

SUPPORTING STATEMENT
for the Paperwork Reduction Act Information Collection Submission for
Rules 15Fi-1 and 15Fi-2 – Trade Acknowledgment and Verification of
Security-Based Swap Transactions

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 764 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”),¹ enacted on July 21, 2010, added Section 15F to the Exchange Act.² Among other things, Section 15F requires security-based swap (“SBS”) dealers and major SBS participants (collectively, “SBS Entities”) to register with the Commission, and directs the Commission to prescribe rules applicable to SBS Entities.

Section 15F(i)(1) of the Exchange Act provides that SBS Entities must “conform with such standards as may be prescribed by the Commission, by rule or regulation, that relate to timely and accurate confirmation, processing, netting, documentation, and valuation of all security-based swaps.” Section 15F(i)(2) of the Exchange Act provides that the Commission must adopt rules governing documentation standards for SBS Entities.

On June 8, 2016, the Commission adopted Rules 15Fi-1 and 15Fi-2 (17 CFR 240.15Fi-1 and 240.15Fi-2) (collectively, “the Rules”) which prescribe standards related to timely and accurate confirmation and documentation of SBS.³ Rule 15Fi-1 contains definitions of the relevant terms. Rule 15Fi-2 requires SBS Entities to provide to their counterparties a trade acknowledgment, to provide prompt verification of the terms provided in a trade acknowledgment of transactions from other SBS Entities, and to have written policies and procedures that are reasonably designed to obtain prompt verification of the terms provided in a trade acknowledgment. The Commission proposed the Rules to promote the efficient operation of the SBS market and to facilitate market participants’ management of their SBS-related risk.

Rule 15Fi-2 adopts documentation standards for the timely and accurate acknowledgment and verification of SBS transactions by SBS Entities. The rule contains seven paragraphs: (a) the trade acknowledgment obligations of specific SBS Entities; (b) the prescribed time frames under which a trade acknowledgment must be provided; (c) the form and content requirements of the trade acknowledgment; (d) SBS Entities’

¹ Pub. L. 111-203, 124 Stat. 1376 (2010).

² 15 U.S.C. 78o-8.

³ See Trade Acknowledgment and Verification of Security-Based Swap Transactions, Exchange Act Release No. 78011 (Jun. 8, 2016), 81 FR 39807 (Jun. 17, 2016).

verification obligations; (e) a limited exception from the requirement to provide a clearing agency a trade acknowledgment in a clearing transaction; (f) a limited exception from the requirement to provide a trade acknowledgment for certain transactions executed on a security-based swap execution facility or a national securities exchange or accepted for clearing by a clearing agency; and (g) a limited exemption from the requirements of Exchange Act Rule 10b-10 for a broker-dealer acting as principal for its own account in a security-based swap transaction.

Under paragraph (a) of Rule 15Fi-2, sending an SBS trade acknowledgment is the obligation of a particular SBS Entity, *i.e.*, an SBS dealer or major-SBS participant, depending on whether the SBS Entity and its counterparty are SBS dealers or major SBS participants and/or in accordance with any agreements between the counterparties that delineate the trade acknowledgment responsibility.

Paragraph (b) of Rule 15Fi-2 requires trade acknowledgments to be provided promptly, but in no event later than the end of the first business day following the day of execution. Paragraph (c) of Rule 15Fi-2 requires trade acknowledgments to be provided through electronic means that provide reasonable assurance of delivery and must disclose all the terms of the security-based swap transaction. Paragraph (d)(1) of Rule 15Fi-2 requires SBS Entities to establish, maintain, and enforce policies and procedures reasonably designed to obtain prompt verification of SBS trade acknowledgments. When an SBS Entity receives a trade acknowledgment, pursuant to paragraph (d)(2) of the rule, it must promptly verify the accuracy of the trade acknowledgment or dispute the terms with its counterparty.

Paragraphs (e), (f), and (g) of Rule 15Fi-2 are exemptive provisions and are not a collection of information.

