

**SUPPORTING STATEMENT**  
**for the Paperwork Reduction Act Information Collection Submission for**  
**Rule 17Ad-22**

**A. JUSTIFICATION**

**1. Necessity of Information Collection**

**Legal and Administrative Requirements**

i. Title VII of Dodd-Frank Act

Title VII of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (“Dodd-Frank Act”) added new provisions to the Securities Exchange Act of 1934 (“Exchange Act”) that require clearing agencies that clear security-based swaps (“security-based swap clearing agencies”) to register with the Securities Exchange Commission (“Commission”) and require the Commission to adopt rules with respect to security-based swap clearing agencies.

Specifically, new Section 17A(j) of the Exchange Act requires the Commission to adopt rules governing security-based swap clearing agencies. New Section 17A(i) of the Exchange Act also gives the Commission authority to promulgate rules that establish standards for security-based swap clearing agencies. Compliance with any such rules is a prerequisite to the registration of a clearing agency with the Commission and is also a condition to the maintenance of that security-based swap clearing agency’s continued registration.

ii. Payment, Clearing, and Settlement Supervision Act of 2010

Title VIII of the Dodd-Frank Act, entitled the Payment, Clearing, and Settlement Supervision Act of 2010 (“Clearing Supervision Act”), establishes an enhanced supervisory and risk control system for systemically important clearing agencies and other financial market utilities (“FMUs”). It provides that the Commission may prescribe regulations containing risk management standards, taking into consideration relevant international standards and existing prudential requirements, for any designated clearing entities it regulates. On July 11, 2011, the Financial Stability Oversight Council (“FSOC”) published a final rule concerning its authority to designate FMUs as systemically important and on July 18, 2012 the FSOC designated as systemically important the following registered clearing agencies: Chicago Mercantile Exchange (“CME”), The Depository Trust Company (“DTC”), Fixed Income Clearing Corporation (“FICC”), ICE, National Securities Clearing Corporation (“NSCC”), and The Options Clearing Corporation (“OCC”). Congress recognized in the Clearing Supervision Act that the operation of multilateral payment, clearing or settlement activities may reduce risks for clearing participants and the broader financial system, while at the same time creating new risks that require multilateral payment, clearing or settlement activities to be well-designed and operated in a safe and sound manner. The Clearing Supervision Act is designed, in part, to provide a regulatory framework to help deal with such risk management issues, which is generally consistent with the Exchange Act requirement that clearing agencies be organized in a manner so

as to facilitate prompt and accurate clearance and settlement, safeguard securities and funds and protect investors.

### iii. Section 17A of Exchange Act

As noted above, in addition to the new authority provided to the Commission under Titles VII and VIII of the Dodd-Frank Act, the Commission has existing authority over clearing agencies under the Exchange Act. For example, entities are required to register with the Commission pursuant to Section 17A of the Exchange Act and Rule 17Ab2-1 prior to performing the functions of a clearing agency. Under this registration system, the Commission is not permitted to grant registration unless it determines that the rules and operations of the clearing agency meet the standards set forth in Section 17A. Specifically, Sections 17A(b)(3)(A)-(I) identify determinations that the Commission must make about the rules and structure of a clearing agency prior to granting registration. If a clearing agency is granted registration, the Commission oversees the clearing agency to facilitate compliance with the Exchange Act through the rule filing process for self-regulatory organizations (“SROs”) and through on-site examinations by Commission staff. Section 17A also gives the Commission authority to adopt rules for clearing agencies as necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Exchange Act and prohibits a registered clearing agency from engaging in any activity in contravention of these rules and regulations.

#### **Rules Governing Registered Clearing Agencies and Covered Clearing Agencies**

The Commission is adopting several new rules that set standards for the operation and governance of “covered clearing agencies” (which consist of designated clearing agencies, clearing agencies involved in activities with a more complex risk profile for which the Commodity Futures Trading Commission is not the Supervisory Agency, and any clearing agency determined to be a covered clearing agency by the Commission pursuant to proposed Rule 17Ab2-2) in addition to the rules previously adopted that set standards for the operation and governance of registered clearing agencies.<sup>1</sup> As noted above, the Dodd-Frank Act specifically gives the Commission authority to regulate security-based swaps and to adopt regulations addressing risk management standards for designated clearing entities that the Commission regulates. In addition to considering this specific directive in formulating the rules, the Commission believes that applying certain rules to covered clearing agencies will promote financial stability, one of the goals of the Dodd-Frank Act, by facilitating prompt and accurate clearance and settlement of all securities transactions consistent with Section 17A of the Exchange Act while promoting the Dodd-Frank Act’s stated aims of accountability and transparency.

For a clearing agency to be registered under Section 17A of the Exchange Act it must have the ability to facilitate the prompt and accurate clearance and settlement of transactions, safeguard

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<sup>1</sup> See Exchange Act Release 34-71699 (March 12 2014), 79 FR 16866 (March 26, 2014) (“2014 Proposing Release”), available at <http://www.sec.gov/rules/proposed/2014/34-71699.pdf> (herein after “2014 Proposing Release”).

investor funds and securities, remove impediments to and perfect the mechanism of a national clearance and settlement system, and to generally protect investors. Also, the clearing agency's rules must provide adequate access to qualified participants, fair representation of shareholders and participants, equitable pricing, fair discipline of participants, and must not impose any undue burden on competition.

The Commission is adopting amendments to Rule 17Ad-22 in the form of paragraphs (e)(1) through (e)(23) to require covered clearing agencies to establish, implement, maintain and enforce written policies and procedures designed to promote effective risk management procedures and controls as well as meet the statutory requirements under the Exchange Act on an ongoing basis. The Commission believes that the requirements set forth in Rule 17Ad-22(e) aid in the regulation of covered clearing agencies by establishing requirements more closely tailored to the risks such entities pose to the U.S. securities markets. Designated clearing agencies are systemically important because of their significance to the U.S. financial system and the risk that the failure of, or a disruption to, their functioning would increase the risk of significant liquidity or credit problems spreading among financial institutions, thereby threatening the stability of the U.S. financial system. The Commission believes that clearing agencies with a more complex risk profile, such as those providing central counterparty services for security-based swaps, subject the U.S. securities markets to a material level of systemic risk due to the nature of the products they clear. The requirements in Rule 17Ad-22(e) are intended to ensure that covered clearing agencies have robust policies and procedures that help promote sound governance, operations, and risk management. The Commission is also adopting amendments to Rule 17Ad-22(a) to add 14 new definitions in order to define terms relevant to the provisions contained in the rules proposed in paragraphs (e)(1) through (e)(23).

In addition to being subject to rules 17Ad-22(e)(1) through (23), covered clearing agencies will also be subject to the requirements in rules 17Ad-22(b) and (c). Furthermore, the Commission intends that existing Rules 17Ad-22(b), (c) and (d) will apply to registered clearing agencies that are not covered clearing agencies. The Commission notes that establishing separate rules for covered clearing agencies and registered clearing agencies that are not covered clearing agencies is appropriate given the Commission's goals to facilitate the development of a national system for the prompt and accurate clearance and settlement of securities consistent with Section 17A of the Exchange Act and to mitigate systemic risk consistent with Titles VII and VIII of the Dodd-Frank Act. Thus, Rule 17Ad-22(d) will continue to provide minimum requirements for the operation and governance of clearing agencies as well as facilitate the entrance of new participants, as appropriate, into the market for clearance and settlement services. The establishment of consistent standards for registered clearing agencies that offer central counterparty ("CCP") and central securities depository ("CSD") services is an important goal that underpinned the enactment of Section 17A of the Exchange Act. Together, these rules establish minimum standards for the operations and risk management practices for clearing agencies that are consistent with the standards for CCPs and CSDs operating domestically and in other jurisdictions.

At this time, the Commission will not intend for any part of Rule 17Ad-22 to apply to clearing agencies that perform post-trade processing services (i.e., comparison of trade data, collateral management and tear-up/compression). Rules 17Ad-22(b), (c) and (d) will continue to be applicable to registered clearing agencies, and Rules 17Ad-22(b), (c) and (e) will be

applicable to covered clearing agencies, and will not apply to any clearing agencies operating pursuant to an exemption from registration as a clearing agency granted by the Commission, unless the terms of future exemptions specifically contemplate its application, in whole or in part. The Commission clarified this as part of the final Rule 17Ad-22 as adopted in 2012 by adding the word “registered” before the term “clearing agency” appearing in the first instance in paragraphs (b), (c)(1), (c)(2), and (d).<sup>2</sup> For this reason, references to the term “clearing agency” in the 2012 Adopting Release are generally intended to capture only registered clearing agencies, unless the context suggests otherwise. The Commission may consider at a later time whether rules tailored to clearing agencies that provide post-trade processing services would be appropriate.

There are a number of collections of information contained in Rule 17Ad-22. The information collected in these provisions is necessary to carry out the mandates of the Exchange Act, as amended by the Dodd-Frank Act.

The statutory basis for the Rule is as follows: Exchange Act Section 3C, 15 U.S.C. 78c-3; Exchange Act Section 17A, 15 U.S.C. 78q-1; and 12 U.S.C. 5464(a)(2).

## **2. Purpose and Use of the Information Collection**

### **i. Standards for Registered Clearing Agencies**

#### **a. Measurement and Management of Credit Exposures**

Rule 17Ad-22(b)(1) requires a clearing agency that provides CCP services to establish, implement, maintain and enforce written policies and procedures reasonably designed to measure its credit exposures to its participants at least once each day, and limit its exposures to potential losses from defaults by its participants in normal market conditions so that the operations of the clearing agency would not be disrupted and non-defaulting participants would not be exposed to losses that they cannot anticipate or control. The purpose of the collection of information is to enable the clearing agency to monitor and limit its exposures to its participants.

#### **b. Margin Requirements**

Rule 17Ad-22(b)(2) requires a clearing agency that provides CCP services to establish, implement, maintain and enforce written policies and procedures reasonably designed to: (i) use margin requirements to limit its credit exposures to participants in normal market conditions; (ii) use risk-based models and parameters to set margin requirements; and (iii) review the models and parameters at least monthly. The purpose of the collection of information is to enable the clearing agency to maintain sufficient collateral or margin.

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<sup>2</sup> See Exchange Act Release No. 34-68080 (Oct. 22, 2012), 77 FR 66220 (Nov. 2, 2012) (hereinafter “2012 Adopting Release”)

c. Financial Resources

Rule 17Ad-22(b)(3) requires a clearing agency that provides CCP services to establish, implement, maintain and enforce written policies and procedures reasonably designed to maintain sufficient financial resources to withstand, at a minimum, a default by the participant family to which it has the largest exposure in extreme but plausible market conditions, provided that a registered clearing agency acting as a central counterparty for security-based swaps shall maintain additional financial resources sufficient to withstand, at a minimum, a default by the two participant families to which it has the largest exposures in extreme but plausible market conditions, in its capacity as a central counterparty for security-based swaps. The purpose of the collection of information is to enable the clearing agency to satisfy all of its settlement obligations in the event of a participant default.

d. Model Validation

Rule 17Ad-22(b)(4) requires a clearing agency that provides CCP services to establish, implement, maintain and enforce written policies and procedures reasonably designed to provide for an annual model validation consisting of evaluating the performance of the clearing agency's margin models and the related parameters and assumptions associated with such models by a qualified person who is free from influence from the persons responsible for the development or operation of the models being validated. The purpose of the collection of information is to enable the clearing agency to obtain an assessment of its margin model by a qualified, independent person.

e. Non-Dealer Access

Rule 17Ad-22(b)(5) requires a clearing agency that provides CCP services to establish, implement, maintain and enforce written policies and procedures reasonably designed to provide the opportunity for a person that does not perform any dealer or security-based swap dealer services to obtain membership at the clearing agency to clear securities for itself or on behalf of other persons. The purpose of the collection of information is to enable more market participants to obtain indirect access to clearing agencies.

f. Portfolio Size and Transaction Volume Restrictions

Rule 17Ad-22(b)(6) requires a clearing agency that provides CCP services to establish, implement, maintain and enforce written policies and procedures reasonably designed to have membership standards that do not require that participants maintain a portfolio of any minimum size or that participants maintain a minimum transaction volume. The purpose of the collection of information is to remove unnecessary barriers to participation in clearing agencies that provide CCP services.

g. Net Capital Restrictions

Rule 17Ad-22(b)(7) requires a clearing agency that provides CCP services to establish, implement, maintain and enforce written policies and procedures reasonably designed to provide

a person that maintains net capital equal to or greater than \$50 million with the ability to obtain membership at the clearing agency, provided that such persons are able to comply with other reasonable membership standards, with any net capital requirements being scalable so that they are proportional to the risks posed by the participant's activities to the clearing agency. The rule also permits a clearing agency to provide for a higher net capital requirement (i.e., higher than \$50 million) as a condition for membership at the clearing agency if the clearing agency demonstrates to the Commission that such a requirement is necessary to mitigate risks that could not otherwise be effectively managed by other measures, such as scalable limitations on the transactions that the participants may clear through the clearing agency, and the Commission approves the higher net capital requirement as part of a rule filing or clearing agency registration application. The purpose of the collection of information is to remove unnecessary barriers to clearing access by market participants with a net capital level above \$50 million, while at the same time facilitating sound risk management practices by clearing agencies by encouraging them to examine and articulate the benefits that higher net capital requirements would create through having clearing agencies develop scalable membership standards that links the activities any participants could potentially engage in with the potential risks posed by the participant.

h. Record of Financial Resources

Rule 17Ad-22(c)(1) requires that each fiscal quarter (based on calculations made as of the last business day of the clearing agency's fiscal quarter), or at any time upon Commission request, a clearing agency that performs CCP services shall calculate and maintain a record of the financial resources necessary to meet the requirement in Rule 17Ad-22(b)(3) and sufficient documentation to explain the methodology it uses to compute such financial resource requirement. The purpose of the collection of information is to enable the Commission to monitor the financial resources of clearing agencies that provide CCP services.

i. Annual Audited Financial Statements

Rule 17Ad-22(c)(2) requires a clearing agency to post on its website an annual audited financial statement that must (i) be a complete set of financial statements of the clearing agency for the most recent two fiscal years of the clearing agency and be prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP"), except that for a clearing agency that is a corporation or other organization incorporated or organized under the laws of any foreign country, the financial statements may be prepared according to U.S. GAAP or International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS"); (ii) be audited in accordance with standards of the Public Company Accounting Oversight Board by a registered public accounting firm that is qualified and independent in accordance with Rule 2-01 of Regulation S-X (17 CFR 210.2-01); and (iii) include a report of the registered public accounting firm that complies with paragraphs (a) through (d) of Rule 2-02 of Regulation S-X (17 CFR 210.2-02). The purpose of the collection of information is to enable the Commission to monitor the financial resources of clearing agencies that provide CCP services.

j. Transparent and Enforceable Rules and Procedures

Rule 17Ad-22(d)(1) requires clearing agencies to establish, implement, maintain and enforce written policies and procedures reasonably designed to provide for a well-founded, transparent, and enforceable legal framework for each aspect of their activities in all relevant jurisdictions. The purpose of the collection of information is to help ensure that clearing agencies' policies and procedures do not cause confusion or legal uncertainty among their participants because they are unclear, incomplete or conflict with other applicable laws or judicial precedent.

k. Participation Requirements

Rule 17Ad-22(d)(2) has three principle requirements related to establishing, implementing, maintaining and enforcing written policies and procedures for participation requirements. First, it requires clearing agencies to require participants to have sufficient financial resources and robust operational capacity to meet their obligations. The purpose of the collection of information is to enable clearing agencies to ensure that only persons with sufficient financial and operational capacity are direct participants. Second, clearing agencies are required to have procedures in place to monitor that participation requirements are met on an ongoing basis. The purpose of the collection of information is to help clearing agencies identify a participant experiencing financial difficulties before the participant fails to meet its settlement obligations. Third, a clearing agency's participation requirements have to be objective, publicly disclosed, and permit fair and open access. The purpose of the collection of information is to ensure that all qualified persons can access a clearing agency's services on an equivalent basis.

l. Custody of Assets and Investment Risk

Rule 17Ad-22(d)(3) requires clearing agencies to establish, implement, maintain and enforce written policies and procedures reasonably designed to hold assets in a manner that minimizes risk of loss or delay in access to them, and to invest assets in instruments with minimal credit, market, and liquidity risks. The purpose of the collection of information is to enable clearing agencies to access their financial resources quickly so that they settle securities transactions on time and at the agreed upon terms.

m. Identification and Mitigation of Operational Risk

Rule 17Ad-22(d)(4): requires clearing agencies to establish, implement, maintain and enforce written policies and procedures reasonably designed to: (i) identify sources of operational risk and minimize them through the development of appropriate systems, controls, and procedures; (ii) implement systems that are reliable, resilient and secure, and have adequate, scalable capacity; and (iii) have business continuity plans that allow for timely recovery of operations and fulfillment of a clearing agency's obligations. The purpose of the collection of information is to ensure that clearing agencies can maintain operations in the event of an operational problem, natural disaster or other similar event.

n. Money Settlement Risks

Rule 17Ad-22(d)(5) requires clearing agencies to establish, implement, maintain and enforce written policies and procedures reasonably designed to employ money settlement arrangements that eliminate or strictly limit the clearing agency's settlement bank risks, that is, its credit and liquidity risks from the use of banks to effect money settlements with its participants, and require funds transfers to the clearing agency to be final when effected. The purpose of the collection of information is to promote reliability in a clearing agency's settlement operations.

o. Cost-Effectiveness

Rule 17Ad-22(d)(6) requires clearing agencies to establish, implement, maintain and enforce written policies and procedures reasonably designed to be cost-effective in meeting the requirements of participants while maintaining safe and secure operations. The purpose of the collection of information is to help ensure that the services of clearing agencies do not become too expensive.

p. Links

Rule 17Ad-22(d)(7) requires clearing agencies to establish, implement, maintain and enforce written policies and procedures reasonably designed to evaluate the potential sources of risks that can arise when the clearing agency establishes links either cross-border or domestically to clear trades, and ensure that the risks are managed prudently on an ongoing basis. The purpose of the collection of information is to help ensure that clearing agencies adequately assess the risks associated with establishing a link with another clearing organization.

q. Governance

Rule 17Ad-22(d)(8) requires clearing agencies to establish, implement, maintain and enforce written policies and procedures reasonably designed to have governance arrangements that are clear and transparent to fulfill the public interest requirements in Section 17A of the Exchange Act applicable to clearing agencies; to support the objectives of owners and participants; and to promote the effectiveness of the clearing agency's risk management procedures. The purpose of the collection of information is to promote boards of directors that exercise sufficient oversight of the clearing agency's management and appropriately represent the interests of relevant stakeholders.

