

**SUPPORTING STATEMENT
for the Paperwork Reduction Act Information Collection Submission for
“Rule 19b-5 and Form PILOT”**

A. Justification

1. **Necessity of Information Collection**

The Securities Exchange Act of 1934, as amended (“Act”),¹ sets forth a scheme of self-regulation under which national securities exchanges, national securities associations, and registered clearing agencies have primary responsibility for regulating their members or participants. Under this scheme, the Commission's role is primarily one of oversight; the Act charges the Commission with the responsibility for assuring that each of these self-regulatory organizations (“SROs”) complies with and advances the policies of the Act. As part of its oversight responsibilities, the Commission is required to review changes in the rules of the various SROs.

Section 19(b) of the Act² requires each SRO to file with the Commission copies of any proposed amendment to its constitution, articles of incorporation, bylaws, rules, or similar instrument or any interpretation of these instruments (collectively, “rule changes”). The Commission is required to publish notice of any such filing, and when required to approve the rule change or institute proceedings to determine whether the rule change should be disapproved. Rule 19b-4 under the Act³ implements the requirements of Section 19(b) of the Act by requiring SROs to file their rule changes on Form 19b-4 and by clarifying which actions by SROs must be filed pursuant to Section 19(b). Rule 19b-4 was adopted in 1975 pursuant to Sections 2, 3C, 6, 11A, 15A, 15B, 17, 17A, and 19 of the Act and Section 806 of the Payment, Clearing and Settlement Supervision Act.

Rule 19b-5 under the Act⁴ provides a temporary exemption from the rule-filing requirements of Section 19(b) of the Act to SROs wishing to establish and operate pilot trading systems. Certain provisions of Rule 19b-5 contain collection of information requirements within the meaning of the Paperwork Reduction Act of 1995⁵ through the use of Form PILOT. Rule 19b-5 permits an SRO to develop a pilot trading system and to begin operation of such system shortly after submitting an initial report on Form PILOT to the Commission. During operation of the pilot trading system, the SRO must submit quarterly reports of the system’s operation to the Commission on Form PILOT, as well as timely amendments on Form PILOT describing any material changes to the system. After two years of operating such pilot trading system under the exemption afforded by

¹ 15 U.S.C. 78a *et seq.*

² 15 U.S.C. 78s(b).

³ 17 CFR 240.19b-4.

⁴ 17 CFR 240.19b-5.

⁵ 44 U.S.C. 3501 *et seq.*

Rule 19b-5, the SRO must submit a rule filing pursuant to Section 19(b)(2) of the Act⁶ in order to obtain permanent approval of the trading system from the Commission.

2. Purpose and Use of the Information Collection

The purpose of Rule 19b-5 is to provide a temporary exemption from rule-filing requirements to SROs wishing to begin operation of a pilot trading system. In the absence of this exemption, an SRO would be required to submit a proposed rule change to the Commission pursuant to Section 19(b) of the Act and Rule 19b-4 thereunder in order to operate any new trading system. Section 19(b) of the Act generally requires an SRO to file with the Commission copies of any proposed rule or any proposed change in, addition to, or deletion from the rules of such SRO. Once a proposed rule change has been filed, the Commission must publish notice of its receipt and allow an opportunity for the public to comment on it. A proposed rule change may not take effect unless it is approved by the Commission or is otherwise permitted to become effective under Section 19(b) of the Act. In order to approve a rule change proposing a new trading system, the Commission would be required to find that, among other things, such trading system will serve to promote the public interest and help to remove impediments to a free and open securities market in accordance with the requirements of Section 6(b)(5) of the Act.⁷ Further, pursuant to Section 3(f) of the Act,⁸ the Commission would have to consider whether the proposed trading system will, in addition to the protection of investors, promote efficiency, competition, and capital formation.