2. Purpose and Use of the Information Collection

The trade acknowledgment and verification requirements of Rule 15Fi-2 apply to both types of SBS Entities depending on whether the entity and its counterparty are SBS dealers or major SBS participants and on any agreements between the counterparties addressing the obligation to send a trade acknowledgment. Generally, the transaction details that must be provided in a trade acknowledgment serve as a written record by which the counterparties to a transaction memorialize the terms of a transaction. In effect, the trade acknowledgment reflects the contract entered into between the counterparties. In addition, the rule's verification requirements are intended to ensure that the written record of the transaction, *i.e.*, the trade acknowledgment, accurately reflects the terms of the transaction as understood by the respective counterparties. If an SBS Entity is provided a trade acknowledgment that does not accurately reflect its agreement, Rule 15Fi-2 requires the SBS Entity to dispute the terms of the transaction.

3. Consideration Given to Information Technology

Rule 15Fi-2 requires SBS Entities to provide all trade acknowledgments electronically. The rule also permits SBS Entities to rely on the services of a third party to provide electronic trade acknowledgments on its behalf.

4. Duplication

Rule 15Fi-2 imposes no duplicate information collection requirements on SBS Entities.

5. Effect on Small Entities

The Commission believes that none of the SBS Entities subject to the Rules are small entities, and thus, the Rule impose no burden on small entities.

6. Consequences of Not Conducting Collection

The information is collected as each transaction warrants, and therefore there is no way to omit the information collection requirements or require less frequent collection without undermining the purpose of the Rules.

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 Commission requested comment on the collection of information requirements in the proposing release in January 2011.⁴ All comments received on this rulemaking were posted on the Commission's public website and made available through <https://www.sec.gov/comments/s7-03-11/s70311.shtml>. The Commission received one comment to the cost-benefit analysis concerning the monetized cost for the burden estimate for developing an internal order and trade management system ("OMS"). The commenter said the Commission very seriously underestimated the monetized cost for each SBS Entity to develop an OMS, but provided no estimates of what it should be.⁵ The commenter subsequently stated to Commission staff that since making that comment, SBS Entities had developed OMSs to comply with the CFTC Rule, and the monetized cost of modifying the existing OMSs to comply with the Commission rule would depend

⁴ Trade Acknowledgment and Verification of Security-Based Swap Transactions, Exchange Act Release No. 63727 (Jan. 14, 2011), 76 FR 3859 (Jan. 21, 2011) ("Proposing Release").

⁵ See Letter from Robert Pickel, Executive Vice Chairman, International Swaps and Derivatives Association, Inc., dated Feb. 22, 2011, at 8.

on how closely aligned the Commission rule was to the CFTC Rule.⁶ Since the rule the Commission adopted is much more closely aligned with the CFTC Rule than the proposed rule was, we believe our original estimates did not underestimate the actual burden and monetized cost of the rule as adopted, so we did not revise them.

9. Payment or Gift

Not applicable.

10. Confidentiality

By its terms, Rule 15Fi-2 does not require respondents to share information with the Commission and thus the Commission will not make any such information available to the public.

11. Sensitive Questions

Not applicable; no information of a sensitive nature is required under the rule.

12. Burden of Information Collection

The Rules apply to SBS Entities, *e.g.*, SBS dealers and major SBS participants. The Commission believes that approximately 50 entities fit within the definition of SBS dealer, and up to five entities fit within the definition of major SBS participant. Thus, we expect that approximately 55 entities may be required to register with the Commission as SBS Entities and would be subject to the trade acknowledgment provision and verification requirements of Rule 15Fi-2.

a. Trade Acknowledgment Requirement

Pursuant to Rule 15Fi-2, all SBS transactions must be acknowledged and verified through the methods and by the timeframes prescribed in the rule. Collectively, paragraphs (a), (b), (c), and (d) of Rule 15Fi-2 identify the information to be included in a trade acknowledgment; the party responsible for sending the trade acknowledgment; the permissible methods for sending the trade acknowledgment; and criteria for verifying the terms of a trade acknowledgment. In 2015, there were 2,436,531 single-name credit default swap (“CDS”) transactions reported to the DTCC Derivatives Repository Limited Trade Information Warehouse (“TIW”). For purposes of this analysis, we assume there were approximately 2.44 million single-name CDS transactions in 2015. In addition, although we lack comprehensive data on equity swaps and other security-based swaps, we have estimated in prior rulemakings that single-name CDS represent approximately 82% of the total SBS market. This implies that there are an additional 540,000 transactions, or approximately 2.98 million total SBS transactions. Assuming that at least