r. Information on Services

Rule 17Ad-22(d)(9) requires clearing agencies to establish, implement, maintain and enforce written policies and procedures reasonably designed to provide market participants with sufficient information for them to identify and evaluate the risks and costs associated with using their services. The purpose of the collection of information is to help market participants identify the risks and costs associated with using the clearing agency and would allow market participants to make informed decisions about the use of the clearing agency and take



appropriate actions to mitigate their risks and costs associated with the use of the clearing agency.

s. Immobilization and Dematerialization of Stock Certificates

Rule 17Ad-22(d)(10) requires clearing agencies that perform central securities depository services to establish, implement, maintain and enforce written policies and procedures reasonably designed to immobilize or dematerialize securities certificates and transfer them by book entry to the greatest extent possible. The purpose of the collection of information is to enable clearing agencies to promote greater efficiency in the settlement of securities transactions and reduce risk by transferring securities by book entry movements.

t. Default Procedures

Rule 17Ad-22(d)(11) requires clearing agencies to establish, implement, maintain and enforce written policies and procedures reasonably designed to make key aspects of their default procedures publicly available and to establish default procedures that ensure that the clearing agency can take timely action to contain losses and liquidity pressures and to continue meeting its obligations in the event of a participant default. The purpose of the collection of information is to foster a greater understanding by market participants of possible steps a clearing agency may take when a participant defaults and possibly reduce the likelihood of market participants taking actions based on incorrect information.

u. Timing of Settlement Finality

Rule 17Ad-22(d)(12) requires clearing agencies to establish, implement, maintain and enforce written policies and procedures reasonably designed to ensure that final settlement occurs no later than the end of the settlement day and require that intraday or real-time finality be provided where necessary to reduce risks. The purpose of the collection of information is to promote consistent standards of timing and reliability in the settlement process.

v. Delivery Versus Payment

Rule 17Ad-22(d)(13) requires clearing agencies to establish, implement, maintain and enforce written policies and procedures reasonably designed to eliminate principal risk by linking securities transfers to funds transfers in a way that achieves delivery versus payment. The purpose of the collection of information is to eliminate principal risk in the transfer of securities and funds.

w. Risk Controls to Address Participant's Failure to Settle

Rule 17Ad-22(d)(14) requires clearing agencies that perform central securities depository services and extend intraday credit to participants to establish, implement, maintain and enforce written policies and procedures reasonably designed to institute risk controls, including collateral requirements and limits to cover the clearing agency's credit exposure to each participant fully, and ensure timely settlement in the event that the participant with the largest payment obligation

is unable to settle. The purpose of the collection of information is to enable clearing agencies to satisfy their settlement obligations on time and for the agreed upon terms.

x. Identification and Management of Physical Delivery Risks

Rule 17Ad-22(d)(15) requires clearing agencies to establish, implement, maintain and enforce written policies and procedures reasonably designed to state to their participants the clearing agency's obligations with respect to physical deliveries and to identify and manage the risks that arise in connection with these obligations. The purpose of the collection of information is to provide the clearing agency's participants with sufficient information to evaluate the risks and costs associated with participation in the clearing agency.

ii. Standards for Covered Clearing Agencies

a. Legal Risk

Rule 17Ad-22(e)(1) requires covered clearing agencies to establish, implement, maintain and enforce written policies and procedures designed to provide for a well-founded, clear, transparent, and enforceable legal basis for each aspect of its activities in all relevant jurisdictions. The purpose of this information collection is to reduce the potential for legal risk at covered clearing agencies, such as the risk that participants face legal uncertainty due to a lack of clarity or completeness regarding conflicts with applicable laws.

b. Governance

Rule 17Ad-22(e)(2) requires covered clearing agencies to establish, implement, maintain and enforce written policies and procedures designed to provide for governance arrangements that are clear and transparent, clearly prioritize the safety and efficiency of the covered clearing agency, support the public interest requirements in Section 17A of the Exchange Act and the objectives of owners and participants, and consider the interests of participants' customers, securities issuers and holders, and other relevant stakeholders of the clearing agency. Rule 17Ad-22(e)(2) further requires covered clearing agencies to provide for governance arrangements establishing that the board of directors and senior management have appropriate experience and skills to discharge their duties and responsibilities and that specify clear and direct lines of responsibility. The purpose of this information collection is to prioritize the safety and efficiency of covered clearing agencies, to help ensure that each covered clearing agency's governance arrangements consider the interests of the relevant stakeholders, to promote the establishment of boards of directors at covered clearing agencies that are composed of qualified members with clear and direct lines of responsibility, and to promote accountability of the board of directors and senior management.

c. Comprehensive Risk Management Framework

Rule 17Ad-22(e)(3) requires covered clearing agencies to establish, implement, maintain and enforce written policies and procedures reasonably designed to maintain a sound risk management framework for comprehensively managing legal, credit, liquidity, operational,

general business, investment, custody, and other risks that arise in or are borne by the covered clearing agency, including policies and procedures designed to identify, measure, monitor, and manage these risks that are reviewed and approved by the board of directors annually, and to have a plans for the recovery and orderly wind-down of the covered clearing agency in the event of credit losses, liquidity shortfalls, losses from general business risk, or any other losses. The purpose of the collection of information is to facilitate the development of mechanisms to better prioritize, manage, and monitor risks, and to measure the covered clearing agency's risk tolerance and capacity, Rule 17Ad-22(e)(3) also requires covered clearing agencies to establish, implement, maintain and enforce written policies and procedures reasonably designed to provide risk management and internal audit personnel with sufficient authority, resources, independence from management and access to the board of directors, and provide risk management and internal audit personnel with direct reporting lines to, and oversight by a risk management committee and an independent audit committee of the board of directors. The purpose of this information collection is to enhance each covered clearing agency's ability to identify, monitor, and manage the risks that covered clearing agencies face, including by subjecting the relevant policies and procedures to regular review, and to facilitate an orderly recovery and wind-down process in the event that a covered clearing agency is unable to continue operating as a going concern.

d. Credit Risk

Rule 17Ad-22(e)(4) requires covered clearing agencies to establish, implement, maintain and enforce written policies and procedures reasonably designed to effectively identify, measure, monitor, and manage the covered clearing agency's credit exposures to participants and exposures arising from payment, clearing, and settlement processes. Specifically, Rule 17Ad-22(e)(4) requires covered clearing agencies to establish, implement, maintain and enforce written policies and procedures reasonably designed to (i) maintain sufficient financial resources to cover credit exposure to each participant fully with a high degree of confidence; (ii) for covered clearing agencies that provide central counterparty services and that are either systemically important in multiple jurisdictions or are involved in activities with a more complex risk profile, maintain additional financial resources at the minimum to enable the covered clearing agency to cover a wide range of foreseeable stress scenarios, including the default of the participant family that would potentially cause the largest aggregate credit exposure for the covered clearing agency in extreme but plausible market conditions; and (iii) to maintain additional financial resources at a minimum level necessary to enable the covered clearing agency to cover a wide range of foreseeable stress scenarios, including but not limited to the default of the two participant families that would potentially cause the largest aggregate credit exposure for the covered clearing agency in extreme but plausible market conditions.

Additionally, Rule 17Ad-22(e)(4) requires covered clearing agencies that provide central counterparty services that are either systemically important in multiple jurisdictions or involved in activities with a more complex risk profile to establish, implement, maintain and enforce written policies and procedures reasonably designed to include prefunded financial resources when calculating the required financial resources, and to maintain such financial resources in combined or separately maintained clearing or guaranty funds. Rule 17Ad-22(e)(4) also requires covered clearing agencies to establish, implement, maintain and enforce written policies

and procedures reasonably designed to test the sufficiency of its total financial resources available to meet the minimum financial resource requirements discussed above by (A) conducting a stress test of its total financial resources at least once each day; (B) conducting a comprehensive analysis on at least a monthly basis of the existing stress testing scenarios, models, and underlying parameters and assumptions; (C) conducting a comprehensive analysis of stress testing scenarios, models, and underlying parameters and assumptions more frequently than monthly when the products cleared or markets served display high volatility or become less liquid, or when the size or concentration of positions held by the covered clearing agency's participants increases significantly; (D) reporting the results of its analyses in these sections to appropriate decision makers at the covered clearing agency and using these results to evaluate the adequacy of and adjust its margin methodology, model parameters, models used to generate clearing or guaranty fund requirements, and any other relevant aspects of its credit risk management framework. Rule 17Ad-22(e)(4) also requires covered clearing agencies to establish, implement, maintain, and enforce written policies and procedures reasonably designed to perform a model validation for its credit risk models performed not less than annually or more frequently as may be contemplated by the covered clearing agency's risk management framework, and to address allocation of credit losses the covered clearing agency may face if its collateral and other resources are insufficient to fully cover its credit exposures.

The purpose of this information collection is to identify and limit credit exposures to participants and to satisfy all of its settlement obligations in the event of a participant default, to address the allocation of credit losses if collateral and other resources are insufficient to fully cover its credit exposures following a participant default, and to describe the covered clearing agency's process to replenish financial resources following such a default.

e. Collateral

Rule 17Ad-22(e)(5) requires covered clearing agencies to establish, implement, maintain and enforce written policies and procedures reasonably designed to limit the assets the covered clearing agency accepts as collateral to those with low credit, liquidity, and market risks. Rule 17Ad-22(e)(5) also requires policies that set and enforce appropriately conservative haircuts and concentration limits if the covered clearing agency requires collateral to manage its own or its participants' credit exposures. Rule 17Ad-22(e)(5) also requires covered clearing agencies to establish, implement, maintain and enforce written policies and procedures reasonably designed to provide for an not-less-than-annual review of the sufficiency of a covered clearing agency's collateral haircuts and concentration limits. The purpose of this collection of information is to reduce the likelihood that assets securing participant obligations to the covered clearing agency would be unavailable or insufficient when the covered clearing agency needs to draw on them and thereby ensure that covered clearing agencies are able to meet their settlement obligations.

f. Margin

Rule 17Ad-22(e)(6) requires covered clearing agencies that provide central counterparty services to establish, implement, maintain, and enforce written policies and procedures reasonably designed to cover credit exposures to the covered clearing agency's participants by establishing a risk-based margin system that is monitored by management on an ongoing basis

and regularly reviewed, tested and verified. Such margin system must be designed to (i) produce margin levels that are commensurate with the risks associated with products, portfolios and markets; (ii) mark participant positions to market and collect variation margin at least daily; (iii) calculate margin sufficient to cover potential future exposures to participants; (iv) use reliable sources of timely price data; (v) be tested and verified through backtests of margin resources conducted at least once each day; (vi) provide for a sensitivity analysis on at least a monthly basis with reports of such analysis provided to appropriate decision makers; and (vii) provide for a model validation to be performed not less than annually. The purpose of the information collection is to enable a covered clearing agency to be able to collect sufficient margin subject to regular sensitivity analysis, monthly backtesting, and an annual model validation.

g. Liquidity Risk

Rule 17Ad-22(e)(7) requires covered clearing agencies to establish, implement, maintain and enforce written policies and procedures reasonably designed to effectively measure, monitor, and manage the liquidity risk that arises in or is borne by the covered clearing agency. In order to comply with this rule, covered clearing agencies must, at a minimum, comply with several requirements, which include: (i) maintaining sufficient liquid financial resources in all relevant currencies to effect settlement of payment obligations; (ii) holding qualifying liquid resources sufficient to meet the minimum liquidity in each relevant currency for which the covered clearing agency has payment obligations owed to clearing members; (iii) using access to accounts and services at a Federal Reserve Bank or other relevant central bank, when available and where determined to be practical; (iv) undertaking due diligence to confirm that the covered clearing agency has a reasonable basis to believe each liquidity provider understands and its own liquidity risks, and has capacity to perform as required under its commitments to provide liquidity; (v) maintaining and, on at least an annual basis, testing with each liquidity provider, to the extent practicable, its procedures and operational capacity for accessing each type of relevant liquidity resource; (vi) conducting daily stress tests of liquidity resources, comprehensive monthly analyses of existing stress test scenarios and reporting the results of such tests to appropriate decision makers, and a conforming model validation not less than annually; (vii) addressing foreseeable liquidity shortfalls and describing the process to replenish liquidity resources that are used during a stress event; and (viii) conducting an annual analysis regarding the feasibility of maintaining additional financial resources sufficient to withstand, at a minimum, a default by the two participant families to which it has the largest exposures in extreme but plausible market conditions if the covered clearing agency provides central counterparty services and is either systemically important in multiple jurisdictions or is involved in activities with a more complex risk profile.

The purpose of this information collection is to identify and limit liquidity risk so that a covered clearing agency can satisfy its settlement obligations on an ongoing and timely basis by holding a sufficient amount of qualifying liquid resources and performing regular stress testing of its liquid resources. The purpose of this information collection is also to help ensure that a covered clearing agency addresses foreseeable liquidity shortfalls and can replenish any liquid resources that it may employ in a stress event. The purpose of this information collection is also to help ensure that a covered clearing agency manages the risks posed by its liquidity providers.

h. Settlement Finality

Rule 17Ad-22(e)(8) would require covered clearing agencies to establish, implement, maintain and enforce written policies and procedures reasonably designed to define the point at which settlement is final no later than the end of the day on which the payment or obligation is due and, where necessary or appropriate, intraday or in real time. The purpose of the collection of information is to promote consistent standards of timing and reliability in the settlement process.

i. Money Settlements

Rule 17Ad-22(e)(9) would require covered clearing agencies to establish, implement, maintain and enforce written policies and procedures reasonably designed to ensure the covered clearing agency conducts its money settlements in central bank money, where available and determined to be practical by the board of directors of the covered clearing agency, and minimizes and manages credit and liquidity risk arising from conducting its money settlements in commercial bank money if central bank money is not used by the covered clearing agency. The purpose of the collection of information is to promote reliability in a clearing agency's settlement operations.

j. Physical Delivery Risks

Rule 17Ad-22(e)(10) would require covered clearing agencies to establish, implement, maintain and enforce written policies and procedures reasonably designed to establish and maintain transparent written standards that state the covered clearing agency's obligations with respect to the delivery of physical instruments and operational practices that identify, monitor, and manage the risk associated with such physical deliveries. The purpose of this information collection is to provide a covered clearing agency's participants with the information necessary to evaluate the risks and costs associated with participation in the covered clearing agency.

k. Central Securities Depositories

Rule 17Ad-22(e)(11) requires covered clearing agencies that are central securities depositories ("covered CSDs") to establish, implement, maintain and enforce written policies and procedures reasonably designed to maintain securities in an immobilized or dematerialized form for their transfer by book entry, ensure the integrity of securities issues, and minimize and manage the risk associated with the safekeeping and transfer of securities. Rule 17Ad-22(e)(11) also requires covered CSDs to implement internal auditing and other controls to safeguard the rights of securities issuers and holders and prevent the unauthorized creation or deletion of securities, as well as to conduct periodic, and at least daily, reconciliations of securities issues that the covered CSD maintains. Finally, Rule 17Ad-22(e)(11) requires covered CSDs to protect assets against custody risk. The purpose of this information collection is to reduce securities transfer processing costs and the risks associated with securities settlement and custody, as well as increase the speed and efficiency of the settlement process.

1. Exchange-of-Value Settlement Systems

Rule 17Ad-22(e)(12) requires covered clearing agencies to establish, implement, maintain and enforce written policies and procedures reasonably designed to eliminate principal risk by conditioning the final settlement of one obligation upon the final settlement of the other, regardless of whether the covered clearing agency settles on a gross or net basis and when finality occurs. The purpose of this information collection is to promote the elimination of principal risk in transactions with linked obligations.

m. Participant Default

Rule 17Ad-22(e)(13) requires covered clearing agencies to establish, implement, maintain and enforce written policies and procedures reasonably designed to ensure that the covered clearing agency has the authority and operational capacity to take timely action to contain losses and liquidity demands and continue to meet its obligations in the event of a participant default, to address the allocation of credit losses if the covered clearing agency's collateral and other resources are insufficient to fully cover credit exposures, and to describe the covered clearing agency's process to replenish any financial resources it may use following a member default or other event in which use of such resources occurs. The purpose of this information collection is to facilitate the functioning of a covered clearing agency in the event that a participant fails to meet its obligations, as well as limit the extent to which a participant's failure can spread to other participants or the covered clearing agency itself.

n. Segregation and Portability

Rule 17Ad-22(e)(14) requires covered clearing agencies that provide central counterparty services for security-based swaps or that engage in activities that the Commission has determined to have a more complex risk profile to establish, implement, maintain and enforce written policies and procedures reasonably designed to enable the segregation and portability of positions of a member's customers and the collateral provided to the covered clearing agency with respect to those positions, and effectively protect such positions and related collateral from the default or insolvency of that member. The purpose of this information collection is to facilitate the safe and effective holding and transfer of customers' positions and collateral in the event of a participant's default or insolvency.

o. General Business Risk

Rule 17Ad-22(e)(15) requires covered clearing agencies to establish, implement, maintain and enforce written policies and procedures reasonably designed to identify, monitor, and manage general business risk, determine the appropriate amount of liquid net assets funded by equity based upon its general business risk profile and the length of time required to achieve a recovery or orderly wind-down of critical services and to hold liquid net assets funded by equity equal to the greater of either (a) six months of the covered clearing agency's current operating expenses, or (b) the amount determined by the board of directors to be sufficient to ensure a recovery or orderly wind-down of critical operations and services of the covered clearing agency. Additionally, Rule 17Ad-22(e)(15) also requires covered clearing agencies to establish,

implement, maintain and enforce written policies and procedures reasonably designed to ensure that the covered clearing agency maintains a viable plan, approved by the board of directors and updated annually, for raising additional equity should its equity fall close to or below the required amount. The purpose of this information collection is to mitigate the potential impairment of a covered clearing agency as a result of a decline in revenues or increase in expenses.

p. Custody and Investment Risks

Rule 17Ad-22(e)(16) requires a covered clearing agency to establish, implement, maintain and enforce written policies and procedures reasonably designed to safeguard its own and its participants' assets and minimize the risk of loss and delay in access to these assets and to invest such assets in instruments with minimal credit, market, and liquidity risks. The purpose of this information collection is to improve the ability of a covered clearing agency to meet its settlement obligations.

