

SUPPORTING STATEMENT
for the Paperwork Reduction Act Collection Submission
for Rule 602 of Regulation NMS

A. Justification

1. Necessity of Information Collection

Section 11A(a)(2) of the Securities Exchange Act of 1934 (“Exchange Act”) directs the Securities and Exchange Commission (“Commission”) to use its authority under the Exchange Act to facilitate the establishment of a national market system in which, among other things, brokers, dealers, and investors have access to information on securities quotations and transactions. Moreover, the Commission is authorized, under Sections 11A(c)(1)(B) and (F) of the Exchange Act, to assure the prompt, accurate and reliable distribution of quotation information and to assure the fairness and usefulness of the form and content of such information. To achieve these statutory objectives, the Commission promulgated Rule 11Ac1-1, designated as Rule 602 of Regulation NMS, 17 CFR 242.602.¹

Rule 602 contains two related collections of information. The first collection of information is found in Rule 602(a). This reporting requirement obligates each national securities exchange and national securities association to make available to quotation vendors for dissemination to the public the best bid, best offer, and aggregate quotation size for each “subject security,” as defined under the Rule. The second collection of information is found in Rule 602(b). This reporting requirement obligates each exchange member and over-the-counter (“OTC”) market maker that is a “responsible broker or dealer,” as defined under the Rule, to communicate to an exchange or association its best bids, best offers, and quotation sizes for subject securities.²

2. Purpose and Use of the Information Collection

Each of the collections is necessary to achieve the statutory objective of disseminating high-quality quotation information to the public. Brokers, dealers, other

¹ Regulation NMS redesignated the national market system rules previously adopted under Section 11A of the Exchange Act. Securities Exchange Release No. 51808 (June 9, 2005), 70 FR 37496 (June 29, 2005).

² Under Rule 602(b)(5), electronic communications networks (“ECNs”) have the option of reporting to an exchange or association for public dissemination, on behalf of customers that are OTC market makers or exchange market makers, the best-priced orders and the full size for such orders entered by market makers on the ECN, to satisfy such market makers’ reporting obligation under Rule 602(b). Since this reporting requirement is an alternative method of meeting the market makers’ reporting obligation, and because it is directed to nine or fewer persons (ECNs), this collection of information is not subject to OMB review under the Paperwork Reduction Act (“PRA”).

market participants, and members of the public rely on the quotation information required by Rule 602 to determine the best price and market for execution of investor orders. In the absence of these collections of information, investors may not be aware of the best bids and offers available from all significant market participants in securities. Not requiring the information would impair the opportunity for investors to have their orders executed in the best market, which is another important objective of the national market system set forth in Section 11A(a)(1)(C)(iv) of the Exchange Act.

3. Consideration Given to Information Technology

Improved information technology facilitates the dissemination of quotation information in an accurate and timely fashion. Such technology enables persons subject to Rule 602 to collect the required information electronically. Thus, the Commission believes that improved technology reduces the burden imposed by these information collections.

4. Duplication

The required information is not duplicative of any other information collection.

5. Effect on Small Entities

The twenty-three national securities exchanges and one national securities association obligated to report under Rule 602(a) are not small entities as defined by Commission rules. As explained below, there are no entities that presently have a reporting burden under Rule 602(b).

6. Consequences of Not Conducting Collection

The information is collected as each quotation is communicated. Accordingly, any less frequent collection would deprive the public of information on the best prices for a security and undermine the purposes of Rule 602.

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

There are no special circumstances. This collection is consistent with the guidelines in 5 CFR 1320.5(d)(2).

8. Consultations Outside the Agency

The required Federal Register notice with a 60 day comment period soliciting comments on this collection of information was published. No public comments were received.

9. Payment or Gift

Not applicable.

10. Confidentiality

No assurances of confidentiality are necessary because the information will be made available to the public.

11. Sensitive Questions

No information of a sensitive nature will be required under this collection of information. The information collection does not collect personally identifiable information (PII). The agency has determined that a system of records notice (SORN) and privacy impact assessment (PIA) are not required in connection with the collection of information.

12. Information Collection Burden

The aggregate reporting burden under Rule 602 is 30,590 hours annually, which is comprised of 30,590 hours relating to Rule 602(a) and 0 hours relating to Rule 602(b), as explained in further detail below.

a. Rule 602(a)

For the reporting obligation under Rule 602(a), the respondents are the twenty-two national securities exchanges and one national securities association.³ The Commission estimates that each exchange or association on average will respond (*i.e.*, disseminate and update bids, offers, and quotation sizes to quotation vendors) approximately 262,728,469,832⁴ times per year.⁵ These figures are based on a 252