Rule 19b-5 permits an SRO to operate a pilot trading system immediately, without requiring any Commission findings, provided that such system is in compliance with the conditions set forth in Rule 19b-5. For the Commission to maintain an accurate record of all new pilot trading systems operated by SROs and to determine whether an SRO has properly availed itself of the exemption afforded by Rule 19b-5, an SRO must file a Form PILOT in conjunction with the operation of a new pilot trading system, providing the Commission with at least 20 days' notice before commencing operations of the pilot trading system. In addition, for the Commission to determine whether an SRO operating a pilot trading system pursuant to the exemption afforded by Rule 19b-5 is operating such system in compliance with the Act and is carrying out its statutory oversight obligations under the Act, the SRO must submit quarterly reports of the system's operation and amendments describing material changes to the system to the Commission on Form PILOT. The Commission will review SRO compliance with Rule 19b-5 and other provisions of the Act through its routine inspections and examinations.

SROs provide information on Form PILOT relating to the operation of their pilot trading systems. SROs also use Form PILOT to notify the Commission of changes to such systems and to make quarterly reports of their operations. Without such information, the Commission might not have sufficient information to ensure that the pilot trading system continued to operate in a manner consistent with the Act.

⁶ 15 U.S.C. 78s(b)(2).

⁷ 15 U.S.C. 78f(b)(5).

⁸ 15 U.S.C. 78c(f)

3. Consideration Given to Information Technology

The compilation and filing of the data required reflects the complexity of the SROs' businesses. Thus, improved technology would not reduce the burden.

4. Duplication

Not applicable. The Commission believes that no duplication of the requirements of Rule 19b-5 exists. Additionally, the Commission notes that Rule 17a-1 under the Act⁹ currently contains recordkeeping requirements for SROs. Although Rule 19b-5 does not create new recordkeeping obligations for SROs, paragraph (e)(9) of Rule 19b-5¹⁰ reiterates the SROs' existing recordkeeping obligations under Rule 17a-1.

5. Effect on Small Entities

Not applicable. The SROs that are required to respond to the collection of information are not small businesses.

6. Consequences of Not Conducting Collection

Rule 19b-5 requires that information describing a pilot trading system be filed prior to the SRO's operation of such system, and that subsequent information regarding the system be provided on a quarterly basis thereafter and whenever any material change is made to the system. Any less frequent collection of this information would impede the Commission's ability to fulfill its statutory obligations to maintain fair and orderly markets and protect investors.

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

There are no special circumstances. The information 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

Not applicable. No payments or gifts are required to be made or are made to respondents.

⁹ 17 CFR 240.17a-1.

¹⁰ 17 CFR 240.19b-5(e)(9).

10. Confidentiality

The information required by Rule 19b-5 is available only for examination by the Commission, other agencies of the federal government, and state securities authorities. Subject to the provisions of the Freedom of Information Act (“FOIA”)¹¹ and the Commission’s rules thereunder, the Commission generally will not 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. No questions of a sensitive nature are involved. The information collection does not collect any Personally Identifiable Information (PII).

12. Burden of Information Collection

. The Commission anticipates receiving as many as three (3) proposals to operate pilot trading systems filed as initial reports on Form PILOT each year. The Commission estimates that the reporting burden for an SRO that files an initial report on Form PILOT prior to operating a pilot trading system would be approximately 24 hours, including 16 hours of professional legal work and 8 hours of clerical work. The Commission estimates that the related internal compliance cost to an SRO to complete an initial report on Form PILOT would be \$6,536. This estimated related cost is broken down as follows:

16 hours of in-house professional legal work at \$380/hr ¹²	\$ 6,080
8 hours of clerical work at \$57/hr ¹³	<u>\$ 456</u>
	\$ 6,536

The Commission anticipates receiving as many as twelve (12) quarterly reports per year. The Commission estimates that the reporting burden for an SRO that files a quarterly report on Form PILOT upon commencing to operate a pilot trading system would be approximately 3 hours per report, including 2 hours of professional legal work and 1 hour of clerical work. The Commission estimates that the related internal compliance cost to an SRO to complete a quarterly report on Form PILOT would be \$817. This estimated related cost is broken down as follows:

2 hours of in-house professional legal work at \$380/hr	\$ 760
1 hour of clerical work at \$57/hr	<u>\$ 57</u>

¹¹ 5 U.S.C. 522.

¹² \$380/hour figure for an Attorney is from the SIFMA’s *Management & Professional Earnings in the Securities Industry 2013*, modified by Commission staff to account for an 1800-hour work-year and multiplied by 5.35 to account for bonuses, firm size, employee benefits, and overhead.