q. Operational Risk Management

Rule 17Ad-22(e)(17) requires covered clearing agencies to establish, implement, maintain and enforce written policies and procedures reasonably designed to manage the covered clearing agency's operational risk by identifying the plausible sources of operational risk, both internal and external, and to mitigate the impact of such risks through the use of appropriate systems, policies, procedures, and controls. Covered clearing agencies are also required to ensure that the covered clearing agency's systems have a high degree of security, resiliency, operational reliability and scalable capacity, and to establish and maintain a business continuity plan that addresses events that pose a significant risk of disruption to operations. The purpose of the collection of information is to ensure that covered clearing agencies can maintain operations in the event of an operational problem, natural disaster or other similar event.

r. Access and Participation Requirements

Rule 17Ad-22(e)(18) requires covered clearing agencies to establish, implement, maintain and enforce written policies and procedures reasonably designed to establish objective, risk-based, and publicly disclosed criteria for participation, which permit fair and open access by direct and, where relevant, indirect participants and other FMUs, and which require participants to have sufficient financial resources and robust operational capacity to meet obligations arising from participation in the clearing agency. The purpose of the collection of information is to ensure that covered clearing agencies provide fair and open access to all parties meeting the objective criteria for participation and thereby promote membership standards that are likely to limit the potential for member defaults while also enabling more market participants to obtain indirect access to covered clearing agencies. Rule 17Ad-22(e)(18) also requires covered clearing agencies to monitor compliance with such participation requirements on an ongoing basis. The purpose of this information collection is to enable a covered clearing agency to ensure that only entities with sufficient financial and operational capacity are direct participants in the covered clearing agency, while still ensuring that all qualified persons can access a covered clearing agency's services. The purpose of this information collection is also to enable a covered clearing



agency to monitor that participation requirements are met on an ongoing basis and to identify a participant experiencing financial difficulties before the participant fails to meet its settlement obligations.

s. Tiered Participation Agreements

Rule 17Ad-22(e)(19) requires covered clearing agencies to establish, implement, maintain and enforce written policies and procedures reasonably designed to identify, monitor and manage the material risks to the covered clearing agency arising from arrangements in which firms that are indirect participants in the covered clearing agency rely on the services provided by direct participants in the covered clearing agency to access the covered clearing agency's payment, clearing, or settlement facilities. The purpose of this information collection is to enable a covered clearing agency to identify and manage risks posed by non-member entities, such as the customers of clearing members.

t. Links

Rule 17Ad-22(e)(20) requires covered clearing agencies to establish, implement, maintain and enforce written policies and procedures reasonably designed to identify, monitor, and manage risks related to any link with one or more other clearing agencies, FMUs, or trading markets. The purpose of this information collection is to enable a covered clearing agency to identify and manage risks posed by linkages to other entities, such as other clearing agencies, FMUs, or trading markets.

u. Efficiency and Effectiveness

Rule 17Ad-22(e)(21) requires covered clearing agencies to establish, implement, maintain and enforce written policies and procedures reasonably designed to ensure that the covered clearing agency is efficient and effective in meeting the requirements of its participants and the markets it serves. The purpose of the collection of information is to ensure the efficient use of resources by a clearing agency to perform its functions so that the services of the covered clearing agencies do not become too expensive. Rule 17Ad-22(e)(21) further requires a covered clearing agency's management to regularly review the efficiency and effectiveness of its (i) clearing and settlement arrangements; (ii) operating structure, including risk management policies, procedures, and systems; (iii) scope of products cleared, settled, or recorded; and (iv) use of technology and communication procedures. The purpose of this information collection is to ensure that the services provided by a covered clearing agency do not become inefficient and to promote the sound operation of a covered clearing agency.

v. Communication Procedures and Standards

Rule 17Ad-22(e)(22) requires a covered clearing agency to establish, implement, maintain and enforce written policies and procedures reasonably designed to ensure that it uses, or at a minimum accommodates, relevant internationally accepted communication procedures and standards in order to facilitate efficient payment, clearing, and settlement. The purpose of this information collection is to ensure the prompt and accurate clearance and settlement of

securities transactions by enabling participants to communicate with a clearing agency in a timely, reliable, and accurate manner.

w. Disclosure of Rules, Key Procedures, and Market Data

Rule 17Ad-22(e)(23) requires covered clearing agencies to establish, implement, maintain and enforce written policies and procedures reasonably designed to maintain clear and comprehensive rules and procedures that provide for the following disclosures: (i) Publicly disclosing all relevant rules and material procedures, including key aspects of its default rules and procedures; (ii) Providing sufficient information to enable participants to identify and evaluate the risks, fees, and other material costs they incur by participating in the covered clearing agency; (iii) Publicly disclosing relevant basic data on transaction volume and values; and (iv) Providing a comprehensive public disclosure of its material rules, policies, and procedures regarding governance arrangements and legal, financial, and operational risk management, accurate in all material respects at the time of publication. The purpose of the collection of information is to facilitate the supervision of covered clearing agencies and provide relevant stakeholders with information regarding the risks associated with participation in a covered clearing agency. Rule 17Ad-22(e)(23) also requires covered clearing agencies to establish, implement, maintain and enforce written policies and procedures reasonably designed ensure the comprehensive public disclosure required under proposed Rule 17Ad-22(e)(23) is updated not less than every two years, or more frequently following changes to its system or the environment in which it operates to the extent necessary, to ensure statements previously provided remain accurate in all material respects. The purpose of this information collection is to ensure that participants and prospective participants in a covered clearing agency are provided with a complete picture of the covered clearing agency's operations and risk management so that they can understand the risks and responsibilities of participation in the covered clearing agency.

**3. Consideration of Information Technology**

The Rule is drafted to utilize as much information technology as possible in collecting the information. Over time, the Commission expects that the burden will be reduced due to future technology enhancements. The Commission is not aware of any technical or legal obstacles to reducing the burden through the use of improved information technology.

**4. Duplication**

Section 712(a)(2) of the Dodd-Frank Act provides that, before commencing any rulemaking regarding, among other things, clearing agencies with regard to security-based swaps, the Commission must consult and coordinate with the Commodity Futures Trading Commission ("CFTC") and other prudential regulators for the purposes of assuring regulatory consistency and comparability, to the extent possible. The Commission staff and the CFTC staff have consulted and coordinated with one another regarding their respective Commissions' rules regarding clearing agencies as mandated by the Dodd-Frank Act. The Commission staff has also consulted and coordinated with other prudential regulators. The Rule does not duplicate information required to be collected elsewhere.

**5. Effect on Small Entities**

The Rule would not affect any small entities.

**6. Consequences of Not Conducting Collection**

The Dodd-Frank Act enacted sweeping reforms in the financial system, including FMUs such as clearing agencies. It also charged the Commission with significant duties in carrying out these reforms. The consequences of not conducting collections of information or any less frequent collections of information pursuant to the Rule would significantly impair the Commission's ability to carry out its statutory obligations under the Exchange Act, as amended by Titles VII and VIII of the Dodd-Frank Act.

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

There are no special circumstances. The information collection is consistent with the general information collection guidelines imposed for public protection as set forth in 5 CFR 1320.5(d)(2).

**8. Consultations Outside the Agency**

The Commission has issued releases soliciting comment on the "collection of information" requirements and associated paperwork burdens.<sup>3</sup> Comments for the 2014 Proposing Release were due by May 27, 2014. The Commission received 17 comment letters regarding the 2014 Proposing Release, which did not address the burden of regulation. The comments received on the 2014 Proposing Release are posted on the Commission's public website, and are available at <https://www.sec.gov/comments/s7-03-14/s70314.shtml>.

**9. Payment or Gift**

Not applicable.

**10. Confidentiality**

The collection of information relating to the standards for covered clearing agencies in Rule 17Ad-22(e) would not require disclosure of information to the Commission staff. However, the collection of information relating to the public disclosure of all relevant rules and material procedures, basic data on transaction volumes and values, and providing comprehensive

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<sup>3</sup> See Exchange Act Release No. 34-64017 (Mar. 3, 2011), 76 FR 14472 (Mar. 16, 2011) ("2011 Proposing Release"), available at <http://www.sec.gov/rules/proposed/2011/34-64017fr.pdf>. See also Exchange Act Release No. 34-71699 (March 12, 2014), 78 FR 16866, (Mar. 26, 2014) ("2014 Proposing Release"), available at <http://www.sec.gov/rules/proposed/2014/34-71699.pdf>.

public disclosure of information related to governance arrangements, and legal, financial and operational risk management under Rule 17Ad-22(e)(23) is subject to public availability.

## **11. Sensitive Questions**

The collections of information do not expressly include Personally Identifiable Information (“PII”). At the same time, however, Commission staff understands that there may be instances when certain information (including, but not limited to, a person’s name, email, phone number, or address) could be provided by a respondent in response to one of the collections of information. However, Commission staff does not envision any circumstance in which a social security number would be provided pursuant to any of the collections of information.

Furthermore, any such information would not be collected, stored, or used by the Commission, nor would it be retrievable on a Commission system or database. As such, we believe that the treatment of any PII with the collection of information associated with the adopted rules is not likely to implicate the Federal Information Security Management Act of 2002 or the Privacy Act of 1974.

## **12. Burden of Information Collection**

### **i. Burden of Information Collection for Registered Clearing Agencies**

For the burden of information collection for registered clearing agencies that are not covered clearing agencies, Rules 17Ad-22(b)(1)–(3) and Rules 17Ad-22(d)(1)–(15) are discussed together because these rules represent usual and customary practices that were already being implemented by registered clearing agencies. Because Rules 17Ad-22(b)(4), (b)(5)–(7) and (c), respectively established new minimum practices for registered clearing agencies with regard to model validation, membership practices and certain financial information, the 2012 Adopting Release discussed these rules separately.

#### **a. Number of Respondents**

##### **Standards in Rules 17Ad-22(b)(1)-(3) and (d)(1)-(15) that Impose a PRA Burden**

The Commission believes that the standards in Rule 17Ad-22(b)(1)-(3) and (d)(1)-(15) impose a PRA burden. Generally, registered clearing agencies already have written policies and procedures that meet the standards set forth in Rules 17Ad-22(b)(1)–(3) and (d)(1)–(15) as part of their usual and customary business practice. Accordingly, the Commission believes that the registered clearing agencies would not need to build new infrastructure or modify operations to continue to meet Rule 17Ad-22(b)(1)–(3) and (d)(1)–(15). For these provisions, the Commission estimates that there would be nine respondent clearing agencies for Rules 17Ad-22(b)(1)-(3) and four respondent clearing agencies for Rules (d)(1)-(15).

##### **Standards in Rule 17Ad-22(b)(4) that Impose a PRA Burden**

The requirement to develop written policies and procedures in Rule 17Ad-22(b)(4) imposes a PRA burden. The requirement in Rule 17Ad-22(b)(4) apply to all CCPs. As discussed above, the Commission estimates that nine CCPs are subject to the burdens under Rule 17Ad-22(b)(4).

#### Standards in Rules 17Ad-22(b)(5)-(7) that Impose a PRA Burden

The requirements to develop written policies and procedures in Rules 17Ad-22(b)(5)–(7) impose a PRA burden. These PRA burdens apply to all CCPs. The Commission estimates that nine CCPs are subject to the burdens under Rules 17Ad-22(b)(5)–(7). The Commission believes that CCPs are more likely to be able to address the changes required by Rules 17Ad-22(b)(5)–(7) in an integrated, not piecemeal, review and drafting process to implement policies and procedures responsive to these rules. Therefore, the revised PRA burden estimates no longer account for each requirement as a separate burden.

#### Standards in Rule 17Ad-22(c) that Impose a PRA Burden

The standards in Rule 17Ad-22(c) impose a PRA burden. The requirements of Rule 17Ad-22(c) apply to all registered clearing agencies (ten respondent clearing agencies).

#### Standards in Rule 17Ad-22(c)(1) that Impose a PRA Burden

The standards in Rule 17Ad-22(c)(1) impose a PRA burden. The requirements of Rule 17Ad-22(c)(1) apply to CCPs (nine respondent CCPs).

#### Standards in Rule 17Ad-22(c)(2) that Impose a PRA Burden

The standards in Rule 17Ad-22(c)(2) impose a PRA burden. The requirements of Rule 17Ad-22(c)(2) apply to all registered clearing agencies (ten respondent clearing agencies).

#### b. Source of Estimates, Annual Hour Burden, and Explanation of Estimates

#### Standards in Rules 17Ad-22(b)(1)–(3) and (d)(1)–(15) that Impose a PRA Burden

The requirements to develop written policies and procedures in Rules 17Ad-22(b)(1)–(3) and Rules 17Ad-22(d)(1)–(15) impose a recordkeeping PRA burden. The requirements in Rules 17Ad-22(b)(1)–(3) will apply to CCPs that are registered clearing agencies and Rules 17Ad-22(d)(1)–(15) will apply to CCPs that are registered clearing agencies but that are not covered clearing agencies. The Commission estimates that a total of nine CCPs<sup>4</sup> are subject to the burdens under Rules 17Ad-22(b)(1)–(3). Currently, there are seven clearing agencies registered

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<sup>4</sup> The Commission believes that there is a potential for new security-based swap clearing agencies to form but does not expect there to be a large number based on the significant level of capital and other financial resources needed for the formation of a clearing agency.

to provide CCP services and two more entities could register as clearing agencies to provide CCP services. The requirements in Rules 17Ad-22(d)(1)-(15) (with the exception of Rules 17Ad-22(d)(10) and (13)-(15), which are applicable only to CSDs), on the other hand, apply to all registered clearing agencies that are not covered clearing agencies, of which there could potentially be a total of four entities.

At the time Rules 17Ad-22(b)(1)-(3) and (d)(1)-(15) were adopted, registered clearing agencies already had written policies and procedures meeting the standards set forth in those rules as part of their usual and customary business practice. Accordingly, the Commission believed that the registered clearing agencies would not need to build new infrastructure or modify operations to meet the requirements of Rule 17Ad-22(b)(1)-(3) and (d)(1)-(15). The Commission believed that these registered clearing agencies would incur incremental burdens associated with reviewing existing policies and procedures for compliance and updating existing policies and procedures where appropriate. The Commission estimates that the requirements of Rules 17Ad-22(b)(1)-(3) would impose an aggregate one-time burden of 261 hours<sup>5</sup> and (d)(1)-(15) would impose an aggregate one-time burden of approximately 584 hours for all registered clearing agencies.<sup>6</sup> The standards contained in Rules 17Ad-22(b)(1)-(3) and (d)(1)-(15) would also impose ongoing burdens. For example, Rules 17Ad-22(b)(1)-(3) and (d)(1)-(15) would impose certain ongoing monitoring and enforcement activities with respect to the written policies and procedures the registered clearing agency creates in response to the standard. Accordingly, after the first year, the Commission believes that those ongoing activities would impose an aggregate annual burden of approximately 90 hours for Rules 17Ad-22(b)(1)-(3)<sup>7</sup> for all respondent clearing agencies and 200 hours for Rules 17Ad-22(d)(1)-(15) for all respondent clearing agencies that are not covered clearing agencies.<sup>8</sup> In order to estimate the one-time burden and annual burden for ongoing activities, the Commission looked to the burdens imposed by similar policies and procedures requirements in Regulation NMS as a guide and adapted those figures for the purposes of this release.<sup>9</sup>

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<sup>5</sup> This figure was calculated as follows: ((Assistant General Counsel at 10 hours) + (Compliance Attorney at 14 hours) + (Computer Operations Manager at 2.5 hours) + (Senior Business Analyst at 2.5 hours)) = 29 hours x 9 respondent clearing agencies = 261 hours.

<sup>6</sup> This figure was calculated as follows: ((Assistant General Counsel at 50 hours) + (Compliance Attorney at 71 hours) + (Computer Operations Manager at 12.5 hours) + (Senior Business Analyst at 12.5 hours)) = 146 hours x 4 respondent clearing agencies = 584 hours.

<sup>7</sup> This figure was calculated as follows: Compliance Attorney at 10 hours x 9 respondent clearing agencies = 90 hours.

<sup>8</sup> This figure was calculated as follows: Compliance Attorney at 50 hours x 4 respondent clearing agencies = 200 hours.

<sup>9</sup> See Exchange Act Release Nos. 51808 (June 9, 2005), 70 FR 37496 (June 29, 2005)

**In summary, the Commission estimates that, over a three-year period, the total recordkeeping burden to comply with Rules 17Ad-22(b)(1)–(3) would be 441 hours, or 147 hours per year when annualized over three years.<sup>10</sup> The Commission estimates that, over a three-year period, the total recordkeeping burden to comply with Rules 17Ad-22(d)(1)–(15) would be 984 hours, or 328 hours per year when annualized over three years.<sup>11</sup> The reporting burden per respondent for Rules 17Ad-22(b)(1)–(3) would be approximately 49 hours, or approximately 16.33 hours per year when annualized over three years.<sup>12</sup> The reporting burden per respondent for Rules 17Ad-22(d)(1)–(15) would be approximately 246 hours, or approximately 82 hours per year when annualized over three years.<sup>13</sup>**

#### Standards in Rule 17Ad-22(b)(4) that Impose a PRA Burden

The requirement to develop written policies and procedures in Rule 17Ad-22(b)(4) imposes a recordkeeping PRA burden. The requirement in Rule 17Ad-22(b)(4) apply to all registered clearing agencies that provide CCP services. The Commission estimates that nine CCPs are subject to the burdens under Rule 17Ad-22(b)(4).

The Commission estimates that Rule 17Ad-22(b)(4) imposes a one-time burden on each respondent CCP of 210 hours in connection with the requirement to develop new policies and procedures, corresponding to an aggregate one-time burden on all respondent CCPs of 1,890 hours.<sup>14</sup>

Rule 17Ad-22(b)(4) requires one-time systems adjustments related to the capability to perform an annual model validation. These adjustments would amount to a one-time systems

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(discussing, in Section VIII.A.4, the time needed from legal, compliance, information technology and business operations personnel to create policies and procedures for preventing and monitoring trade-throughs).

<sup>10</sup> 9 respondents \* (29 hours (Year 1 burden) + 10 hours (Year 2 burden) + 10 hours (Year 3 burden)) = 441 hours (estimate total burden over 3 years) ÷ 3 years = 147 hours.

<sup>11</sup> 4 respondents \* (146 hours (Year 1 burden) + 50 hours (Year 2 burden) + 50 hours (Year 3 burden)) = 984 hours (estimated total burden over 3 years) ÷ 3 years = 328 hours.

