8)(i) would be 44 hours (1 report  $\times$  1 hour per report  $\times$  44 SCI entities).

Proposed Rule 1000(b)(8)(ii) would require each SCI entity to submit a report within 30 calendar days after the end of June and December of each year, containing a summary description of the progress of any material systems changes during the six-month period ending on June 30 or December 31, as the case may be, and the date, or expected date, of completion of their implementation. The Commission preliminarily estimates that each SCI entity would require 60 hours semi-annually, or 120 hours annually, to comply with proposed Rule 1000(b)(8)(ii). The total annual reporting burden to comply with proposed Rule 1000(b)(8)(ii) would be 5,280 hours (120 hours  $\times$  44 SCI entities).

The total annual reporting burden to comply with proposed Rule 1000(b)(8) would be 5,324 hours (44 hours to comply with proposed Rule 1000(b)(8)(i) + 5,280 hours to comply with proposed Rule 1000(b)(8)(ii), or 121 hours per SCI entity (5,324 hours  $\div$  44 SCI entities). Because proposed Rule 1000(b)(8) would impose 3 reporting requirements per SCI entity per year (1 requirement under proposed Rule 1000(b)(8)(i) + 2 requirements under proposed Rule 1000(b)(8)(ii)), each requirement would require an average of 40.33 hours per SCI entity (121 hours  $\div$  3 reporting requirements).

#### I. Requirement to Take Corrective Actions

Proposed Rule 1000(b)(3) would establish recordkeeping burdens for all 44 SCI entities.

Proposed Rule 1000(b)(3) would require each SCI entity, upon any responsible SCI personnel becoming aware of an SCI event, to begin to take corrective action as soon as reasonably practicable. While the Commission believes that all SCI entities already take corrective actions in response to a systems issue, the Commission preliminarily believes that proposed Rule 1000(b)(3) could result in SCI entities revising their policies regarding taking corrective actions.

The Commission preliminarily estimates that each SCI entity would require 42 hours initially to implement such a process, and 12 hours annually to review such process. The total initial recordkeeping burden to implement the process would be 1,848 hours (42 hours  $\times$  44 SCI entities). The total ongoing annual recordkeeping burden to review the process would be 528 hours (12 hours  $\times$  44 SCI entities). The annualized recordkeeping burden to comply with proposed Rule 1000(b)(3) would be 968 hours ((1,848 hours for the first year + 528 hours for the second year + 528 hours for the third year)  $\div$  3 years), or 22 hours per SCI entity (968 hours  $\div$  44 SCI entities).



J. Requirement to Identify Immediate Notification SCI Events and Dissemination SCI Events

The need to distinguish immediate notification SCI events and dissemination SCI events from other SCI events will impose a recordkeeping burden on all 44 SCI entities to develop and review a process to ensure that they can quickly and correctly make a determination of the significance of an SCI event. However, certain burdens would be different for SCI entities that participate in the ARP Inspection Program (29 SCI entities) and SCI entities that do not (15 SCI entities).

The Commission preliminarily estimates that an SCI entity that does not participate in the ARP Inspection Program (15 SCI entities in total) would require 42 hours to develop such a process. The Commission preliminarily estimates that an SCI entity that participates in the ARP Inspection Program (29 SCI entities in total) would require 21 hours to develop such a process. The total initial recordkeeping burden to develop such a process would be 1,239 hours (42 hours  $\times$  15 SCI entities that do not participate in the ARP Inspection Program + 21 hours  $\times$  29 SCI entities that participate in the ARP Inspection Program). The weighted average initial recordkeeping burden to develop such process would be 28.16 hours per SCI entity (1,239 hours  $\div$  44 SCI entities).

