

SUPPORTING STATEMENT
for the Paperwork Reduction Act Information Collection Submission for
Rule 302

A. JUSTIFICATION

1. Necessity of Information Collection

Regulation ATS sets forth a regulatory regime for “alternative trading systems” (“ATs”). An entity that meets the definition of an exchange must register, pursuant to Section 5 of the Exchange Act, as a national securities exchange under Section 6 of the Exchange Act¹ or operate pursuant to an appropriate exemption.² One of the available exemptions is for ATs.³ Exchange Act Rule 3a1-1(a)(2) exempts from the definition of “exchange” under Section 3(a)(1) an organization, association, or group of persons that complies with Regulation ATS.⁴ Regulation ATS requires an ATs to, among other things, register as a broker-dealer with the Securities and Exchange Commission (“SEC”), file a Form ATS with the Commission to notice its operations, and establish written safeguards and procedures to protect subscribers’ confidential trading information. An ATs that complies with Regulation ATS and operates pursuant to the Rule 3a1-1(a)(2) exemption would not be required by Section 5 to register as a national securities exchange.

Regulation ATS is composed of Rules 300, 301, 302, 303 and 304.⁵ Rule 300 defines terms for the purposes of Regulation ATS. Rule 301 sets forth various obligations of ATs. Rule 302 establishes a set of records relating to trading activity that the ATs must make. Rule 303 establishes requirements for the preservation of certain records that ATs must make. Rule 304 sets forth the conditions to the ATs exemption for ATs that trade NMS stock (“NMS Stock ATs”), including the requirement that an NMS Stock ATs file an initial Form ATS-N with the Commission and the initial Form ATS-N be effective.

¹ See 15 U.S.C. §§ 78e and 78f. A “national securities exchange” is an exchange registered as such under Section 6 of the Exchange Act.

² 15 U.S.C. 78a *et seq.*

³ Rule 300(a) of Regulation ATS provides that an ATs is “any organization, association, person, group of persons, or system: (1) [t]hat constitutes, maintains, or provides a market place or facilities for bringing together purchasers and sellers of securities or for otherwise performing with respect to securities the functions commonly performed by a stock exchange within the meaning of [Exchange Act Rule 3b-16]; and (2) [t]hat does not: (i) [s]et rules governing the conduct of subscribers other than the conduct of subscribers’ trading on such [ATs]; or (ii) [d]iscipline subscribers other than by exclusion from trading.”

⁴ See 17 CFR 240.3a1-1(a)(2).

⁵ 17 CFR 242.300 to 242.304.

2. Purpose and Use of the Information Collection

Under Rule 302, ATSS are required to make a record of subscribers to the ATS, daily summaries of trading in the ATS and time-sequenced records of order information in the ATS. Regulators (including the SEC and the self-regulatory organizations (“SROs”)) use the information contained in the records required to be preserved by Rule 302 to ensure that ATSS are in compliance with Regulation ATS as well as other applicable rules and regulations. Without the data required by the Rule, regulators would be limited in their ability to comply with their statutory obligations, provide for the protection of investors, and promote the maintenance of fair and orderly markets.

3. Consideration Given to Information Technology

The SEC believes that improvements in telecommunications and data processing technology may reduce any burdens that result from Rule 302. The SEC is not aware of any technical or legal obstacles to reducing the burden through the use of improved information technology.

4. Duplication

Most of the records required to be made under the Rule reflect practices that prudent ATSS would establish. Because most ATSS would maintain much of the information required by the Rule, no duplication occurs with respect to such information. To the extent that the Rule establishes new collections of information, there is no similar information available that could replace the information required.

5. Effect on Small Entities

Rule 302 applies generally to all ATSS and does not depend on the size of the system. Therefore, the Rule could apply to small businesses. An entity that complies with Regulation ATS must, among other things, register as a broker dealer.⁶ Thus, the SEC’s definition of small entity as it relates to broker-dealers also applies to ATSS. Pursuant to 17 CFR 240.0-10(c), the term “small business” or “small organization” when used in reference to a broker-dealer means a broker-dealer that has total capital (net worth plus subordinated liabilities) of less than \$500,000 on the date in the prior fiscal year as of which its audited financial statements were prepared pursuant to 17 CFR 240.17a-5(d) or, if not required to file such statements, a broker-dealer that had total capital of less than \$500,000 on the last business day of the preceding fiscal year (or in the time that it has been in business); and is not affiliated with any person (other than a natural person) that is not a small business or small organization as defined in 17 CFR 240.0-10.