<sup>12</sup> 441 hours (total burden over three years) ÷ 9 respondents = 49 hours (estimated total burden over 3 years) ÷ 3 years = 16.33 hours.

<sup>13</sup> 984hours (total burden over three years) ÷ 4 respondents = 246 hours (estimated total burden over 3 years) ÷ 3 years = 82 hours.

<sup>14</sup> This figure was calculated as follows: ((Assistant General Counsel at 87 hours) + (Compliance Attorney at 77 hours) + (Computer Operations Manager at 23 hours) + (Senior Business Analyst at 23 hours)) = 210 hours x 9 respondent CCPs = 1890 hours.

adjustment burden per respondent of 100 hours, or an aggregate one-time burden of approximately 900 hours.<sup>15</sup>

Taking into account the afore-mentioned policies and procedures one-time burden, the total one-time burden per CCP respondent for this rule is 310 hours.<sup>16</sup>

Registered clearing agencies providing CCP services are also required to collect information relating to their model validation standards required by Rule 17Ad-22(b)(4) on an ongoing basis. The Commission expects that the exact burden of administering the procedures for model validation standards would vary depending on how frequently each of the registered clearing agencies that offer CCP services may need to update its procedures. Based on the analogous policies and procedures requirements and the corresponding burden estimates in Regulation NMS, the Commission estimates that the ongoing requirements of this rule after the first year would impose an annual burden of 60 hours on each respondent CCP, corresponding to an aggregate annual burden for all respondent CCPs of 540 hours.<sup>17</sup>

**In summary, the Commission estimates that, over a three-year period, the total recordkeeping burden to comply with Rule 17Ad-22(b)(4) would be 3,870 hours, or 1,290 hours per year when annualized over three years.<sup>18</sup> The reporting burden per respondent would be approximately 430 hours, or approximately 143.33 hours per year when annualized over three years.<sup>19</sup>**

#### Standards in Rules 17Ad-22(b)(5)–(7) that Impose a PRA Burden

The requirements to develop written policies and procedures in Rules 17Ad-22(b)(5)–(7) impose a recordkeeping PRA burden. These PRA burdens apply to all registered clearing agencies that provide CCP services. The Commission estimates that nine CCPs are subject to the

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<sup>15</sup> This figure was calculated as follows: ((Chief Compliance Officer for 40 hours) + (Computer Department Operations Manager for 40 hours) + (Senior Programmer for 20 hours)) = 100 hours x 9 respondent CCPs = 900 hours.

<sup>16</sup> 1,890 hours (one time burden to adopt new policies and procedures) + 900 hours (one time burden for systems adjustments related to the capability to perform an annual model variation) = 2,790 hours ÷ 9 respondent CCPs = 310 hours per respondent CCP.

<sup>17</sup> This figure was calculated as follows: Compliance Attorney at 60 hours x 9 respondent CCPs = 540 hours for all respondent CCPs.

<sup>18</sup> 9 respondents \* (210 hours + 100 hours (Year 1 burden) + 60 hours (Year 2 burden) + 60 hours (Year 3 burden)) = 3,870 hours (estimated total burden over 3 years) ÷ 3 years = 1,290 hours.

<sup>19</sup> 3,870 hours (total burden over three years) ÷ 9 respondents = 430 hours (estimated total burden over 3 years) ÷ 3 years = 143.33 hours.



burdens under Rules 17Ad-22(b)(5)–(7). The Commission believes that CCPs are more likely to be able to address the changes required by Rules 17Ad-22(b)(5)–(7) in an integrated, not piecemeal, review and drafting process to implement policies and procedures responsive to these rules. Therefore, the revised PRA burden estimates no longer account for each requirement as a separate burden.

Based on the analogous policies and procedures requirements and the corresponding burden estimates in Regulation NMS, the Commission has preserved the burden estimates from the Proposing Release. The Commission estimates that Rules 17Ad-22(b)(5)–(7) would impose a one-time burden on each respondent CCP of 210 hours, corresponding to an aggregate one-time burden on all respondent CCPs of 1,890.<sup>20</sup>

Registered clearing agencies that provide CCP services that are not covered clearing agencies are required to collect information relating to standards of Rules 17Ad-22(b)(5)–(7) on an ongoing basis. Based on the analogous policies and procedures requirements and the corresponding burden estimates in Regulation NMS, the Commission estimates that the ongoing requirements of this rule after the first year would impose an annual burden of 60 hours on each respondent CCP, corresponding to an aggregate annual burden for all respondent CCPs of 540 hours.<sup>21</sup>

**In summary, the Commission estimates that, over a three-year period, the total recordkeeping burden to comply with Rules 17Ad-22(b)(5)–(7) would be 2,970 hours, or 990 hours per year when annualized over three years.<sup>22</sup> The reporting burden per respondent would be approximately 330 hours, or approximately 110 hours per year when annualized over three years.<sup>23</sup>**

#### Standards in Rule 17Ad-22(c) that Impose a PRA Burden

The standards in Rule 17Ad-22(c) impose a recordkeeping PRA burden. The requirements of Rule 17Ad-22(c) apply to all registered clearing agencies. The information collection requirement for Rule 17Ad-22(c) was not discussed separately from Rules 17Ad-22(c)(1)–(2) in the 2011 Proposing Release and does not represent a new information collection

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<sup>20</sup> This figure was calculated as follows: ((Assistant General Counsel at 87 hours) + (Compliance Attorney at 77 hours) + (Computer Operations Manager at 23 hours) + (Senior Business Analyst at 23 hours)) = 210 hours x 9 respondent CCPs = 1,890 hours.

<sup>21</sup> This figure was calculated as follows: Compliance Attorney at 60 hours x 9 respondent CCPs = 540 hours for all respondent CCPs.

<sup>22</sup> 9 respondents \* (210 hours (Year 1 burden) + 60 hours (Year 2 burden) + 60 hours (Year 3 burden)) = 2,970 hours (estimated total burden over 3 years) ÷ 3 years = 990 hours.

<sup>23</sup> 2,970 hours (total burden over three years) ÷ 9 respondents = 330 hours (estimated total burden over 3 years) ÷ 3 years = 110 hours.

requirement in the Adopting Release. The burden for Rule 17Ad-22(c) was separately accounted for in the 2012 Adopting Release to reflect the different information collection requirements for varying numbers of respondents. The Commission estimates that ten CCPs will be subject to the burdens under Rule 17Ad-22(c).

Based on the analogous policies and procedures requirements and the corresponding burden estimates in Regulation NMS, the Commission has preserved the burden estimates from the 2011 Proposing Release. In contrast to the Proposing Release's burden estimates for proposed Rule 17Ad-22(c)(2), which accounted for 17 clearing agencies, the burden estimate in the 2012 Adopting Release for Rule 17Ad-22(c) reflected a smaller number of clearing agencies. The Commission estimates that Rule 17Ad-22(c) imposes a one-time burden on each respondent registered clearing agency of 191 hours, corresponding to an aggregate one-time burden on all respondent registered clearing agencies of 1,910 hours.<sup>24</sup>

The Commission believes the one-time burden imposed would involve adjustments needed to synthesize and format existing information in a manner sufficient to explain the methodology the clearing agency uses to meet the requirement of Rule 17Ad-22(c). The Commission believes these adjustments would impose a one-time burden of 100 hours on each clearing agency, corresponding to an aggregate one-time burden imposed on all clearing agencies of 1,000 hours.<sup>25</sup>

Clearing agencies are required to collect information relating to standards of Rule 17Ad-22(c) on an ongoing basis. Based on the analogous policies and procedures requirements and the corresponding burden estimates in Regulation NMS, the Commission estimates that the ongoing requirements of this rule would impose an aggregate annual burden of 60 hours on each respondent clearing agency, corresponding to an aggregate annual burden for all respondent clearing agencies of 600 hours.<sup>26</sup>

**In summary, the Commission estimates that, over a three-year period, the total recordkeeping burden to comply with Rule 17Ad-22(c) would be 4,110 hours, or 1,370 hours**

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<sup>24</sup> This figure was calculated as follows: ((Assistant General Counsel at 60 hours) + (Compliance Attorney at 85 hours) + (Computer Operations Manager at 23 hours) + (Senior Business Analyst at 23 hours)) = 191 hours x 10 respondent clearing agencies = 1,910 hours.

<sup>25</sup> This figure was calculated as follows: ((Chief Compliance Officer at 40 hours) + (Computer Operations Department Manager at 40 hours) + (Senior Programmer at 20 hours)) = 100 hours x 10 respondent clearing agencies = 1,000 hours.

<sup>26</sup> This figure was calculated as follows: Compliance Attorney at 60 hours x 10 respondent clearing agencies = 600 hours for all respondent clearing agencies.

**per year when annualized over three years.<sup>27</sup> The reporting burden per respondent would be approximately 411 hours, or approximately 137 hours per year when annualized over three years.<sup>28</sup>**

Standards in Rule 17Ad-22(c)(1) that Impose a PRA Burden

The standards in Rule 17Ad-22(c)(1) impose a recordkeeping PRA burden. As noted above, Rule 17Ad-22(c)(1) apply to nine CCPs.

On an ongoing basis, the Commission estimates that for a CCP to generate the required reports concerning its financial resources imposes a burden of three hours per respondent CCP per quarter. This amounts to an annual burden of 12 hours for each CCP and corresponds to an aggregate annual burden of 108 hours for all respondent CCPs.<sup>29</sup>

**In summary, the Commission estimates that, over a three-year period, the total recordkeeping burden to comply with Rule 17Ad-22(c)(1) would be 216 hours, or 72 hours per year when annualized over three years.<sup>30</sup> The reporting burden per respondent would be approximately 24 hours, or approximately 8 hours per year when annualized over three years.<sup>31</sup>**

Standards in Rule 17Ad-22(c)(2) that Impose a PRA Burden

The standards in Rule 17Ad-22(c)(2) impose a third-party disclosure PRA burden. The requirements of Rule 17Ad-22(c)(2) apply to all registered clearing agencies, a total of ten respondents.

The Commission expects that the exact burden of collecting information relating to the procedures for facilitating an annual audited financial statement of the clearing agency and

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<sup>27</sup> 10 respondents \* (191 hours + 100 hours (Year 1 burden) + 60 hours (Year 2 burden) + 60 hours (Year 3 burden)) = 4,110 hours (estimated total burden over 3 years) ÷ 3 years = 1,370 hours.

<sup>28</sup> 4,110 hours (total burden over three years) ÷ 10 respondents = 411 hours (estimated total burden over 3 years) ÷ 3 years = 137 hours.

<sup>29</sup> This figure was calculated as follows: ((Compliance Attorney at 1 hour) + (Computer Operations Department Manager at 2 hours)) = 3 hours per quarter x 4 quarters per year = 12 hours per year x 9 respondent clearing CCPs = 108 hours.

<sup>30</sup> 9 respondents \* (0 hours (Year 1 burden) + 12 hours (Year 2 burden) + 12 hours (Year 3 burden) = 216 hours (estimated total burden over 3 years) ÷ 3 years = 72 hours.

<sup>31</sup> 216 hours (total burden over three years) ÷ 9 respondents = 24 hours (estimated total burden over 3 years) ÷ 3 years = 8 hours.

posting that annual audited financial statement to the clearing agency's website would vary depending on how frequently each clearing agency may need to update its procedures. Also, the Commission estimates based on its experience with entities of similar size to the respondents to this collection, that the initial burden of generating annual audited financial statements would generally require on average 500 hours per respondent registered clearing agency.<sup>32</sup> However, as most registered clearing agencies are already implementing this requirement as part of their usual and customary practices, the rule, as an initial burden, would largely affect a total of four entities – three potential new entrants and one clearing agency that currently do not have two years of annual audited financial statements prepared in accordance with U.S. GAAP or IFRS posted on its website and therefore, would be required to incur the costs of paying for an independent audit for two years of financial statements.<sup>33</sup> The Commission estimates that Rule 17Ad-22(c)(2) imposes a one-time burden on each of these four clearing agencies of 500 hours to prepare and review internal financial statements, corresponding to an aggregate one-time burden on the four respondent clearing agencies of 2,000 hours.<sup>34</sup> This requirement would necessitate work hours of compliance personnel and finance personnel at the clearing agency to compile relevant data, organize and analyze that data, and then post it to the clearing agency's website consistent with the rule.

Clearing agencies also are required to collect information relating to any procedures used to support compliance with Rule 17Ad-22(c)(2) on an ongoing basis. Based on the analogous policies and procedures requirements and the corresponding burden estimates in Regulation NMS, the Commission estimates that the ongoing requirements of this rule would impose an annual burden in subsequent years of 250 hours on each respondent registered clearing agency for collecting information relating to administering policies and procedures for facilitating an annual audited financial statement of the clearing agency and posting that annual audited financial statement to the clearing agency's website for an aggregate burden of 2,500 hours.<sup>35</sup>

**In summary, the Commission estimates that, over a three-year period, the total third-party reporting burden to comply with Rule 17Ad-22(c)(2) would be 10,000 hours, or 3,333.33**

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<sup>32</sup> An example of the Commission's experience with entities of a similar size to the respondents is that the Commission required entities to post their annual financial statements on their respective websites as conditions to the Commission's authorizing them to provide CCP services for credit default swaps.

<sup>33</sup> The Boston Stock Exchange Clearing Corporation ("BSECC") and Stock Clearing Corporation of Philadelphia ("SCCP") currently do not post audited financial statements on their websites and are considered new entrants.

<sup>34</sup> This figure was calculated as follows: Senior Accountant at 500 hours x 4 respondent clearing agencies = 2,000 hours.

<sup>35</sup> This figure was calculated as follows: Senior Accountant at 250 hours x 10 respondent clearing agencies = 2,500 hours.

hours per year when annualized over three years.<sup>36</sup> The reporting burden per respondent would be approximately 1,000 hours, or approximately 333.33 hours per year when annualized over three years.<sup>37</sup>

i. Burden of Information Collection for Registered Covered Clearing Agencies

a. Number of Respondents

The Commission believes that the standards in Rule 17Ad-22(e) impose a PRA burden. The Commission estimates that the requirements under Rule 17Ad-22(e) apply to five covered clearing agencies. As noted above, a covered clearing agency is defined under Rule 17Ad-22(a)(5) as any designated clearing agency, clearing agency involved in activities with a more complex risk profile for which the CFTC is not the supervisory agency as defined in Section 803(8) of the Clearing Supervision Act, or a clearing agency determined by the Commission to be a covered clearing agency pursuant to proposed Rule 17Ab2-2. A designated clearing agency is defined under Rule 17Ad-22(a)(6) as a registered clearing agency that has been designated systemically important by the FSOC.<sup>38</sup> The Commission is the supervisory agency with respect to four of these designated clearing agencies. The CFTC is the supervisory agency for the remaining two. Accordingly, Rule 17Ad-22(e) applies to these four designated clearing agencies for which the Commission is the supervisory agency.

In addition to the four designated clearing agencies for which the Commission is the supervisory agency, a fifth clearing agency is also subject to Rule 17Ad-22(e) as a covered

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<sup>36</sup> 10 respondents \* (500 hours (Year 1 burden) + 250 hours (Year 2 burden) + 250 hours (Year 3 burden)) = 10,000 hours (estimated total burden over 3 years) ÷ 3 years = 3,333.33 hours.

<sup>37</sup> 10,000 hours (total burden over three years) ÷ 10 respondents = 1,000 hours (estimated total burden over 3 years) ÷ 3 years = 333.33 hours.

This figure represents a weighted average for 10 respondent clearing agencies. The burden will be higher for clearing agencies that have not yet implemented rule 17Ad-22(c)(2). The burden will be less for clearing agencies that have already implemented the requirement as part of their usual and customer practices.

<sup>38</sup> See U.S. Treasury Dep't, Financial Stability Oversight Council Makes First Designations in Effort to Protect Against Future Financial Crises (July 18, 2012), <http://www.treasury.gov/press-center/press-releases/Pages/tg1645.aspx>; see also Exchange Act Release No. 34-76678 (Dec. 17, 2015). 80 FR 79983 (Dec. 23, 2015) (the Commission's order approving CME's request to withdraw from registration as a clearing agency).

clearing agency as a result of engaging in activities with a more complex risk profile by virtue of providing CCP services for security-based swaps.

While the adopted rules apply to the five registered clearing agencies currently falling under the definition of covered clearing agency, the Commission also estimates that two additional entities may seek to register with the Commission as clearing agencies, with one of these entities seeking to provide CCP services for security-based swaps. Upon registration, these two entities may be deemed covered clearing agencies and would therefore be subject to the requirements of Rule 17Ad-22(e).

b. Source of Estimates, Annual Hour Burden, and Explanation of Estimates

The Commission believes that the PRA burden imposed by the requirements under Rule 17Ad-22(e) will vary depending on the requirement in question because covered clearing agencies were subject to existing requirements under Rules 17Ad-22(b), (c) and (d) that, in some cases, are similar to those set forth in Rule 17Ad-22(e). First, because Rules 17Ad-22(e)(1), (8) through (10), (12), (14), (16), and (22) contain requirements that are either substantially similar to those existing under Rules 17Ad-22(b), (c) and (d), the Commission believes that covered clearing agencies may need to make only limited changes to update their policies and procedures to satisfy these requirements. In the case of these rules, the Commission believes that the required action on the part of the covered clearing agency may be limited to reviewing the new rules against existing policies and procedures to confirm that the covered clearing agency satisfies the requirements of Rule 17Ad-22(e).

Second, because Rules 17Ad-22(e)(2), (3), (5), (11), (13), (17), (18), (20) and (21) contain provisions that are similar to those under existing Rules 17Ad-22(b), (c) and (d), but also impose additional requirements that do not appear in those rules, covered clearing agencies may need to make changes to update their policies and procedures to satisfy the requirements of Rules 17Ad-22(e) listed above. In these cases, the Commission believes that covered clearing agencies may need to review and amend their existing rule book, policies and procedures, but may not need to develop, design, or implement new operations and practices to satisfy the proposed requirements.

Third, with respect to Rules 17Ad-22(e)(4), (6), (7), (15), (19), and (23), for which there are no similar requirements under Rules 17Ad-22(b), (c) or (d), the Commission believes that covered clearing agencies may need to make more extensive changes to their policies and procedures (or implement entirely new policies and procedures), and may need to take other steps to satisfy the requirements of these rules. In these cases, the PRA burden would be greater since a covered clearing agency may need to, for example, develop, design and implement new operations and practices. With respect to these provisions, the PRA burden may be greater because the requirements of these rules may not reflect established practices of covered clearing agencies or reflect the normal course of their activities, and therefore the PRA burden for these rules would likely entail one-time burdens to create new written policies and procedures, as well as ongoing burdens such as those associated with periodic data collection and disclosure requirements.