The Commission preliminarily estimates that an SCI entity that does not participate in the ARP Inspection Program (15 SCI entities in total) would require 12 hours annually to review such process. The Commission preliminarily estimates that an SCI entity that participates in the ARP Inspection Program (29 SCI entities in total) would require 6 hours to review the process. The total ongoing annual recordkeeping burden to review the process would be 354 hours (12 hours  $\times$  15 SCI entities that do not participate in the ARP Inspection Program + 6 hours  $\times$  29 SCI entities that participate in the ARP Inspection Program). The weighted average ongoing annual recordkeeping burden to review such process would be 8.05 hours per SCI entity (354 hours  $\div$  44 SCI entities).

The annualized recordkeeping burden for developing and reviewing a process to determine the significance of SCI events would be 649 hours for all SCI entities ((1,239 hours for the first year + 354 hours for the second year + 354 hours for the third year)  $\div$  3 years), or 14.75 hours for each SCI entity (649 hours  $\div$  44 SCI entities).

K. Recordkeeping Requirements

The proposed recordkeeping requirement would establish recordkeeping burdens for SCI entities other than SCI SROs (18 SCI entities).

The Commission preliminarily estimates that an SCI entity other than an SCI SRO would require 25 hours annually to comply with the proposed recordkeeping requirement. In addition, the Commission preliminarily estimates that each SCI entity other than an SCI SRO would require 170 hours initially to set up or modify an existing recordkeeping system. The total initial burden to comply with the proposed recordkeeping requirement would be 3,510 hours ((25 hours

+ 170 hours) × 18 SCI entities that are not SCI SROs). The total ongoing annual recordkeeping burden to comply with the proposed recordkeeping requirement would be 450 hours (25 hours × 18 SCI entities that are not SCI SROs). The annualized recordkeeping burden for all SCI entities other than SCI SROs to comply with the proposed recordkeeping requirement would be 1,470 hours ((3,510 hours for the first year + 450 hours for the second year + 450 hours for the third year) ÷ 3 years), or 81.67 hours per SCI entity that is not an SCI SRO (1,470 hours ÷ 18 SCI entities that are not SCI SROs).

L. Summary of Hourly Burdens

The table below summarizes the Commission's preliminary estimate of the total hourly burden for SCI entities under Regulation SCI.

<b>Nature of Information Collection Burden</b>	<b>Annualized Hourly Burden Estimate</b>
Policies and procedures required by proposed Rule 1000(b)(1)	8,965 (Recordkeeping)
Policies and procedures required by proposed Rule 1000(b)(2)	5,440 (Recordkeeping)
Mandatory participation in certain testing required by proposed Rule 1000(b)(9)(i)-(ii)	4,480 (Recordkeeping)
Mandatory participation in certain testing required by proposed Rule 1000(b)(9)(iii)	574 (Reporting)
Notice required by proposed Rule 1000(b)(4)	58,080 (Reporting)
Dissemination of information required by proposed Rule 1000(b)(5)	5,676 (Third Party Disclosure)
Notice required by proposed Rule 1000(b)(6)	3,540 (Reporting)
SCI Review required by proposed Rule 1000(b)(7)	27,500 (Recordkeeping)
Reports required by proposed Rule 1000(b)(8)	5,324 (Reporting)
Requirement to take corrective actions	968 (Recordkeeping)
Requirement to identify immediate notification SCI events and dissemination SCI events	649 (Recordkeeping)
Recordkeeping requirements	1,470 (Recordkeeping)

Nature of Information Collection Burden	Annualized Hourly Burden Estimate
<b>TOTAL</b>	<b>122,666</b>

13. Costs to Respondents

A. Policies and Procedures Required by Proposed Rule 1000(b)(1)

Proposed Rule 1000(b)(1) would impose recordkeeping costs for all 44 SCI entities. In establishing, maintaining, and enforcing the policies and procedures required by proposed Rule 1000(b)(1), the Commission preliminarily believes that each SCI entity would seek outside legal and/or consulting services in the initial preparation of such policies and procedures. The total annualized cost of seeking outside legal and/or consulting services would be \$293,333 for all SCI entities (\$20,000 cost for the first year  $\times$  44 SCI entities  $\div$  3 years), or \$6,666.67 per SCI entity (\$293,333  $\div$  44 SCI entities).