¹³ \$57/hour figure for a General Clerk is from the SIFMA’s *Office Salaries in the Securities Industry 2013*, modified by Commission staff to account for an 1800-hour work-year and multiplied by 2.35 to account for bonuses, firm size, employee benefits, and overhead.

\$ 817

Each respondent would file 4 quarterly reports on Form PILOT per year, for an annual reporting burden of 12 hours per respondent (4 filings at 3 hours per filing) and at a related internal compliance cost of \$3,268 (4 filings at \$817 per filing).

The Commission anticipates receiving as many as six (6) notices of material systems changes per year. The Commission estimates that the reporting burden for an SRO that files a notice of a material systems change on Form PILOT upon commencing to operate a pilot trading system would be approximately 3 hours per notice, including 2 hours of professional legal work and 1 hour of clerical work. The Commission estimates that the related internal compliance cost to an SRO to complete a notice of a material systems change on Form PILOT would be \$817. This estimated related cost is broken down as follows:

2 hours of in-house professional legal work at \$380/hr	\$ 760
1 hour of clerical work at \$57/hr	<u>\$ 57</u>
	<u><u>\$ 817</u></u>

The Commission estimates that an SRO operating a pilot trading system would file 2 notices of material systems changes on Form PILOT per year, for an annual burden of 6 hours (2 filings at 3 hours per filing) per respondent and at an annual related internal cost of compliance of \$1,634 per respondent (2 filings at \$817 per filing).

There are currently 20 SROs which could avail themselves of the exemption provided by Rule 19b-5. The Commission has estimated that the total annual time burden for all respondents would be 126 hours at a related total internal cost of compliance of \$34,314. These aggregate figures consist of (i) 72 hours for initial reports on Form PILOT (3 filings each requiring 24 hours of work) at a related cost of \$19,608 (\$6,536 per filing multiplied by 3 filings); (ii) 36 hours for quarterly reports on Form PILOT (12 filings each requiring 3 hours of work) at a related cost of \$9,804 (\$817 per filing multiplied by 12 filings); and (iii) 18 hours for notices of material systems changes on Form PILOT (6 filings each requiring 3 hours of work) at a related cost of \$4,902 (\$817 per filing multiplied by 6 filings).

For the purposes of these estimates, the Commission staff has valued related overhead at 35% of the value of legal and clerical time combined.

13. Costs to Respondents

The Commission estimates that the respondents will incur printing, supplies, copying, and postage expenses of \$5,745 for filing initial reports on Form PILOT, \$2,868 for filing quarterly reports on Form PILOT, and \$1,434 for filing notices of material systems changes on Form PILOT, for a total of \$10,047.

Additionally, the Commission notes that Rule 19b-5 does not in itself impose new recordkeeping burdens on SROs, though it relies on existing requirements imposed pursuant to Rule 17a-1 under the Act.

14. Costs to Federal Government

The Commission anticipates receiving up to three initial reports on Form PILOT per year. The Commission staff estimates that the average annual cost to the Commission of processing the filings would be \$7,230. This aggregate figure includes the following component costs:

3 initial reports on Form PILOT per year

3 hours legal processing time at \$255/hr	\$ 765
overhead, including clerical work	<u>\$ 268</u>
	\$1033

12 quarterly reports on Form PILOT per year

12 hours legal processing time at \$255/hr	\$ 3,060
overhead, including clerical work	<u>\$ 1,071</u>
	\$ 4,131

6 notices of systems changes on Form PILOT per year

6 hours legal processing time at \$255/hr	\$ 1,530
overhead, including clerical work	<u>\$ 536</u>
	\$ 2,066

As previously stated, for the purposes of our estimates the Commission staff has valued related overhead at 35% of the value of legal and clerical time combined.

The Commission notes that, after the two-year exemption provided by Rule 19b-5 from the requirements to file proposed rule changes under Section 19(b) of the Act has expired for a given trading system operated by an SRO, the Commission staff tasked with processing the subsequent proposed rule changes for such trading system will already be familiar with that system, which could reduce the costs to the Commission of processing such proposed rule changes.

15. Changes in Burden

Not applicable.

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.

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.