### Standards in Rule 17Ad-22(e)(1) that Impose a PRA Burden

The standards in Rule 17Ad-22(e)(1) impose a recordkeeping PRA burden. The requirements of Rule 17Ad-22(e)(1) apply to seven respondents.

The requirements of Rule 17Ad-22(e)(1) to develop policies and procedures to provide for a well-founded, clear, transparent, and enforceable legal basis are substantially the same as the requirement in Rule 17Ad-22(d)(1).<sup>39</sup> As a result, a respondent clearing agency would already have written rules, policies and procedures substantially similar to the requirements that would be imposed under the rule. Therefore, the PRA burden imposed by the Rule 17Ad-22(e)(1) will be minimal and will likely be limited to the review and updating of current policies and procedures where appropriate in order to ensure compliance with the rule. Based on similar policies and procedures requirements and the corresponding burden estimates for Rule 17Ad-22(d)(1), the Commission believes that respondent clearing agencies will incur an aggregate one-time recordkeeping burden of approximately 56 hours to review and update existing policies and procedures.<sup>40</sup>

Rule 17Ad-22(e)(1) also imposes ongoing burdens on a respondent clearing agency. The rule requires ongoing monitoring and compliance activities with respect to the written policies and procedures created in response to the proposed rule's requirements. Based on the Commission's previous estimates for ongoing monitoring and compliance burdens with respect to existing requirements under Rule 17Ad-22, the Commission estimates that the ongoing activities required by Rule 17Ad-(e)(1) will impose an aggregate recordkeeping burden on respondent clearing agencies of 21 hours.<sup>41</sup>

**In summary, the Commission estimates that, over a three-year period, the total recordkeeping burden to comply with Rule 17Ad-22(e)(1) will be 98 hours, or 32.67 hours per year when annualized over three years.<sup>42</sup> The reporting burden per respondent will be approximately 14 hours, or approximately 4.67 hours per year when annualized over three years.<sup>43</sup>**

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<sup>39</sup> See 17 CFR 240.17Ad-22(d)(1).

<sup>40</sup> This figure was calculated as follows: ((Assistant General Counsel for 2 hours) + (Compliance Attorney for 6 hours)) = 8 hours x 7 respondent clearing agencies = 56 hours.

<sup>41</sup> This figure was calculated as follows: This figure was calculated as follows: Compliance Attorney for 3 hours x 7 respondent clearing agencies = 21 hours.

<sup>42</sup> 7 respondents \* (8 hours (Year 1 burden) + 3 hours (Year 2 burden) + 3 hours (Year 3 burden) = 98 hours (estimated total burden over 3 years) ÷ 3 years = 32.67 hours.

<sup>43</sup> 98 hours (total burden over three years) ÷ 7 respondents = 14 hours (estimated total burden over 3 years) ÷ 3 years = 4.67 hours.

### Standards in Rule 17Ad-22(e)(2) that Impose a PRA Burden

The standards in Rule 17Ad-22(e)(2) impose a recordkeeping PRA burden. The requirements of Rule 17Ad-22(e)(2) apply to seven respondents.

Rule 17Ad-22(e)(2) contains some provisions that are similar to Rule 17Ad-22(d)(8), but also adds additional requirements that do not appear in Rules 17Ad-22(b), (c) or (d). As a result, a respondent clearing agency is required to have some written rules, policies, and procedures substantially similar to the requirements that would be imposed under proposed Rule 17Ad-22(e)(2) and will need to establish and implement a limited number of new policies and procedures. The PRA burden imposed by the rule will therefore be associated with reviewing current policies and procedures and updating those policies and procedures or establishing new policies and procedures, where appropriate, in order to ensure compliance with the proposed rule. Accordingly, based on the similar policies and procedures requirements and the corresponding burden estimates previously made by the Commission for Rule 17Ad-22(d)(8), the Commission believes that respondent clearing agencies will incur an aggregate one-time burden of approximately 175 hours to review and update existing policies and procedures and to create new policies and procedures, as necessary.<sup>44</sup>

Rule 17Ad-22(e)(2) also imposes ongoing burdens on a respondent clearing agency. The requirement will require ongoing monitoring and compliance activities with respect to the written policies and procedures created in response to the rule. Based on the Commission's previous estimates for ongoing monitoring and compliance burdens with respect to existing Rule 17Ad-22, the Commission estimates that the ongoing activities required by Rule 17Ad-22(e)(2) will impose an aggregate annual burden on respondent clearing agencies of 35 hours.<sup>45</sup>

**In summary, the Commission estimates that, over a three-year period, the total recordkeeping burden to comply with Rule 17Ad-22(e)(2) will be 245 hours, or 81.67 hours per year when annualized over three years.<sup>46</sup> The reporting burden per respondent will be approximately 35 hours, or approximately 11.67 hours per year when annualized over three years.<sup>47</sup>**

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<sup>44</sup> This figure was calculated as follows: ((Assistant General Counsel for 14 hours) + (Compliance Attorney for 11 hours)) = 25 hours x 7 respondent clearing agencies = 175 hours.

<sup>45</sup> This figure was calculated as follows: (Compliance Attorney for 5 hours) x 7 respondent clearing agencies = 35 hours.

<sup>46</sup> 7 respondents \* (25 hours (Year 1 burden) + 5 hours (Year 2 burden) + 5 hours (Year 3 burden)) = 245 hours (estimated total burden over 3 years) ÷ 3 years = 81.67 hours.

<sup>47</sup> 245 hours (total burden over three years) ÷ 7 respondents = 35 hours (estimated total burden over 3 years) ÷ 3 years = 11.67 hours.



### Standards in Rule 17Ad-22(e)(3) that Impose a PRA Burden

The standards in Rule 17Ad-22(e)(3) impose a recordkeeping PRA burden. The requirements of Rule 17Ad-22(e)(3) apply to seven respondents.

Rule 17Ad-22(e)(3) requires a covered clearing agency to establish, implement, maintain and enforce written policies and procedures reasonably designed to provide for a sound risk management framework. Under Rule 17Ad-22(d), registered clearing agencies are required to have policies and procedures to manage certain risks faced by these entities,<sup>48</sup> but the rule will require a comprehensive framework for risk management that will require risk management policies and procedures be designed holistically, be consistent with each other, and work effectively together. Accordingly, the rule may impose a PRA burden that will require respondent clearing agencies to update current policies and procedures in order to develop a more comprehensive framework that will include a periodic review thereof and a plan for orderly recovery and wind-down of the covered clearing agency. As a result, the Commission estimates that respondent clearing agencies will incur an aggregate one-time burden of 399 hours to review and update existing policies and procedures and to create new policies and procedures, as necessary.<sup>49</sup>

Rule 17Ad-22(e)(3) also imposes ongoing burdens on a respondent clearing agency. The requirement will require ongoing monitoring and compliance activities with respect to the written policies and procedures created in response to the proposed rule and activities related to preparing documents facilitating a periodic review of the risk management framework. Based on the Commission's previous estimates for ongoing monitoring and compliance burdens with respect to existing Rule 17Ad-22, the Commission estimates that the ongoing activities required by Rule 17Ad-22(e)(3) will impose an aggregate annual burden on respondent clearing agencies of 343 hours.<sup>50</sup>

**In summary, the Commission estimates that, over a three-year period, the total recordkeeping burden to comply with Rule 17Ad-22(e)(3) will be 1,085 hours, or 361.67 hours**

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<sup>48</sup> See 17 CFR 240.17Ad-22(d).

<sup>49</sup> This figure was calculated as follows: ((Assistant General Counsel for 25 hours) + (Compliance Attorney for 18 hours) + (Senior Risk Management Specialist for 7 hours) + (Computer Operations Manager for 7 hours)) = 57 hours x 7 respondent clearing agencies = 399 hours.

<sup>50</sup> This figure was calculated as follows: ((Compliance Attorney for 8 hours) + (Administrative Assistant for 3 hours) + (Senior Business Analyst for 5 hours) + (Risk Management Specialist for 33 hours)) = 49 hours x 7 respondent clearing agencies = 343 hours.

**per year when annualized over three years.<sup>51</sup> The reporting burden per respondent will be approximately 155 hours, or approximately 51.67 hours per year when annualized over three years.<sup>52</sup>**

Standards in Rule 17Ad-22(e)(4) that Impose a PRA Burden

The standards in Rule 17Ad-22(e)(4) impose a recordkeeping PRA burden. The requirements of Rule 17Ad-22(e)(4) apply to seven respondents.

The Commission believes that the estimated PRA burdens for Rule 17Ad-22(e)(4) will be more significant, as changes to existing policies and procedures will involve more than adjustments and may require a respondent clearing agency to make substantial changes to its policies and procedures. In addition, Rule 17Ad-22(e)(4) requires one-time systems adjustments related to the capability to test the sufficiency of financial resources and to perform an annual conforming model validation. As a result, the Commission estimates that respondent clearing agencies will incur an aggregate one-time burden of 1,533 hours.<sup>53</sup>

Rule 17Ad-22(e)(4) also imposes ongoing burdens on a respondent clearing agency. The rule requires ongoing monitoring and compliance activities with respect to the written policies and procedures created in response to the proposed rule and ongoing activities with respect to testing the sufficiency of financial resources and model validation. Based on the Commission's previous estimates for ongoing monitoring and compliance burdens with respect to existing Rule 17Ad-22, the Commission estimates that the ongoing activities required by Rule 17Ad-22(e)(4) will impose an aggregate annual burden on respondent clearing agencies of 434 hours.<sup>54</sup>

**In summary, the Commission estimates that, over a three-year period, the total recordkeeping burden to comply with Rule 17Ad-22(e)(4) will be 2,401 hours, or 800.33 hours**

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<sup>51</sup> 7 respondents \* (57 hours (Year 1 burden) + 49 hours (Year 2 burden) + 49 hours (Year 3 burden)) = 1,085 hours (estimated total burden over 3 years) ÷ 3 years = 361.67 hours.

<sup>52</sup> 1,085 hours (total burden over three years) ÷ 7 respondents = 155 hours (estimated total burden over 3 years) ÷ 3 years = 51.67 hours.

<sup>53</sup> This figure was calculated as follows: This figure was calculated as follows: ((Assistant General Counsel for 74 hours) + (Compliance Attorney for 45 hours) + (Senior Risk Management Specialist for 30 hours) + (Computer Operations Manager for 45 hours) + (Chief Compliance Officer for 15 hours) + (Senior Programmer for 10 hours)) = 219 hours x 7 respondent clearing agencies = 1,533 hours.

<sup>54</sup> This figure was calculated as follows: ((Compliance Attorney for 26 hours) + (Administrative Assistant for 3 hours) + (Senior Business Analyst for 3 hours) + (Risk Management Specialist for 30 hours)) = 62 x 7 respondent clearing agencies = 434 hours.

**per year when annualized over three years.<sup>55</sup> The reporting burden per respondent will be approximately 343 hours, or approximately 114.33 hours per year when annualized over three years.<sup>56</sup>**

Standards in Rule 17Ad-22(e)(5) that Impose a PRA Burden

The standards in Rule 17Ad-22(e)(5) impose a recordkeeping PRA burden. The requirements of Rule 17Ad-22(e)(5) apply to seven respondents.

Respondent clearing agencies that will be subject to Rule 17Ad-22(e)(5) may already have some written policies and procedures designed to address the collateral risks borne by these entities. As a result, the Commission believes that a respondent clearing agency may need to review and update existing policies and procedures as necessary and may need to adopt new policies and procedures with respect to an annual review of the sufficiency of collateral haircuts and concentration limits. Accordingly, based on the similar policies and procedures requirements in and the Commission's previous corresponding burden estimates for existing Rule 17Ad-22(d)(3), the Commission believes that respondent clearing agencies will incur an aggregate one-time burden of approximately 294 hours to review and update existing policies and procedures and to create new policies and procedures, as necessary.<sup>57</sup>

Rule 17Ad-22(e)(5) also imposes ongoing burdens on a respondent clearing agency by requiring monitoring and compliance activities with respect to the written policies and procedures and will also result in an annual review of collateral haircuts and concentration limits. Based on the Commission's previous estimates for ongoing monitoring and compliance burdens with respect to existing Rule 17Ad-22, the Commission estimates that the ongoing activities required by Rule 17Ad-22(e)(5) will impose an aggregate annual burden on respondent clearing agencies of 252 hours.<sup>58</sup>

**In summary, the Commission estimates that, over a three-year period, the total recordkeeping burden to comply with Rule 17Ad-22(e)(5) will be 798 hours, or 266 hours per**

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<sup>55</sup> 7 respondents \* (219 hours (Year 1 burden) + 62 (Year 2 burden) + 62 (Year 3 burden)) = 2,401 hours (estimated total burden over 3 years) ÷ 3 years = 800.33 hours.

<sup>56</sup> 2,401 hours (total burden over three years) ÷ 7 respondents = 343 hours (estimated total burden over 3 years) ÷ 3 years = 114.33 hours.

<sup>57</sup> This figure was calculated as follows: ((Assistant General Counsel for 16 hours) + (Compliance Attorney for 12 hours) + (Senior Risk Management Specialist for 7 hours) + (Computer Operations Manager for 7 hours)) = 42 hours x 7 respondent clearing agencies = 294 hours.

<sup>58</sup> This figure was calculated as follows: ((Compliance Attorney for 6 hours) + (Risk Management Specialist for 30 hours)) = 36 hours x 7 respondent clearing agencies = 252 hours.

**year when annualized over three years.<sup>59</sup> The reporting burden per respondent will be approximately 114 hours, or approximately 38 hours per year when annualized over three years.<sup>60</sup>**

Standards in Rule 17Ad-22(e)(6) that Impose a PRA Burden

The standards in Rule 17Ad-22(e)(6) impose a recordkeeping PRA burden. The requirements of Rule 17Ad-22(e)(6) apply to six respondents.

The Commission believes that the estimated PRA burdens for proposed Rule 17Ad-22(e)(6) will be more significant and may require a respondent clearing agency to make substantial changes to its policies and procedures. In addition, Rule 17Ad-22(e)(6) requires one-time systems adjustments related to the capability to perform daily backtesting and monthly (or more frequent than monthly) conforming sensitivity analyses. As a result, the Commission estimates that respondent clearing agencies will incur an aggregate one-time burden of 1,080 hours to review and update existing policies and procedures.<sup>61</sup>

Rule 17Ad-22(e)(6) also imposes ongoing burdens on a respondent clearing agency by requiring ongoing monitoring and compliance activities with respect to the written policies and procedures associated with the daily backtesting and monthly (or more frequent) sensitivity analysis requirements and annual model validation. Based on the Commission's previous estimates for ongoing monitoring and compliance burdens with respect to existing Rule 17Ad-22, the Commission estimates that the ongoing activities required by Rule 17Ad-22(e)(6) will impose an aggregate annual burden on respondent clearing agencies of 360 hours.<sup>62</sup>

**In summary, the Commission estimates that, over a three-year period, the total recordkeeping burden to comply with Rule 17Ad-22(e)(6) will be 1,800 hours, or 600 hours**

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<sup>59</sup> 7 respondents \* (42 hours (Year 1 burden) + 36 hours (Year 2 burden) + 36 hours (Year 3 burden)) = 798 hours (estimated total burden over 3 years) ÷ 3 years = 266 hours.

<sup>60</sup> 798 hours (total burden over three years) ÷ 7 respondents = 114 hours (estimated total burden over 3 years) ÷ 3 years = 38 hours.

<sup>61</sup> This figure was calculated as follows: ((Assistant General Counsel for 50 hours) + (Compliance Attorney for 40 hours) + (Senior Risk Management Specialist for 25 hours) + (Computer Operations Manager for 40 hours) + (Chief Compliance Officer for 15 hours) + (Senior Programmer for 10 hours)) = 180 hours x 6 respondent clearing agencies = 1,080 hours.

<sup>62</sup> This figure was calculated as follows: ((Compliance Attorney for 24 hours) + (Administrative Assistant for 3 hours) + (Senior Business Analyst for 3 hours) + (Risk Management Specialist for 30 hours)) = 60 hours x 6 respondent clearing agencies = 360 hours.

**per year when annualized over three years.<sup>63</sup> The reporting burden per respondent will be approximately 300 hours, or approximately 100 hours per year when annualized over three years.<sup>64</sup>**

Standards in Rule 17Ad-22(e)(7) that Impose a PRA Burden

The standards in Rule 17Ad-22(e)(7) impose a recordkeeping PRA burden. The requirements of Rule 17Ad-22(e)(7) apply to seven respondents.

The Commission believes that the estimated PRA burdens for Rule 17Ad-22(e)(7) will be more significant and may require a respondent clearing agency to make substantial changes to its policies and procedures. In addition, Rule 17Ad-22(e)(7) requires one-time systems adjustments related to the capability to perform an annual conforming model validation, the testing of sufficiency of liquid resources and the testing of access to liquidity providers. As a result, the Commission estimates that respondent clearing agencies will incur an aggregate one-time burden of 2,310 hours to review and update existing policies and procedures.<sup>65</sup>

Rule 17Ad-22(e)(7) also imposes ongoing burdens on a respondent clearing agency by requiring ongoing monitoring and compliance activities with respect to the written policies and procedures as well as activities related to the testing of sufficiency of liquidity resources and the testing of access to liquidity providers. Based on the Commission's previous estimates for ongoing monitoring and compliance burdens with respect to existing Rule 17Ad-22, the Commission estimates that the ongoing activities required by Rule 17Ad-22(e)(7) will impose an aggregate annual burden on respondent clearing agencies of 896 hours.<sup>66</sup>

**In summary, the Commission estimates that, over a three-year period, the total recordkeeping burden to comply with Rule 17Ad-22(e)(7) will be 4,102 hours, or 1,367.33**

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<sup>63</sup> 6 respondents \* (180 hours (Year 1 burden) + 60 hours (Year 2 burden) + 60 hours (Year 3 burden)) = 1,800 hours (estimated total burden over 3 years) ÷ 3 years = 600 hours.

<sup>64</sup> 1,800 hours (total burden over three years) ÷ 6 respondents = 300 hours (estimated total burden over 3 years) ÷ 3 years = 100 hours.