B. Policies and Procedures Required by Proposed Rule 1000(b)(2)

Proposed Rule 1000(b)(2)(i) would impose recordkeeping costs for all 44 SCI entities. In establishing, maintaining, and enforcing the policies and procedures required by proposed Rule 1000(b)(2)(i), the Commission preliminarily believes that each SCI entity would seek outside legal and/or consulting services in the initial preparation of such policies and procedures. The total annualized cost of seeking outside legal and/or consulting services would be \$293,333 (\$20,000 cost for the first year  $\times$  44 SCI entities  $\div$  3 years), or \$6,666.67 per SCI entity (\$293,333  $\div$  44 SCI entities).

C. Mandatory Participation in Certain Testing Required by Proposed Rule 1000(b)(9)

Proposed Rule 1000(b)(9) would impose recordkeeping and reporting costs for SCI entities that are plan processors (2 SCI entities). In complying with the mandatory testing participation requirements under proposed Rule 1000(b)(9), the Commission preliminarily believes that plan processors would seek outside legal services.

The Commission preliminarily estimates that the total initial recordkeeping cost of seeking outside legal services for compliance with proposed Rule 1000(b)(9)(i)-(ii) would be \$104,000 for all plan processors (\$52,000  $\times$  2 plan processors). The Commission preliminarily estimates that the total annual ongoing recordkeeping cost of seeking outside legal services for compliance with proposed Rule 1000(b)(9)(i)-(ii) would be \$76,000 (\$38,000  $\times$  2 plan processors). The total annualized recordkeeping cost for complying with proposed Rule 1000(b)(9)(i)-(ii) would be \$85,333.33 ((\$104,000 for the first year + \$76,000 for the second year + \$76,000 for the third year)  $\div$  3 years), or \$42,666.67 per plan processor (\$85,333.33  $\div$  2 plan processors).

The Commission preliminarily estimates that the total initial reporting cost of seeking outside legal services for compliance with proposed Rule 1000(b)(9)(iii) would be \$28,000 for all plan processors ( $\$14,000 \times 2$  plan processors). The Commission preliminarily estimates that the total annual ongoing reporting cost of seeking outside legal services for compliance with proposed Rule 1000(b)(9)(iii) would be \$2,400 for all plan processors ( $\$1,200 \times 2$  plan processors). The total annualized reporting cost for complying with proposed Rule 1000(b)(9)(iii) would be \$10,933.33 ( $(\$28,000 \text{ for the first year} + \$2,400 \text{ for the second year} + \$2,400 \text{ for the third year}) \div 3 \text{ years}$ ), or \$5,466.67 per plan processor ( $\$10,933.33 \div 2$  plan processors).

D. Notice Required by Proposed Rule 1000(b)(4)

The Commission preliminarily does not expect SCI entities to incur any additional PRA costs in connection with Commission notification of SCI events.

E. Dissemination of Information Required by Proposed Rule 1000(b)(5)

Proposed Rule 1000(b)(5) would impose third party disclosure costs for all 44 SCI entities. In complying with the information dissemination requirements under proposed Rule 1000(b)(5), the Commission believes SCI entities would seek outside legal advice in the preparation of the information dissemination. The total annual cost of seeking outside legal advice would be \$660,000 ( $\$15,000 \text{ per SCI entity per year} \times 44 \text{ SCI entities}$ ). As noted above, because proposed Rule 1000(b)(5) would impose 43 third party disclosure requirements per SCI entity per year, each notification would require an average of \$348.84 per SCI entity ( $\$15,000 \div 43 \text{ requirements}$ ).

F. Notice Required by Proposed Rule 1000(b)(6)

The Commission preliminarily does not expect SCI entities to incur any additional PRA costs in connection with Commission notification of material systems changes.