⁶ Memorandum from the Division of Trading and Markets regarding a March 4, 2016, conference call with representatives of ISDA.

one SBS Entity is a party to every SBS transaction, the Commission estimates that the number of SBS transactions subject to Rule 15Fi-2 would be approximately 54,182 transactions per SBS Entity per year.⁷

The Commission believes that most transactions will be electronically executed and cleared through the facilities of a clearing agency. The Commission understands that the clearing of SBS transactions through the facilities of a clearing agency generally includes the matching and verification of such transactions. The Commission has taken this process into account in paragraph (e) of Rule 15Fi-2, which excepts SBS Entities from the obligation to provide a trade acknowledgment in clearing transactions. The Commission estimates that of the approximately 2.98 million SBS transactions estimated per year based on the 2015 data, approximately 1.32 million will be clearing transactions excepted from the trade acknowledgment requirement pursuant to paragraph (e) of Rule 15Fi-2. Of the remaining 1.66 million transactions, approximately 75%, or 1.25 million, will be transactions executed on an SBSEF or exchange and thus excepted from the trade acknowledgment requirement pursuant to the exception for in paragraph (f) of Rule 15Fi-2. Thus, we estimate that SBS Entities will have to provide approximately 0.41 million trade acknowledgments⁸ pursuant to Final Rule 15Fi-2, or 7,455 transactions per SBS entity per year.⁹

The Commission estimates that modifying OMSs by SBS Entities for electronic processing of SBS transactions with the capabilities described above would impose a one-time burden of approximately 355 burden hours per SBS Entity¹⁰ or roughly .05 per SBS transaction.¹¹ Thus the total aggregate initial burden attributed to Rule 15Fi-2 is 19,525 hours for all respondents.¹²

⁷ This figure is based on the following: (2,980,000 estimated SBS transactions) / (55 SBS Entities) = 54,181.82 SBS transactions per SBS Entity per year. The Commission understands that many of these transactions may arise from previously executed SBS transactions.

⁸ This figure is based on the following: (1.66 million transactions) – (1.25 million transactions) = .41 million transactions.

⁹ This figure is based on the following: (.41 million transactions) / (55 SBS Entities) = 7,454.55 transactions per SBS entity per year.

¹⁰ This estimate is based on Commission staff discussions with market participants and is calculated as follows: (Sr. Programmer at 160 hours) + (Sr. Systems Analyst at 160 hours) + (Compliance Manager at 10 hours) + (Director of Compliance at 5 hours) + (Compliance Attorney at 20 hours) = 355 burden hours. The Commission understands that many SBS Entities may already have computerized systems in place for electronically processing SBS transactions, whether internally or through a clearing agency. This may result in lesser burdens for those parties.

¹¹ 355 burden hours / 7,455 transactions = .048.

¹² This estimate is based on Commission staff discussions with market participants and is calculated as follows: (355 hours per SBS Entity) x (55 SBS Entities) = 19,525 burden hours. The Commission understands that many SBS Entities may already have computerized systems in place for electronically processing SBS transactions, whether internally or through a clearing agency. This may result in lesser burdens for those

The Commission further estimates that the Rules would impose an ongoing annual hour burden of approximately 436 hours per SBS Entity (including the first year)¹³ or roughly .06 per SBS transaction.¹⁴ This estimate would include day-to-day technical support of the OMS, as well as the amortized annual burden associated with system or platform upgrades and periodic implementation of significant updates based on new technology, products, or both. Thus the total aggregate ongoing burden attributed to Rule 15Fi-2 is 23,980 hours for all respondents.¹⁵

Over a three-year period, the total industry hourly third-party disclosure burden attributable to Rule 15Fi-2 in connection with providing trade acknowledgments is 91,465 hours¹⁶ or 30,488.33 when annualized over three years.¹⁷

b. Policies and Procedures

In addition, pursuant to paragraph (d)(1) of Rule 15Fi-2, SBS Entities must develop written policies and procedures reasonably designed to obtain prompt verification of transaction terms. This requirement constitutes a recordkeeping requirement. While the cost of these policies and procedures will vary, the Commission estimates that such policies and procedures would require an average of 80 hours per respondent¹⁸ to initially prepare and implement, with a total aggregate initial burden of 4,400 hours for all respondents.¹⁹

Once these policies and procedures are established, the Commission estimates that it will take an average 40 hours²⁰ annually to maintain these policies and procedures per respondent, with a total aggregate ongoing burden of 2,200 hours for all respondents.²¹

parties.