<sup>65</sup> This figure was calculated as follows: ((Assistant General Counsel for 95 hours) + (Compliance Attorney for 85 hours) + (Senior Risk Management Specialist for 45 hours) + (Computer Operations Manager for 60 hours) + (Chief Compliance Officer for 30 hours) + (Senior Programmer for 15 hours)) = 330 hours x 7 respondent clearing agencies = 2,310 hours.

<sup>66</sup> This figure was calculated as follows: ((Compliance Attorney for 48 hours) + (Administrative Assistant for 5 hours) + (Senior Business Analyst for 5 hours) + (Risk Management Specialist for 60 hours) + (Senior Risk Management Specialist for 10 hours)) = 128 hours x 7 respondent clearing agencies = 896 hours.

**hours per year when annualized over three years.<sup>67</sup> The reporting burden per respondent will be approximately 586 hours, or approximately 195.33 hours per year when annualized over three years.<sup>68</sup>**

Standards in Rule 17Ad-22(e)(8) that Impose a PRA Burden

The standards in Rule 17Ad-22(e)(8) impose a recordkeeping PRA burden. The requirements of Rule 17Ad-22(e)(8) apply to seven respondents.

Rule 17Ad-22(e)(8) contains substantially similar provisions to Rule 17Ad-22(d)(12).<sup>69</sup> As a result, a respondent clearing agency will already have written rules, policies, and procedures substantially similar to the requirements that are imposed under the Rule 17Ad-22(e)(8). In this regard, the Commission believes that respondent clearing agencies will incur the incremental burdens of reviewing and updating existing policies and procedures as necessary. Accordingly, based on the similar policies and procedures requirements and the corresponding burden estimates previously made by the Commission for Rule 17Ad-22(d)(12), the Commission believes that respondent clearing agencies will incur an aggregate one-time burden of approximately 84 hours to review and update existing policies and procedures.<sup>70</sup>

Proposed Rule 17Ad-22(e)(8) also imposes ongoing burdens on a respondent clearing agency. The requirements will require ongoing monitoring and compliance activities with respect to the written policies and procedures created in response to the Rule 17Ad-22(e)(8). Based on the Commission's previous estimates for ongoing monitoring and compliance burdens with respect to existing Rule 17Ad-22, the Commission estimates that the ongoing activities required by Rule 17Ad-22(e)(8) will impose an aggregate annual burden on respondent clearing agencies of approximately 35 hours.<sup>71</sup>

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<sup>67</sup> 7 respondents \* (330 hours (Year 1 burden) + 128 hours (Year 2 burden) + 128 hours (Year 3 burden)) = 4,102 hours (estimated total burden over 3 years) ÷ 3 years = 1,367.33 hours.

<sup>68</sup> 4,102 hours (total burden over three years) ÷ 7 respondents = 586 hours (estimated total burden over 3 years) ÷ 3 years = 195.33 hours.

<sup>69</sup> See 17 CFR 240.17Ad-22(d)(12).

<sup>70</sup> This figure was calculated as follows: ((Assistant General Counsel for 2 hours) + (Compliance Attorney for 6 hours) + (Senior Business Analyst for 2 hours) + (Computer Operations Manager for 2 hours)) = 12 hours x 7 respondent clearing agencies = 84 hours.

<sup>71</sup> This figure was calculated as follows: Compliance Attorney for 5 hours x 7 respondent clearing agencies = 35 hours.

**In summary, the Commission estimates that, over a three-year period, the total recordkeeping burden to comply with Rule 17Ad-22(e)(8) will be 154 hours, or 51.33 hours per year when annualized over three years.<sup>72</sup> The reporting burden per respondent will be approximately 22 hours, or approximately 7.33 hours per year when annualized over three years.<sup>73</sup>**

Standards in Rule 17Ad-22(e)(9) that Impose a PRA Burden

The standards in Rule 17Ad-22(e)(9) impose a recordkeeping PRA burden. The requirements of Rule 17Ad-22(e)(9) apply to seven respondents.

Rule 17Ad-22(e)(9) contains substantially similar provisions to Rule 17Ad-22(d)(5). As a result, a respondent clearing agency will already have written rules, policies, and procedures substantially similar to the requirements that would be imposed under Rule 17Ad-22(e)(9). In this regard, the Commission believes that respondent clearing agencies will incur the incremental burdens of reviewing and updating existing policies and procedures as necessary. Accordingly, based on the similar policies and procedures requirements and the corresponding burden estimates previously made by the Commission for Rule 17Ad-22(d)(5), the Commission believes that respondent clearing agencies will incur an aggregate one-time burden of approximately 84 hours to review and update existing policies and procedures.<sup>74</sup>

Proposed Rule 17Ad-22(e)(9) also imposes ongoing burdens on a respondent clearing agency by requiring ongoing monitoring and compliance activities with respect to the written policies and procedures created in response to the rule. Based on the Commission's previous estimates for ongoing monitoring and compliance burdens with respect to existing Rule 17Ad-22, the Commission estimates that the ongoing activities required by proposed Rule 17Ad-22(e)(9) will impose an aggregate annual burden on respondent clearing agencies of approximately 35 hours.<sup>75</sup>

**In summary, the Commission estimates that, over a three-year period, the total recordkeeping burden to comply with Rule 17Ad-22(e)(9) will be 154 hours, or 51.33 hours**

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<sup>72</sup> 7 respondents \* (12 hours (Year 1 burden) + 5 hours (Year 2 burden) + 5 hours (Year 3 burden)) = 154 hours (estimated total burden over 3 years) ÷ 3 years = 51.33 hours.

<sup>73</sup> 154 hours (total burden over three years) ÷ 7 respondents = 22 hours (estimated total burden over 3 years) ÷ 3 years = 7.33 hours.

<sup>74</sup> This figure was calculated as follows: ((Assistant General Counsel for 2 hours) + (Compliance Attorney for 6 hours) + (Senior Business Analyst for 2 hours) + (Computer Operations Manager for 2 hours)) = 12 hours x 7 respondent clearing agencies = 84 hours.

<sup>75</sup> This figure was calculated as follows: (Compliance Attorney for 5 hours) x 7 respondent clearing agencies = 35 hours.

**per year when annualized over three years.<sup>76</sup> The reporting burden per respondent will be approximately 22 hours, or approximately 7.33 hours per year when annualized over three years.<sup>77</sup>**

Standards in Rule 17Ad-22(e)(10) that Impose a PRA Burden

The standards in Rule 17Ad-22(e)(10) impose a recordkeeping PRA burden. The requirements of Rule 17Ad-22(e)(10) apply to seven respondents.

Rule 17Ad-22(e)(10) contains substantially similar provisions to Rule 17Ad-22(d)(15).<sup>78</sup> As a result, a respondent clearing agency would already have written rules, policies, and procedures substantially similar to the requirements that are imposed under Rule 17Ad-22(e)(10). In this regard, the Commission believes that a respondent clearing agency will incur the incremental burdens of reviewing and updating existing policies and procedures as necessary. Accordingly, based on the similar policies and procedures requirements and the corresponding burden estimates previously made by the Commission for Rule 17Ad-22(d)(15), the Commission believes that respondent clearing agencies will incur an aggregate one-time burden of approximately 84 hours to review and update existing policies and procedures.<sup>79</sup>

Rule 17Ad-22(e)(10) also imposes ongoing burdens on a respondent clearing agency by requiring ongoing monitoring and compliance activities with respect to the written policies and procedures created in response to Rule 17Ad-22(e)(10). Based on the Commission's previous estimates for ongoing monitoring and compliance burdens with respect to existing Rule 17Ad-22, the Commission estimates that the ongoing activities required by Rule 17Ad-22(e)(10) will impose an aggregate annual burden on respondent clearing agencies of approximately 35 hours.<sup>80</sup>

**In summary, the Commission estimates that, over a three-year period, the total recordkeeping burden to comply with Rule 17Ad-22(e)(10) will be 154 hours, or 51.33 hours**

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<sup>76</sup> 7 respondents \* (12 hours (Year 1 burden) + 5 hours (Year 2 burden) + 5 hours (Year 3 burden)) = 154 hours (estimated total burden over 3 years) ÷ 3 years = 51.33 hours.

<sup>77</sup> 154 hours (total burden over three years) ÷ 7 respondents = 22 hours (estimated total burden over 3 years) ÷ 3 years = 7.33 hours.

<sup>78</sup> See 17 CFR 240.17Ad-22(d)(15).

<sup>79</sup> This figure was calculated as follows: ((Assistant General Counsel for 2 hours) + (Compliance Attorney for 6 hours) + (Senior Business Analyst for 2 hours) + (Computer Operations Manager for 2 hours)) = 12 hours x 7 respondent clearing agencies = 84 hours.

<sup>80</sup> This figure was calculated as follows: (Compliance Attorney for 5 hours) x 7 respondent clearing agencies = 35 hours.



**per year when annualized over three years.<sup>81</sup> The reporting burden per respondent will be approximately 22 hours, or approximately 7.33 hours per year when annualized over three years.<sup>82</sup>**

Standards in Rule 17Ad-22(e)(11) that Impose a PRA Burden

The standards in Rule 17Ad-22(e)(11) impose a recordkeeping PRA burden. The requirements of Rule 17Ad-22(e)(11) apply to one respondent.

Rule 17Ad-22(e)(11) contains similar provisions to Rule 17Ad-22(d)(10).<sup>83</sup> As a result, a respondent clearing agency providing CSD services will already have written rules, policies, and procedures similar to the requirements that will be imposed under Rule 17Ad-22(e)(11). Rule 17Ad-22(e)(10) also, however, imposed additional requirements that do not appear in existing Rule 17Ad-22. Accordingly, a covered clearing agency providing CSD services may need to update or amend existing policies and procedures, as necessary, to satisfy the requirements and may need to create new policies and procedures. Based on the similar policies and procedures requirements and the corresponding burden estimates previously made by the Commission for Rule 17Ad-22(d)(10), the Commission believes that the respondent clearing agency will incur a one-time burden of approximately 55 hours to review and update existing policies and procedures and to create new policies and procedures, as necessary.<sup>84</sup>

Rule 17Ad-22(e)(11) also imposes ongoing burdens on the respondent clearing agency providing CSD services by requiring ongoing monitoring and compliance activities with respect to the written policies and procedures created in response to the proposed rule. Based on the Commission's previous estimates for ongoing monitoring and compliance burdens with respect to existing Rule 17Ad-22, the Commission estimates that the ongoing activities required by Rules 17Ad-22(e)(11) will impose a total annual burden on the respondent clearing agency of approximately 8 hours.<sup>85</sup>

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<sup>81</sup>  $7 \text{ respondents} * (12 \text{ hours (Year 1 burden)} + 5 \text{ hours (Year 2 burden)} + 5 \text{ hours (Year 3 burden)}) = 154 \text{ hours (estimated total burden over 3 years)} \div 3 \text{ years} = 51.33 \text{ hours.}$

<sup>82</sup>  $154 \text{ hours (total burden over three years)} \div 7 \text{ respondents} = 22 \text{ hours (estimated total burden over 3 years)} \div 3 \text{ years} = 7.33 \text{ hours.}$

<sup>83</sup> See 17 CFR 240.17Ad-22(d)(10).

<sup>84</sup> This figure was calculated as follows: ((Assistant General Counsel for 20 hours) + (Compliance Attorney for 10 hours) + (Intermediate Accountant for 15 hours) + (Senior Business Analyst for 5 hours) + (Computer Operations Manager for 5 hours)) = 55 hours x 1 respondent clearing agency = 55 hours.

<sup>85</sup> This figure was calculated as follows: (Compliance Attorney for 8 hours) x 1 respondent clearing agency = 8 hours.

**In summary, the Commission estimates that, over a three-year period, the total recordkeeping burden to comply with Rule 17Ad-22(e)(11) will be 71 hours, or 23.67 hours per year when annualized over three years.<sup>86</sup> The reporting burden per respondent will be approximately 71 hours, or approximately 23.67 hours per year when annualized over three years.<sup>87</sup>**

Standards in Rule 17Ad-22(e)(12) that Impose a PRA Burden

The standards in Rule 17Ad-22(e)(12) impose a recordkeeping PRA burden. The requirements of Rule 17Ad-22(e)(12) apply to seven respondents.

Rule 17Ad-22(e)(12) contains substantially similar provisions to Rule 17Ad-22(d)(13).<sup>88</sup> As a result, a respondent clearing agency will already have written rules, policies, and procedures substantially similar to the requirements that will be imposed under Rule 17Ad-22(e)(12). In this regard, the Commission believes that a respondent clearing agency will incur the incremental burdens of reviewing and updating existing policies and procedures as necessary. Accordingly, based on the similar policies and procedures requirements and the corresponding burden estimates previously made by the Commission for Rule 17Ad-22(d)(13), the Commission believes that respondent clearing agencies will incur an aggregate one-time burden of approximately 84 hours to review and update existing policies and procedures.<sup>89</sup>

Rule 17Ad-22(e)(12) also imposes ongoing burdens on a covered clearing agency by requiring ongoing monitoring and compliance activities with respect to the written policies and procedures created in response to the rule. Based on the Commission's previous estimates for ongoing monitoring and compliance burdens with respect to existing Rule 17Ad-22 the Commission estimates that the ongoing activities required by Rule 17Ad-22(e)(12) will impose an aggregate annual burden on respondent clearing agencies of approximately 35 hours.<sup>90</sup>

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<sup>86</sup> 1 respondent \* (55 hours (Year 1 burden) + 8 hours (Year 2 burden) + 8 hours (Year 3 burden)) = 71 hours (estimated total burden over 3 years) ÷ 3 years = 23.67 hours.

<sup>87</sup> 71 hours (total burden over three years) ÷ 1 respondent = 71 hours (estimated total burden over 3 years) ÷ 3 years = 23.67 hours.

<sup>88</sup> See 17 CFR 240.17Ad-22(d)(13).

<sup>89</sup> This figure was calculated as follows: ((Assistant General Counsel for 2 hours) + (Compliance Attorney for 6 hours) + (Senior Business Analyst for 2 hours) + (Computer Operations Manager for 2 hours)) = 12 hours x 7 respondent clearing agencies = 84 hours.

<sup>90</sup> This figure was calculated as follows: (Compliance Attorney for 5 hours) x 7 respondent clearing agencies = 35 hours.

**In summary, the Commission estimates that, over a three-year period, the total recordkeeping burden to comply with Rule 17Ad-22(e)(12) will be 154 hours, or 51.33 hours per year when annualized over three years.<sup>91</sup> The reporting burden per respondent will be approximately 22 hours, or approximately 7.33 hours per year when annualized over three years.<sup>92</sup>**

Standards in Rule 17Ad-22(e)(13) that Impose a PRA Burden

The standards in Rule 17Ad-22(e)(13) impose a recordkeeping PRA burden. The requirements of Rule 17Ad-22(e)(13) apply to seven respondents.

Rule 17Ad-22(e)(13) contains similar provisions to Rule 17Ad-22(d)(11)<sup>93</sup> but also imposes additional requirements that do not appear in existing Rule 17Ad-22. As a result, the Commission believes that a respondent clearing agency will incur burdens of reviewing and updating existing policies and procedures in order to comply with the provisions of Rule 17Ad-22(e)(13) and, in some cases, may need to create new policies and procedures. Accordingly, based on the similar policies and procedures requirements and the corresponding burden estimates previously made by the Commission for Rule 17Ad-22(d)(11), the Commission believes that respondent clearing agencies will incur an aggregate one-time burden of approximately 287 hours to review and update existing policies and procedures and to create new policies and procedures, as necessary.<sup>94</sup>

Rule 17Ad-22(e)(13) also imposes ongoing burdens on a respondent clearing agency by requiring annual review and testing of a clearing agency's default policies and procedures. Based on the Commission's previous estimates for ongoing monitoring and compliance burdens with respect to existing Rule 17Ad-22, the Commission believes that the ongoing activities required by Rule 17Ad-22(e)(13) will impose an aggregate annual burden on respondent clearing agencies of approximately 49 hours.<sup>95</sup>

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<sup>91</sup> 7 respondents \* (12 hours (Year 1 burden) + 5 hours (Year 2 burden) + 5 hours (Year 3 burden)) = 154 hours (estimated total burden over 3 years) ÷ 3 years = 51.33 hours.

<sup>92</sup> 154 hours (total burden over three years) ÷ 7 respondents = 22 hours (estimated total burden over 3 years) ÷ 3 years = 7.33 hours.

<sup>93</sup> See 17 CFR 240.17Ad-22(d)(11).

<sup>94</sup> This figure was calculated as follows: ((Assistant General Counsel for 6 hours) + (Compliance Attorney for 11 hours) + (Senior Business Analyst for 12 hours) + (Computer Operations Manager for 12 hours)) = 41 hours x 7 respondent clearing agencies = 287 hours.

<sup>95</sup> This figure was calculated as follows: (Compliance Attorney for 7 hours) x 7 respondent clearing agencies = 49 hours.

**In summary, the Commission estimates that, over a three-year period, the total recordkeeping burden to comply with Rule 17Ad-22(e)(13) will be 385 hours, or 128.33 hours per year when annualized over three years.<sup>96</sup> The reporting burden per respondent will be approximately 55 hours, or approximately 18.33 hours per year when annualized over three years.<sup>97</sup>**

Standards in Rule 17Ad-22(e)(14) that Impose a PRA Burden

The standards in Rule 17Ad-22(e)(14) impose a recordkeeping PRA burden. The requirements of Rule 17Ad-22(e)(14) apply to two respondents.

Though not required under existing Rule 17Ad-22, registered clearing agencies that provide CCP services for security-based swaps generally have written policies and procedures regarding the segregation and portability of customer positions and collateral as a result of other existing applicable regulations.<sup>98</sup> Consequently, respondent clearing agencies providing CCP services for security-based swaps will incur burdens of reviewing and updating existing policies and procedures as necessary in order to comply with the requirements of rule 17Ad-22(e)(14). The Commission estimates that Rule 17Ad-22(e)(14) will impose on respondent clearing agencies an aggregate one-time burden of 72 hours to review and update existing policies and procedures.<sup>99</sup>

Rule 17Ad-22(e)(14) also imposes ongoing burdens on a respondent clearing agency that provides CCP services for security-based swaps. Based on the Commission's previous estimates for ongoing monitoring and compliance burdens with respect to existing Rule 17Ad-22, the Commission estimates that the ongoing activities required by Rule 17Ad-22(e)(14) will impose an aggregate annual burden on respondent clearing agencies of approximately 12 hours.<sup>100</sup>

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<sup>96</sup> 7 respondents \* (41 hours (Year 1 burden) + 7 hours (Year 2 burden) + 7 hours (Year 3 burden)) = 385 hours (estimated total burden over 3 years) ÷ 3 years = 128.33 hours.