G. SCI Review Required by Proposed Rule 1000(b)(7)

The Commission preliminarily does not expect SCI entities to incur any additional PRA costs in connection with SCI reviews.

H. Reports Required by Proposed Rule 1000(b)(8)

The Commission preliminarily does not expect SCI entities to incur any additional PRA costs in connection with the submission of reports required by proposed Rule 1000(b)(8).

I. Requirement to Take Corrective Actions

The Commission preliminarily does not expect SCI entities to incur any additional PRA costs in connection with the requirement to take corrective actions.

J. Requirement to Identify Immediate Notification SCI Events and Dissemination SCI Events

The Commission preliminarily does not expect SCI entities to incur any additional PRA costs in connection with the determination of the significance of SCI events.

K. Recordkeeping Requirements

The proposed recordkeeping requirement would impose recordkeeping costs for SCI entities other than SCI SROs (18 SCI entities). The Commission preliminarily estimates that an SCI entity other than an SCI SRO would incur a one-time cost of \$900 to set up or modify an existing recordkeeping system to comply with the proposed recordkeeping requirements. For SCI entities other than SCI SROs, the total annualized cost for complying with the recordkeeping requirement would be \$5,400 (\$900 in information technology costs  $\times$  18 SCI entities that are not SCI SROs  $\div$  3 years), or \$300 per SCI entity that is not a SCI SRO (\$5,400  $\div$  18 SCI entities that are not SCI SROs).

L. Summary of Cost Burdens

The table below summarizes the Commission's preliminary estimate of the cost burdens for SCI entities under Regulation SCI.

<b>Nature of Information Collection Burden</b>	<b>Burden Estimate in Dollars</b>
Policies and procedures required by proposed Rule 1000(b)(1)	\$293,333 (Recordkeeping)
Policies and procedures required by proposed Rule 1000(b)(2)	\$293,333 (Recordkeeping)
Mandatory participation in certain testing required by proposed Rule 1000(b)(9)(i)-(ii)	\$85,333.33 (Recordkeeping)
Mandatory participation in certain testing required by proposed Rule 1000(b)(9)(iii)	\$10,933.33 (Reporting)
Dissemination of information required by proposed Rule 1000(b)(5)	\$660,000 (Third Party Disclosure)

Nature of Information Collection Burden	Burden Estimate in Dollars
Recordkeeping Requirements	\$5,400 (Recordkeeping)
<b>TOTAL</b>	<b>\$1,348,333</b>

14. Cost to Federal Government

The Commission will incur one-time costs related to programming, testing, and deployment in order to establish an electronic system for Form SCI. The Commission will also incur ongoing maintenance costs. Third party contractors will perform most of the work except for some testing and project management, which will be performed by Commission staff. The Commission preliminarily estimates that the total costs to establish such a system will be \$900,000 initially and \$180,000 annually thereafter, or \$420,000 per year annualized over three years (( $\$900,000$  for the first year +  $\$180,000$  for the second year +  $\$180,000$  for the third year)  $\div$  3 years).

While the scope of Regulation SCI is broader than the scope of the ARP Inspection Program, the Commission believes that the resources currently devoted to the ARP Inspection Program can be repurposed to meet many of the demands of Regulation SCI. The Commission recognizes, however that Regulation SCI will potentially require additional technology and human resources.

15. Changes in Burden

Not applicable. The Commission is proposing Regulation SCI for the first time.

16. Information Collections Planned for Statistical Purposes

Not applicable. The information collections above are not planned for statistical purposes.

17. OMB Expiration Date Display Approval

We request authorization to omit the expiration date on the electronic version of Form SCI, although the OMB control number will be displayed. Including the expiration date on the electronic version of the form will result in increased costs, because the need to make changes to the form may not follow the application's scheduled version release dates.

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 involve statistical methods.