¹³ This estimate is based on Commission staff discussions with market participants and is calculated as follows: (Sr. Programmer at 32 hours) + (Sr. Systems Analyst at 32 hours) + (Compliance Manager at 60 hours) + (Compliance Clerk at 240 hours) + (Director of Compliance at 24 hours) + (Compliance Attorney at 48 hours) = 436 hours per SBS Entity.

¹⁴ $436 \text{ burden hours} / 7,455 \text{ transactions} = .058$.

¹⁵ This estimate is based on Commission staff discussions with market participants and is calculated as follows: (436 hours per SBS Entity) x (55 SBS Entities) = 23,980 burden hours.

¹⁶ (19,525 hours in the first year + 23,980 hours in the first year) + (23,980 hours in the second year) + (23,980 hours in the third year) = 91,465 hours.

¹⁷ $91,465 \text{ hours} / 3 \text{ years} = 30,488.33 \text{ hours}$.

¹⁸ This estimate is based on Commission staff discussions with market participants and is calculated as follows: (Compliance Attorney at 40 hours) (Director of Compliance at 20 hours) + (Deputy General Counsel at 20 hours) = 80 hours per SBS Entity.

¹⁹ This estimate is based on Commission staff discussions with market participants and is calculated as follows: (80 hours per SBS Entity) x (55 SBS Entities) = 4,400 burden hours.

Over a three-year period, the total industry hour recordkeeping burden attributable to Rule 15Fi-2 for developing written policies and procedures is 11,000 hours²² or 3,666.67 hours when annualized over three years.²³

Summary of Hourly Burdens										
		A.	B.	C.	D.	E.	F.	G.	H.	
Name of Information Collection	Type of Burden	Number of Entities Impacted	Annual Responses per Entity	Initial Burden per Entity per Response	Initial Burden Annualized per Entity per Response	Ongoing Burden per Entity per Response	Annual Burden Per Entity per Response	Total Annual Burden Per Entity	Total Industry Burden	Small Business Entities Affected
					[C ÷ 3 years]		[D + E]	[F * B]	[G * A]	[A * 0 %]
Trade Acknowledgment Requirement	Third-Party	55	7,455	0.05	0.02	0.06	0.07	554.33	30,488.33	0.00
Policies and Procedures	Recordkeeping	55	1	80.00	26.67	40.00	66.67	66.67	3,666.67	0.00
TOTAL HOURLY BURDEN FOR ALL RESPONDENTS									34,155.00	

13. Costs to Respondents

It is not anticipated that respondents will incur any costs to comply with the collection of information.

14. Costs to Federal Government

The Commission estimates that the Rules will impose no costs to the federal government.

15. Change in Burden

Not applicable. There was no change in the burden.

²⁰ This estimate is based on Commission staff discussions with market participants and is calculated as follows: (Compliance Attorney at 20 hours) (Director of Compliance at 10 hours) + (General Counsel at 10 hours) = 40 hours per SBS Entity.

²¹ This estimate is based on Commission staff discussions with market participants and is calculated as follows: (40 hours per SBS Entity) x (55 SBS Entities) = 2,200 hours.

²² (4,400 hours in the first year + 2,200 hours in the first year) + (2,200 hours in the second year) + (2,200 hours in the third year) = 11,000 hours.

²³ 11,000 hours / 3 years = 3,666.67 hours.

16. Information Collection Planned for Statistical Purposes

Not applicable; there is no intention to publish the information for any purpose.

17. OMB Expiration Date Display Approval

The Commission is not seeking approval to not display the OMB approval expiration date.

18. Exceptions to Certification for Paperwork Reduction Act Submissions

This collection complies with the requirements of 5 CFR 1320.9.

B. Collection of Information Employing Statistical Methods

This collection does not involve statistical methods.