Because the risks that the SEC monitors in the operation of an ATS occur in any size business, the SEC has determined that Rule 302 must apply in the same manner to

⁶ See 17 CFR 242.301(b)(1).

small as well as large entities. Hence, the Rule does not contain an exemption for small entities.

The Commission notes that there are approximately 83 ATSS that are subject to Regulation ATS. The Commission staff estimates that currently 14 broker-dealers operating as ATSS registered with the Commission are small entities as currently defined by the Act.

6. Consequences of Not Conducting Collection

The information required to be collected under Rule 302 should increase the abilities of the SEC, state securities regulatory authorities, and the SROs to ensure that ATSS are in compliance with Regulation ATS as well as other applicable rules and regulations. If the information is not collected or is collected less frequently, regulators would be limited in their ability to comply with their statutory obligations, provide for the protection of investors, and promote the maintenance of fair and orderly markets.

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

The respondents receive no payments or gifts.

10. Confidentiality

The records required by Rule 302 are available only for the examination of the SEC staff, state securities authorities, and the SROs. Subject to the provisions of the Freedom of Information Act, 5 U.S.C. § 522 (“FOIA”), and the SEC’s rules thereunder (17 CFR 200.80(b)(4)(iii)), the SEC does not generally publish or make available information contained in any reports, summaries, analyses, letters, or memoranda arising out of, in anticipation of, or in connection with an examination or inspection of the books and records of any person or any other investigation.

11. Sensitive Questions

Rule 302 requires an Alternative Trading System to collect and keep the identity of certain parties/name of the individuals, but it is not reported to the Commission (except in

the case of an examination). No information of a sensitive nature, including social security numbers, 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. Burden of Information Collection

As a condition to the exemption, ATSs required to comply with recordkeeping requirements under Rule 302 . The SEC estimates that the average time burden for each respondent to comply with the recordkeeping requirements under the rule is approximately 45 hours (Compliance Clerk) per year. The SEC estimates the related internal cost of compliance for this hour burden per respondent at approximately \$ 3285 per year. This estimated cost is derived from 45 hours per year at \$73 per hour.⁷

The SEC estimates that currently there are approximately 83 ATSs that are registered as broker-dealers and have an active Form ATS initial operation report on file with the Commission. The SEC estimates the average aggregate hour burden for all respondents to comply with Rule 302 is 3735 hours per year (83 ATSs at 45 hours per ATS per year). The SEC estimates that the aggregate internal cost of compliance for all respondents to comply with Rule 302 is \$272,655 per year (83 ATSs at \$3285 per ATS per year).

Rule	Burden Type	Number of Respondents	Time Per Response	Total Burden (Hours)
Rule 302 (Regulation ATS)	Recordkeeping	83	45 hours (per year)	3735 hours (per year)

13. Costs to Respondents

The SEC believes that compliance with Rule 302 of Regulation ATS does not require any capital or start up costs, or any recurring annual external operating and maintenance costs in addition to the hour burdens and internal compliance costs discussed above.

14. Costs to Federal Government

⁷ \$73 per hour figure for a Compliance Clerk is from SIFMA's Office Salaries in the Securities Industry 2013, modified by SEC staff to account for an 1800-hour work-year and multiplied by 2.93 to account for bonuses, firm size, employee benefits and overhead, and adjusted for inflation.

The federal government does not experience significant costs based on the recordkeeping required pursuant to Rule 302. The information collected by the respondents typically would be reviewed only as part of an investigation. As a matter of routine, however, the SEC does not review the records kept by the respondents.

15. Changes in Burden

The estimated hour burden associated with Rule 302 of Regulation ATS has decreased from 3780 to 3735 hours per year as a result of a decrease in the SEC's estimate of the number of ATSs from 84 to 83.

16. Information Collection Planned for Statistical Purposes

Not applicable. The information collection is not used for statistical purposes.

17. Approval to Omit OMB Expiration Date

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

18. Exceptions to Certification for Paperwork Reduction Act Submissions

This collection complies with the requirements in 5 CFR 1320.9.

B. COLLECTION OF INFORMATION EMPLOYING STATISTICAL METHODS

This collection does not employ statistical methods.