³ The twenty-three national securities exchanges registered with the Commission under Section 6(a) of the Exchange Act are: BOX Exchange LLC; Cboe BYX Exchange, Inc.; Cboe BZX Exchange, Inc.; Cboe C2 Exchange, Inc.; Cboe EDGA Exchange, Inc.; Cboe EDGX Exchange, Inc.; Cboe Exchange, Inc.; Investors Exchange LLC; Long-Term Stock Exchange, Inc.; Miami International Securities Exchange LLC; MIAX Emerald, LLC; MIAX PEARL, LLC; Nasdaq BX, Inc.; Nasdaq GEMX, LLC; Nasdaq ISE, LLC; Nasdaq MRX, LLC; Nasdaq PHLX LLC; The Nasdaq Stock Market LLC; New York Stock Exchange LLC; NYSE Arca, Inc.; NYSE American LLC; NYSE Chicago, Inc.; and NYSE National, Inc. The one national securities association registered with the Commission under Section 15A of the Exchange Act is the Financial Industry Regulatory Authority, Inc.

⁴ The Commission derived the average number of responses per national securities exchange or national securities association as follows: 5,780,026,336,314 (total number of responses in 2018) / 22 (the total number of national securities

trading day year. The total annual time burden for each exchange or association is estimated to be 1,330 hours.⁶ These figures are based on an estimate of 18.22 microseconds (or 0.00001822 seconds) per response (*i.e.*, the time it takes to update a quote). The annual aggregate burden for all respondents combined is estimated to be 30,590 hours.⁷

b. Rule 602(b)

For the reporting obligation under Rule 602(b), the respondents are exchange members and OTC market makers.

With respect to exchange members, the highly automated trading systems now operated by securities exchanges have transformed the nature of trading and the communication of quotations on an exchange. Exchange members that communicate a quotation on an exchange through its automated systems necessarily will also have communicated that quotation to the exchange in compliance with Rule 602(b). As a result, the communication of quotations through an exchange's electronic trading system effectively means that members currently have no reporting burden under Rule 602(b) for these quotations. While a few exchanges continue to operate manual trading floors in conjunction with their automated trading systems, the Commission believes that these exchanges have provided their floor members with automated means to communicate on the exchange any quotations that would fall within the requirements of Rule 602(b), and that such automated communication on the exchange also would comply with Rule 602(b). The manual trading floors generally are used for more specialized types of trading services, such as price improvement auctions and various types of facilitation and

exchanges and national securities associations in 2018) = average annual number of responses per respondent under 602(a). Long-Term Stock Exchange, Inc. was not registered as a national securities exchange in 2018 so is not included in the calculation.

⁵ This figure is based on discussions between Commission, Securities Industry Automation Corporation (“SIAC”) and Nasdaq Securities Information Processor (“Nasdaq SIP”) staff. SIAC and Nasdaq SIP are the securities information processors that collect and then consolidate quote information for dissemination to the public in both the equities and options markets.

⁶ The Commission derived the annual time burden for each national securities exchange or national securities association from the following: (262,728,469,832 (average annual number of responses for each respondent) x 0.00001822 (seconds per response)) / 3600 (seconds in an hour) = 1,330 hours (total annual burden for each respondent in hours).

⁷ The Commission derived the annual aggregate burden for all respondents reporting under Rule 602(a) from the following: 1,330 (annual burden hours per respondent) x 23 (respondents) = 30,590 annual aggregate burden for all respondents in hours.

exposure mechanisms for large orders that do not fall within the requirements of Rule 602(b).

With respect to OTC market makers, Rule 602(b) applies to quotations that are communicated to a broker or dealer or customer otherwise than on an exchange. The Commission believes that there are presently no OTC market makers that quote other than on an exchange, and therefore that this type of respondent also has no reporting burden under Rule 602(b).

Rule	Burden Type	Number of Respondents	Annual Burden Per Respondent (Hours)	Total Annual Burden for All Respondents (Hours)
Rule 602(a)	Periodic Reporting	23	1,330	30,590
Rule 602(b)	Periodic Reporting	0	0	0
<i>Total Aggregate Burden</i>				<i>30,590</i>

13. Costs to Respondents

Not applicable.

14. Costs to Federal Government

There is no estimated cost for the federal government associated with Rule 602.

15. Changes in Burden

a. Rule 602(a)

The increase in the total estimated burden on respondents is due to an increase in the estimated number of responses per respondent based on 2018 market data and a resulting increase in the annual time burden per respondent as well as an increase in the number of respondents from twenty to twenty-three.

b. Rule 602(b)

There is no change in reporting burden under Rule 602(b).

16. Information Collection Planned for Statistical Purposes

Not applicable.

17. Approval to Omit the OMB Expiration Date

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

18. Exceptions to Certification for Paperwork Reduction Act Submissions

Not applicable. This collection complies with the requirements in 5 CFR 1320.9

B. Collections of Information Employing Statistical Methods

This collection does not involve statistical methods.