<sup>97</sup> 385 hours (total burden over three years) ÷ 7 respondents = 55 hours (estimated total burden over 3 years) ÷ 3 years = 18.33 hours.

<sup>98</sup> See, e.g., 77 FR 6336 (Feb. 7, 2012) (CFTC adopting rules imposing a legal separation with operational commingling ("LSOC") model on DCOs for cleared swaps).

<sup>99</sup> This figure was calculated as follows: ((Assistant General Counsel for 12 hours) + (Compliance Attorney for 10 hours) + (Computer Operations Manager for 7 hours) + (Senior Business Analyst for 7 hours)) = 36 hours x 2 respondent clearing agency that provide, or would potentially provide, CCP services with respect to security-based swaps = 72 hours.

<sup>100</sup> This figure was calculated as follows: (Compliance Attorney for 6 hours) x 2 respondent clearing agencies = 12 hours.

**In summary, the Commission estimates that, over a three-year period, the total recordkeeping burden to comply with Rule 17Ad-22(e)(14) will be 96 hours, or 32 hours per year when annualized over three years.<sup>101</sup> The reporting burden per respondent will be approximately 48 hours, or approximately 16 hours per year when annualized over three years.<sup>102</sup>**

Standards in Rule 17Ad-22(e)(15) that Impose a PRA Burden

The standards in Rule 17Ad-22(e)(15) impose a recordkeeping PRA burden. The requirements of Rule 17Ad-22(e)(15) apply to seven respondents.

Under Rule 17Ad-22(e)(15), respondent clearing agencies are required to establish, implement, maintain and enforce written policies and procedures reasonably designed to identify and manage general business risks borne by the clearing agency. Policies and procedures governing the identification and mitigation of general business risk were not previously required under existing Rule 17Ad-22 and, as a result, the Commission believes that the estimated PRA burdens associated with Rule 17Ad-22(e)(15) will be more significant and may require a respondent clearing agency to make substantial changes to its policies and procedures. The Commission estimates that Rule 17Ad-22(e)(15) will impose an aggregate one-time burden on respondent covered clearing agencies of 1,470 hours to review and update existing policies and procedures and to create new policies and procedures, as necessary.<sup>103</sup>

Rule 17Ad-22(e)(15) also imposes ongoing burdens on a respondent clearing agency by requiring a respondent clearing agency to maintain a viable plan, approved by its board of directors and updated at least annually, for raising additional equity in the event that the covered clearing agency's liquid net assets fall below the level required by the proposed rule. Based on the Commission's previous estimates for ongoing monitoring and compliance burdens with respect to existing Rule 17Ad-22, the Commission estimates that the ongoing activities required by proposed Rule 17Ad-22(e)(15) will impose an aggregate annual burden on respondent clearing agencies of 336 hours.<sup>104</sup>

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<sup>101</sup> 2 respondents \* (36 hours (Year 1 burden) + 6 hours (Year 2 burden) + 6 hours (Year 3 burden)) = 96 hours (estimated total burden over 3 years) ÷ 3 years = 32 hours.

<sup>102</sup> 96 hours (total burden over three years) ÷ 2 respondents = 48 hours (estimated total burden over 3 years) ÷ 3 years = 16 hours.

<sup>103</sup> This figure was calculated as follows: ((Assistant General Counsel for 40 hours) + (Compliance Attorney for 30 hours) + (Computer Operations Manager for 10 hours) + (Senior Business Analyst for 10 hours) + (Financial Analyst for 70 hours) + (Chief Financial Officer for 50 hours)) = 210 hours x 7 respondent clearing agencies = 1,470 hours.

<sup>104</sup> This figure was calculated as follows: ((Compliance Attorney for 42 hours) + (Administrative Assistant for 3 hours) + (Senior Business Analyst for 3 hours)) = 48 hours x 7 respondents clearing agencies = 336 hours.

**In summary, the Commission estimates that, over a three-year period, the total recordkeeping burden to comply with Rule 17Ad-22(e)(15) will be 2,142 hours, or 714 hours per year when annualized over three years.<sup>105</sup> The reporting burden per respondent will be approximately 306 hours, or approximately 102 hours per year when annualized over three years.<sup>106</sup>**

Standards in Rule 17Ad-22(e)(16) that Impose a PRA Burden

The standards in Rule 17Ad-22(e)(16) impose a recordkeeping PRA burden. The requirements of Rule 17Ad-22(e)(16) apply to seven respondents.

Currently, registered clearing agencies are required to have written policies and procedures reasonably designed to address the safeguarding of the assets of the clearing agency and its participants. Rule 17Ad-22(e)(16) contains substantially similar provisions. As a result, the Commission believes that a respondent clearing agency will be required to conduct a review of, and update as necessary, current policies and procedures in order to ensure compliance with the proposed rule. Based on similar policies and procedures requirements and the corresponding burden estimates previously made by the Commission for Rule 17Ad-22(d)(3) the Commission estimates that all respondent clearing agencies will incur an aggregate one-time burden of approximately 140 hours to review and update existing policies and procedures.<sup>107</sup>

Rule 17Ad-22(e)(16) also imposes ongoing burdens on a respondent clearing agency by requiring ongoing monitoring and compliance activities with respect to the policies and procedures implemented in response to the requirements of the rule. Based on the Commission's previous estimates for ongoing monitoring and compliance burdens with respect to existing Rule 17Ad-22, the Commission estimates that the ongoing activities required by proposed Rule 17Ad-22(e)(16) will impose an aggregate annual burden on respondent clearing agencies of 42 hours.<sup>108</sup>

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<sup>105</sup> 7 respondents \* (210 hours (Year 1 burden) + 48 hours (Year 2 burden) + 48 hours (Year 3 burden)) = 2,142 hours (estimated total burden over 3 years) ÷ 3 years = 714 hours.

<sup>106</sup> 2,142 hours (total burden over three years) ÷ 7 respondents = 306 hours (estimated total burden over 3 years) ÷ 3 years = 102 hours.

<sup>107</sup> This figure was calculated as follows: This figure was calculated as follows: ((Assistant General Counsel for 4 hours) + (Compliance Attorney for 8 hours) + (Senior Business Analyst for 4 hours) + (Computer Operations Manager for 4 hours)) = 20 hours x 7 respondent clearing agencies = 140 hours.

<sup>108</sup> This figure was calculated as follows: (Compliance Attorney for 6 hours) x 7 respondent clearing agencies = 42 hours.

**In summary, the Commission estimates that, over a three-year period, the total recordkeeping burden to comply with Rule 17Ad-22(e)(16) will be 224 hours, or 74.67 hours per year when annualized over three years.<sup>109</sup> The reporting burden per respondent will be approximately 32 hours, or approximately 10.67 hours per year when annualized over three years.<sup>110</sup>**

Standards in Rule 17Ad-22(e)(17) that Impose a PRA Burden

The standards in Rule 17Ad-22(e)(17) impose a recordkeeping PRA burden. The requirements of Rule 17Ad-22(e)(17) apply to seven respondents.

Rule 17Ad-22(e)(17) contains similar requirements to those under Rule 17Ad-22(d)(4) but also imposes additional requirements that do not appear in existing Rule 17Ad-22(b), (c) or (d). As a result, a respondent clearing agency is currently required to have some written rules, policies and procedures containing provisions similar to the requirements that will be imposed under the rule, but it would also need to review and update existing policies and procedures, where necessary, and may need to create policies and procedures to address the additional requirements. Based on the similar policies and procedures requirements and the corresponding burden estimates previously made by the Commission for Rule 17Ad-22(d)(4), the Commission estimates that respondent clearing agencies will incur an aggregate one-time burden of 196 hours to review and update existing policies and procedures and to create new policies and procedures, as necessary.<sup>111</sup>

Rule 17Ad-22(e)(17) also imposes ongoing burdens on a respondent clearing agency by requiring ongoing monitoring and compliance activities with respect to the written policies and procedures created in response to the rule. Based on the Commission's previous estimates for ongoing monitoring and compliance burdens with respect to existing Rule 17Ad-22, the Commission estimates that the ongoing activities required by Rule 17Ad-22(e)(17) will impose an aggregate annual burden on respondent clearing agencies of 42 hours.<sup>112</sup>

**In summary, the Commission estimates that, over a three-year period, the total recordkeeping burden to comply with Rule 17Ad-22(e)(17) will be 280 hours, or 93.33 hours**

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<sup>109</sup> 7 respondents \* (20 hours (Year 1 burden) + 6 hours (Year 2 burden) + 6 hours (Year 3 burden)) = 224 hours (estimated total burden over 3 years) ÷ 3 years = 74.67 hours.

<sup>110</sup> 224 hours (total burden over three years) ÷ 7 respondents = 32 hours (estimated total burden over 3 years) ÷ 3 years = 10.67 hours.

<sup>111</sup> This figure was calculated as follows: ((Assistant General Counsel for 4 hours) + (Compliance Attorney for 8 hours) + (Computer Operations Manager for 6 hours) + (Senior Business Analyst for 4 hours) + (Chief Compliance Officer for 4 hours) + (Senior Programmer for 2 hours)) = 28 hours x 7 respondent clearing agency = 196 hours.

<sup>112</sup> This figure was calculated as follows: (Compliance Attorney for 6 hours) x 7 respondent clearing agencies = 42 hours.

**per year when annualized over three years.<sup>113</sup> The reporting burden per respondent will be approximately 40 hours, or approximately 13.33 hours per year when annualized over three years.<sup>114</sup>**

Standards in Rule 17Ad-22(e)(18) that Impose a PRA Burden

The standards in Rule 17Ad-22(e)(18) impose a third-party reporting PRA burden. The requirements of Rule 17Ad-22(e)(18) apply to seven respondents.

Rule 17Ad-22(e)(18) contains similar requirements to those in existing Rules 17Ad-22(b)(5) through (7) and (d)(2).<sup>115</sup> As a result, a respondent clearing agency is currently required to have written rules, policies, and procedures containing provisions similar to the requirements that will be imposed under the rule. Rule 17Ad-22(e)(18) also imposes additional requirements that do not appear in existing Rule 17Ad-22, however, necessitating the creation of new policies and procedures to address these additional requirements. Accordingly, based on the similar policies and procedures requirements and the corresponding burden estimates previously made by the Commission for Rules 17Ad-22(b)(5) through (7) and (d)(2), the Commission estimates that respondent clearing agencies will incur an aggregate one-time burden of 308 hours to review and update existing policies and procedures and to create new policies and procedures, as necessary.<sup>116</sup>

Rule 17Ad-22(e)(18) also imposes ongoing burdens on a respondent clearing agency by requiring ongoing monitoring and compliance activities with respect to the written policies and procedures created in response to the rule. Based on the Commission's previous estimates for ongoing monitoring and compliance burdens with respect to existing Rule 17Ad-22 the Commission estimates that the ongoing activities required by the rule will impose an aggregate annual burden on respondent clearing agencies of 49 hours.<sup>117</sup>

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<sup>113</sup>  $7 \text{ respondents} * (28 \text{ hours (Year 1 burden)} + 6 \text{ hours (Year 2 burden)} + 6 \text{ hours (Year 3 burden)}) = 280 \text{ hours (estimated total burden over 3 years)} \div 3 \text{ years} = 93.33 \text{ hours.}$

<sup>114</sup>  $280 \text{ hours (total burden over three years)} \div 7 \text{ respondents} = 40 \text{ hours (estimated total burden over 3 years)} \div 3 \text{ years} = 13.33 \text{ hours.}$

<sup>115</sup> See 17 CFR 240.17Ad-22(b)(5) through (7) and (d)(2).

<sup>116</sup> This figure was calculated as follows: ((Assistant General Counsel for 10 hours) + (Compliance Attorney for 7 hours) + Computer Operations Manager for 15 hours) + (Senior Business Analyst for 5 hours) + (Chief Compliance Officer for 5 hours) + (Senior Programmer for 2 hours)) = 44 hours x 7 respondent clearing agencies = 308 hours.

<sup>117</sup> This figure was calculated as follows: (Compliance Attorney for 7 hours) x 7 respondent clearing agencies = 49 hours.



**In summary, the Commission estimates that, over a three-year period, the total third-party reporting burden to comply with Rule 17Ad-22(e)(18) will be 406 hours, or 135.33 hours per year when annualized over three years.<sup>118</sup> The reporting burden per respondent will be approximately 58 hours, or approximately 19.33 hours per year when annualized over three years.<sup>119</sup>**

Standards in Rule 17Ad-22(e)(19) that Impose a PRA Burden

The standards in Rule 17Ad-22(e)(19) impose a recordkeeping PRA burden. The requirements of Rule 17Ad-22(e)(19) apply to seven respondents.

Rule 17Ad-22(e)(19) contains requirements that are not addressed in existing Rules 17Ad-22(b), (c) or (d). The Commission believes that the respondent clearing agency will need to create policies and procedures to address the requirements of Rule 17Ad-22(e)(19). The Commission estimates that Rule 17Ad-22(e)(19) will impose an aggregate one-time burden on respondent clearing agencies of 308 hours to create said policies and procedures.<sup>120</sup>

Rule 17Ad-22(e)(19) also imposes ongoing burdens on a respondent clearing agency by requiring ongoing monitoring and compliance activities with respect to the written policies and procedures created in response to the rule. Based on the Commission's previous estimates for ongoing monitoring and compliance burdens with respect to existing Rule 17Ad-22, the Commission estimates that the ongoing activities required by the proposed rule will impose an annual aggregate burden on respondent clearing agencies of 49 hours.<sup>121</sup>

**In summary, the Commission estimates that, over a three-year period, the total recordkeeping burden to comply with Rule 17Ad-22(e)(19) will be 406 hours, or 135.33 hours per year when annualized over three years.<sup>122</sup> The reporting burden per respondent will be**

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<sup>118</sup> 7 respondents \* (44 hours (Year 1 burden) + 7 hours (Year 2 burden) + 7 hours (Year 3 burden)) = 406 hours (estimated total burden over 3 years) ÷ 3 years = 135.33 hours.

<sup>119</sup> 406 hours (total burden over three years) ÷ 7 respondents = 58 hours (estimated total burden over 3 years) ÷ 3 years = 19.33 hours.

<sup>120</sup> This figure was calculated as follows: ((Assistant General Counsel for 10 hours) + (Compliance Attorney for 7 hours) + (Computer Operations Manager for 15 hours) + (Senior Business Analyst for 5 hours) + (Chief Compliance Officer for 5 hours) + (Senior Programmer for 2 hours)) = 44 hours x 7 respondent clearing agencies = 308 hours.

<sup>121</sup> This figure was calculated as follows: (Compliance Attorney for 7 hours) x 7 respondent clearing agencies = 49 hours.

<sup>122</sup> 7 respondents \* (44 hours (Year 1 burden) + 7 hours (Year 2 burden) + 7 hours (Year 3 burden)) = 406 hours (estimated total burden over 3 years) ÷ 3 years = 135.33 hours.

**approximately 58 hours, or approximately 19.33 hours per year when annualized over three years.**<sup>123</sup>

Standards in Rule 17Ad-22(e)(20) that Impose a PRA Burden

The standards in Rule 17Ad-22(e)(20) impose a recordkeeping PRA burden. The requirements of Rule 17Ad-22(e)(20) apply to seven respondents.

Under Rule 17Ad-22(d)(7)<sup>124</sup> registered clearing agencies are currently required to have written policies and procedures similar to the requirements of Rule 17Ad-22(e)(20). As a result, a respondent clearing agency may need to review and update existing policies and procedures, as necessary, to satisfy the requirements of Rule 17Ad-22(e)(20). Based on the similar policies and procedures requirements and the corresponding burden estimates previously made by the Commission for Rule 17Ad-22(d)(7), the Commission believes that respondent clearing agencies will incur an aggregate one-time burden of approximately 308 hours to review and update existing policies and procedures.<sup>125</sup>

Rule 17Ad-22(e)(20) also imposes ongoing burdens on a respondent clearing agency by requiring ongoing monitoring and compliance activities with respect to the written policies and procedures created in response to the rule. Based on the Commission's previous estimates for ongoing monitoring and compliance burdens with respect to existing Rule 17Ad-22, the Commission estimates that the ongoing activities required by the rule would impose an aggregate annual burden on respondent clearing agencies of 49 hours.<sup>126</sup>

**In summary, the Commission estimates that, over a three-year period, the total recordkeeping burden to comply with Rule 17Ad-22(e)(20) will be 406 hours, or 135.33 hours per year when annualized over three years.<sup>127</sup> The reporting burden per respondent will be**

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<sup>123</sup> 406 hours (total burden over three years) ÷ 7 respondents = 58 hours (estimated total burden over 3 years) ÷ 3 years = 19.33 hours.

<sup>124</sup> See 17 CFR 240.17Ad-22(d)(7).

<sup>125</sup> This figure was calculated as follows: ((Assistant General Counsel for 10 hours) + (Compliance Attorney for 7 hours) + (Senior Business Analyst for 5 hours) + (Computer Operations Manager for 15 hours) + (Chief Compliance Officer for 5 hours) + (Senior Programmer for 2 hours) = 44 hours x 7 respondent clearing agencies = 308 hours.

<sup>126</sup> This figure was calculated as follows: (Compliance Attorney for 7 hours) x 7 respondent clearing agencies = 49 hours.

<sup>127</sup> 7 respondents \* (44 hours (Year 1 burden) + 7 hours (Year 2 burden) + 7 hours (Year 3 burden)) = 406 hours (estimated total burden over 3 years) ÷ 3 years = 135.33 hours.

**approximately 58 hours, or approximately 19.33 hours per year when annualized over three years.**<sup>128</sup>

Standards in Rule 17Ad-22(e)(21) that Impose a PRA Burden

The standards in Rule 17Ad-22(e)(21) impose a recordkeeping PRA burden. The requirements of Rule 17Ad-22(e)(21) apply to seven respondents.

Rule 17Ad-22(e)(21) contains requirements similar to those under Rule 17Ad-22(d)(6), but also imposes new requirements.<sup>129</sup> As a result, a respondent clearing agency will likely incur the burdens of reviewing and updating existing policies and procedures and may need to create new policies and procedures to satisfy the proposed rule, as necessary. Accordingly, based on the similar policies and procedures requirements and the corresponding burden estimates previously made by the Commission for Rule 17Ad-22(d)(6), the Commission estimates that that respondent clearing agencies will incur an aggregate one-time burden of approximately 224 hours to review and update existing policies and procedures.<sup>130</sup>

Rule 17Ad-22(e)(21) also imposes ongoing burdens by requiring ongoing monitoring and compliance activities with respect to the written policies and procedures required under the rule. Based on the Commission's previous estimates for ongoing monitoring and compliance burdens with respect to existing Rule 17Ad-22, the Commission estimates that the ongoing activities required by Rule 17Ad-22(e)(21) will impose an aggregate annual burden on respondent clearing agencies of 77 hours.<sup>131</sup>

**In summary, the Commission estimates that, over a three-year period, the total recordkeeping burden to comply with Rule 17Ad-22(e)(21) will be 378 hours, or 126 hours per year when annualized over three years.<sup>132</sup> The reporting burden per respondent will be**

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<sup>128</sup> 406 hours (total burden over three years) ÷ 7 respondents = 58 hours (estimated total burden over 3 years) ÷ 3 years = 19.33 hours.

<sup>129</sup> See 17 CFR 240.17Ad-22(d)(6).

<sup>130</sup> This figure was calculated as follows: ((Assistant General Counsel for 10 hours) + (Compliance Attorney for 7 hours) + (Senior Business Analyst for 5 hours) + (Computer Operations Manager for 10 hours)) = 32 hours x 7 respondent clearing agencies = 224 hours.

<sup>131</sup> This figure was calculated as follows: ((Compliance Attorney for 5 hours) + (Administrative Assistant for 3 hours) + (Senior Business Analyst for 3 hours) = 11 hours x 7 respondent clearing agencies = 77 hours.

<sup>132</sup> 7 respondents \* (32 hours (Year 1 burden) + 11 hours (Year 2 burden) + 11 hours (Year 3 burden)) = 378 hours (estimated total burden over 3 years) ÷ 3 years = 126 hours.

**approximately 54 hours, or approximately 18 hours per year when annualized over three years.**<sup>133</sup>

Standards in Rule 17Ad-22(e)(22) that Impose a PRA Burden

The standards in Rule 17Ad-22(e)(22) impose a recordkeeping PRA burden. The requirements of Rule 17Ad-22(e)(22) apply to seven respondents.

Rule 17Ad-22(e)(22) requires respondent clearing agencies to have written policies and procedures regarding the use of relevant internationally accepted communication procedures and standards. While registered clearing agencies are not subject to a similar existing requirement under Rules 17Ad-22(b), (c) or (d), the Commission understands that covered clearing agencies currently use the relevant internationally accepted communication procedures and standards and expects a respondent clearing agency will need to make only limited changes to satisfy the requirements under the Rule 17Ad-22(e)(22). Accordingly, the Commission estimates that Rule 17Ad-22(e)(22) will impose an aggregate one-time burden on respondent clearing agencies of 168 hours to review and update existing policies and procedures.<sup>134</sup>

Rule 17Ad-22(e)(22) also imposes ongoing burdens on a respondent clearing agency by requiring ongoing monitoring and compliance activities with respect to the written policies and procedures created in response to the rule. Based on the Commission's previous estimates for ongoing monitoring and compliance burdens with respect to existing Rule 17Ad-22, the Commission estimates that the ongoing activities required by Rule 17Ad-22(e)(22) will impose an aggregate annual burden on respondent clearing agencies of 35 hours.<sup>135</sup>

**In summary, the Commission estimates that, over a three-year period, the total recordkeeping burden to comply with Rule 17Ad-22(e)(22) will be 238 hours, or 79.33 hours per year when annualized over three years.**<sup>136</sup> **The reporting burden per respondent will be**

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<sup>133</sup> 378 hours (total burden over three years) ÷ 7 respondents = 54 hours (estimated total burden over 3 years) ÷ 3 years = 18 hours.

<sup>134</sup> This figure was calculated as follows: ((Assistant General Counsel for 2 hours) + (Compliance Attorney for 6 hours) + (Computer Operations Manager for 7 hours) + (Senior Business Analyst for 2 hours) + (Chief Compliance Officer for 5 hours) + (Senior Programmer for 2 hours)) = 24 hours x 7 respondent clearing agencies = 168 hours.

<sup>135</sup> This figure was calculated as follows: (Compliance Attorney for 5 hours) x 7 respondent clearing agencies = 35 hours.

<sup>136</sup> 7 respondents \* (24 hours (Year 1 burden) + 5 hours (Year 2 burden) + 5 hours (Year 3 burden)) = 238 hours (estimated total burden over 3 years) ÷ 3 years = 79.33 hours.

**approximately 34 hours, or approximately 11.33 hours per year when annualized over three years.**<sup>137</sup>

Standards Rule 17Ad-22(e)(23) that Impose a PRA Burden

The standards in Rule 17Ad-22(e)(23) impose a third-party reporting PRA burden. The requirements of Rule 17Ad-22(e)(23) apply to seven respondents.

Rule 17Ad-22(e)(23) contains similar requirements to Rule 17Ad-22(d)(9) but also imposes substantial new requirements.<sup>138</sup> As a result, although a respondent clearing agency is already required to have written rules, policies and procedures containing provisions similar to some of the requirements in Rule 17Ad-22(e)(3). For some provisions of Rule 17Ad-22(e)(23), a respondent clearing agency will be required to establish policies and procedures to address the additional requirements. Accordingly, based on the similar policies and procedures requirements and the corresponding burden estimates previously made by the Commission for Rule 17Ad-22(d)(9), the Commission estimates that respondent clearing agencies will incur an aggregate one-time burden of 966 hours to review and update existing policies and procedures and to create policies and procedures, as necessary.<sup>139</sup>

Rule 17Ad-22(e)(23) also imposes ongoing burdens on a respondent clearing agency by requiring ongoing monitoring and compliance activities with respect to the written policies and procedures created in response to the rule. Based on the Commission's previous estimates for ongoing monitoring and compliance burdens with respect to existing Rule 17Ad-22, the Commission estimates that the ongoing activities required by Rule 17Ad-22(e)(23) will impose an aggregate annual burden on respondent clearing agencies of 238 hours.<sup>140</sup>

**In summary, the Commission estimates that, over a three-year period, the total third-party reporting burden to comply with Rule 17Ad-22(e)(23) will be 1,442 hours, or 480.67 hours per year when annualized over three years.<sup>141</sup> The reporting burden per respondent**

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<sup>137</sup> 378 hours (total burden over three years) ÷ 7 respondents = 34 hours (estimated total burden over 3 years) ÷ 3 years = 11.33 hours.

<sup>138</sup> See 17 CFR 240.17Ad-22(d)(9).

<sup>139</sup> This figure was calculated as follows: ((Assistant General Counsel for 38 hours) + (Compliance Attorney for 24 hours) + (Computer Operations Manager for 32 hours) + (Senior Business Analyst for 18 hours) + (Chief Compliance Officer for 18 hours) + (Senior Programmer for 8 hours)) = 138 hours x 7 respondent clearing agencies = 966 hours.

<sup>140</sup> This figure was calculated as follows: (Compliance Attorney for 34 hours) x 7 respondent clearing agencies = 238 hours.

<sup>141</sup> 7 respondents \* (138 hours (Year 1 burden) + 34 hours (Year 2 burden) + 34 hours (Year 3 burden)) = 1,442 hours (estimated total burden over 3 years) ÷ 3 years = 480.66 hours.

**will be approximately 206 hours, or approximately 68.67 hours per year when annualized over three years.**<sup>142</sup>

### **13. Costs to Respondents**

#### Standards in Rule 17Ad-22(b)(4) that Impose Costs on Registered Clearing Agencies

As discussed above, based on its oversight of clearing agencies, the Commission estimates that Rule 17Ad-22(b)(4) would impose an annual burden on all respondent CCPs for work on model validation. Based on its oversight of clearing agencies, the Commission estimates that Rule 17Ad-22(b)(4) will also impose an annual cost on all respondent CCPs for work on model validation. The Commission believes clearing agencies will hire a consulting firm that will dedicate two consultants to the project for a total period of 12 weeks. The Commission estimates that should respondent CCPs decide to hire external consultants to develop and implement Rule 17Ad-22(b)(4) through written policies and procedures, the ongoing cost associated with hiring such consultants will be approximately \$3.9 million per year.<sup>143</sup>

#### Standards in Rule 17Ad-22(c)(2) that Impose Costs on Registered Clearing Agencies

As noted above, Rule 17Ad-22(c)(2) will require each clearing agency to post on its website an annual audited financial statement. The requirement also will require the services of a registered public accounting firm. The Commission estimates those services will on average cost approximately \$500,000 annually.<sup>144</sup> Therefore, to meet the ongoing requirements of Rule 17Ad-22(c)(2) the Commission estimates a total annual cost of approximately \$5,000,000 in the aggregate for all respondent clearing agencies.<sup>145</sup>

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<sup>142</sup>  $1,442 \text{ hours (total burden over three years)} \div 7 \text{ respondents} = 206 \text{ hours (estimated total burden over 3 years)} \div 3 \text{ years} = 68.67 \text{ hours.}$

<sup>143</sup> This figure was calculated as follows: 2 Consultants for 30 hours per week at \$600 per hour = \$36,000 per week x 12 weeks = \$432,000 per clearing agency x 9 respondent CCPs = \$3,888,000. The \$600 per hour figure for a consultant was calculated using [www.payscale.com](http://www.payscale.com), 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.

<sup>144</sup> A precise estimate of audit costs for clearing agencies cannot be made, and therefore, we examined a number of existing surveys, (see, e.g., surveys by CFO.com studying large and small public companies). While the costs may vary depending on the circumstances, we are using an estimate of \$500,000, which is on the upper range for an average cost.

<sup>145</sup> This figure was calculated as follows: \$500,000 estimated cost of registered public accounting firm x 10 respondent clearing agencies = \$5,000,000.

### Total Costs for Rule 17Ad-22(b) and (c)

The ongoing external cost for Rule 17Ad-22 is \$8.9 million.<sup>146</sup>

### Standards in Rule 17Ad-22(e) that Impose Costs on Covered Clearing Agencies

Rules 17Ad-22(e)(4) through (7) include requirements for covered clearing agencies to have policies and procedures reasonably designed to test and validate models related to measuring financial risks. Based on its supervisory experience and discussions with industry participants, the Commission believes that covered clearing agencies may choose to hire external consultants for the purposes of performing ongoing model validation required under rules 17Ad-22(e)(4) and (e)(7). Should each covered clearing agency choose to hire external consultants, the Commission estimates the ongoing cost associated with hiring such consultants will be approximately \$4,509,120 in the aggregate.<sup>147</sup>

Consequently, the Commission estimates that the annualized cost associated with Rules 17Ad-22(e)(4) and (7) relating to risk model testing and validation will be \$3,006,080 or \$1,503,040 per rule.<sup>148</sup> This will amount to \$214,720 per respondent per rule.<sup>149</sup>

In addition to the costs imposed relating to risk model testing and validation, Rule 17Ad-22(e)(7) will also impose a cost on covered clearing agencies relating to maintaining sufficient liquid resources. Under Rule 17Ad-22(e)(7)(1), a covered clearing agency will be required to maintain sufficient liquid financial resources at a minimum to be able to effect same-day, and where appropriate, intraday and multiday settlement of payment obligations under a wide range of potential stress scenarios that include the default of the participant family that will generate the largest aggregate payment obligation for it in extreme but plausible market conditions.

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<sup>146</sup> This figure was calculated as follows: \$3,888,000 (for Rule 17Ad-22(b)(4)) + \$5,000,000 (for Rule 17Ad-22(c)(2)) = \$8,888,000.

<sup>147</sup> This figure was calculated as follows: 2 Consultants for 40 hours per week at \$671 per hour = \$53,680 x 12 weeks = \$644,160 per clearing agency x 7 covered clearing agencies = \$4,509,120. The \$671 per hour figure for a consultant was calculated using *www.payscale.com*, 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.

<sup>148</sup> This figure was calculated as follows: based on the lower end of the estimated ranges \$0 (Year 1 cost) + \$4,509,120 (Year 2 cost) + \$4,509,120 (Year 3 cost) = \$9,018,240 (estimated total cost for 3 years) ÷ 3 years = \$3,006,080. For the purposes of estimated a PRA cost on a per-rule basis, we have divided the total cost for Rules 17Ad-22(e)(4) and (e)(7) evenly between the two rules.

<sup>149</sup> \$3,006,080 ÷ 7 respondents = \$429,440 ÷ 2 (rules 17Ad-22(e)(4) and (e)(7)) = \$214,720.

Based on its supervisory experience, the Commission believes that some covered clearing agencies currently do not meet the proposed liquidity requirement.

In order to meet the liquid resource requirements of Rule 17Ad-22(e)(7) covered clearing agencies may, among other things, enter into prearranged funding agreements that are deemed to be highly reliable in extreme but plausible market conditions. The Commission estimates that, if covered clearing agencies use prearranged funding agreements to comply with Rule 17Ad-22(e)(7)'s liquid resource requirements, the cost of compliance will be between \$122 and \$204 million per year.

In addition to the costs imposed by the liquid resource requirements of Rule 17Ad-22(e)(7), covered clearing agencies will face costs related to Rule 17Ad-22(e)(15). Specifically, as discussed above, Rule 17Ad-22(e)(15) requires covered clearing agencies to maintain liquid net assets funded by equity equal to the greater of either (a) six months of the covered clearing agency's current operating expenses, or (b) the amount determined by the board of directors to be sufficient to ensure a recovery or orderly wind-down of critical operations and services of the covered clearing agency.

Based on its supervisory experience the Commission estimates that at the lower bound Rule 17Ad-22(e)(15) will impose an annual internal cost of \$16 million, while at the upper bound the rule will impose an annual internal cost of \$50 million.<sup>150</sup>

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<sup>150</sup> To estimate these costs, the Commission applied the capital asset pricing model to observed returns for two clearing agencies that have publicly-traded equity outstanding. This methodology yielded a cost of equity for these two clearing agencies of approximately 10%.



Set forth below is a summary chart identifying the hourly and cost burdens that the Commission has identified for Rule 17Ad-22.

<u>Nature of Information Collection Burden</u>	<u>Type of Collection</u>	<u>Number of Respondents</u>	<u>Annualized Hourly Burden Estimate Industry-Wide</u>	<u>Annualized Hourly Burden Estimate Per Respondent</u>	<u>Estimated Annualized Cost Per Respondent</u>	<u>Total Annualized Burden</u>
Rules 17Ad-22(b)(1)–(3)	Recordkeeping	9	475	98.33		
Rules 17Ad-22(d)(1)—(15)	Recordkeeping	4	328	82		
Rule 17Ad-22(b)(4)	Recordkeeping	9	1,290	143.33	\$432,000	\$3,888,000
Rules 17Ad-22(b)(5)—(7)	Recordkeeping	9	990	110		
Rule 17Ad-22(c)	Recordkeeping	10	1,370	137		
Rule 17Ad-22(c)(1)	Recordkeeping	9	72	8		
Rule 17Ad-22(c)(2)	Third-Party Reporting	10	3,333.33	333.33	\$500,000	\$5,000,000
Rule 17Ad-22(e)(1)	Recordkeeping	7	32.67	4.67		
Rule 17Ad-22(e)(2)	Recordkeeping	7	81.67	11.67		
Rule 17Ad-22(e)(3)	Recordkeeping	7	361.67	51.67		
Rule 17Ad-22(e)(4)	Recordkeeping	7	800.33	114.33	\$214,720	\$1,503,040
Rule 17Ad-22(e)(5)	Recordkeeping	7	266	38		
Rule 17Ad-22(e)(6)	Recordkeeping	6	600	100		
Rule 17Ad-22(e)(7)	Recordkeeping	7	1,367.33	195.33	\$214,720	\$1,503,040
Rule 17Ad-22(e)(8)	Recordkeeping	7	51.33	7.33		
Rule 17Ad-22(e)(9)	Recordkeeping	7	51.33	7.33		
Rule 17Ad-22(e)(10)	Recordkeeping	7	51.33	7.33		
Rule 17Ad-22(e)(11)	Recordkeeping	1	23.67	23.67		
Rule 17Ad-22(e)(12)	Recordkeeping	7	51.33	7.33		

<u>Nature of Information Collection Burden</u>	<u>Type of Collection</u>	<u>Number of Respondents</u>	<u>Annualized Hourly Burden Estimate Industry-Wide</u>	<u>Annualized Hourly Burden Estimate Per Respondent</u>	<u>Estimated Annualized Cost Per Respondent</u>	<u>Total Annualized Burden</u>
Rule 17Ad-22(e)(13)	Recordkeeping	7	128.33	18.33		
Rule 17Ad-22(e)(14)	Recordkeeping	2	32	16		
Rule 17Ad-22(e)(15)	Recordkeeping	7	714	102		
Rule 17Ad-22(e)(16)	Recordkeeping	7	74.67	10.67		
Rule 17Ad-22(e)(17)	Recordkeeping	7	93.33	13.33		
Rule 17Ad-22(e)(18)	Third-Party Reporting	7	135.33	19.33		
Rule 17Ad-22(e)(19)	Recordkeeping	7	135.33	19.33		
Rule 17Ad-22(e)(20)	Recordkeeping	7	135.33	19.33		
Rule 17Ad-22(e)(21)	Recordkeeping	7	126	18		
Rule 17Ad-22(e)(22)	Recordkeeping	7	79.33	11.33		
Rule 17Ad-22(e)(23)	Third-Party Reporting	7	480.67	68.67		

**14. Costs to Federal Government**

Not applicable.

**15. Changes in Burden**

With the adoption of new Rule 17Ad-22(e), the PRA burdens associated with portions of Rule 17Ad-22 (d) have been reduced to reflect a decrease in the number of respondents that will be subject to the provisions of those rules. The Commission believes that seven respondent clearing agencies will be subject to the PRA burdens associated with Rule 17Ad-22(e). Prior to the adoption of Rule 17Ad-22(e), these seven respondent clearing agencies were subject to the PRA burdens associated with Rule 17Ad-22(d). As a result, the Commission believes that only four respondent clearing agencies will remain subject to the PRA burdens of certain portions of Rule 17Ad-22 (d) and estimates aggregate burdens have been adjusted accordingly, as set forth above.

**16. Information Planned for Statistical Purposes**

Not applicable.

**17. Approval to Omit the OMB Expiration Date**

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

**18. Exceptions to Certification for Paperwork Reduction Act Submissions**

Not applicable.

**B. COLLECTIONS OF INFORMATION EMPLOYING STATISTICAL METHODS**

Not applicable. The collection of information does not employ statistical methods.