

**SUPPORTING STATEMENT**  
**for the Paperwork Reduction Act Information Collection Submission for**  
**Rule 6a-4 and Form 1-N**

**A. Justification**

1. Information Collection Necessity

The Securities Exchange Act of 1934 (“Exchange Act”) provides a framework for self-regulation under which various entities involved in the securities business, including national securities exchanges, have primary responsibility for regulating their members or participants. The role of the Securities and Exchange Commission (“SEC” or “Commission”) in this framework is primarily one of oversight: the Exchange Act charges the SEC with supervising the national securities exchanges and assuring that each complies with and advances the policies of the Exchange Act.

The Exchange Act was amended by the Commodity Futures Modernization Act of 2000 (“CFMA”), which allows the trading of futures on individual stocks or on narrow-based stock indexes (collectively, “security futures products”). Under the CFMA, markets that wish to trade security futures products are regulated jointly by the SEC and the Commodity Futures Trading Commission (“CFTC”). The Exchange Act, as amended by the CFMA, provides that futures exchanges that meet certain criteria and that wish to trade security futures products must file notice with the SEC to become a “Security Futures Product Exchange.”<sup>1</sup>

Rule 6a-4 sets out procedures for filing such notices with the SEC on Form 1-N. Form 1-N calls for information regarding: how the futures exchange operates, its rules and procedures, corporate governance, its criteria for membership, its subsidiaries and affiliates, and the security futures products it intends to trade. Rule 6a-4 also requires existing Security Futures Product Exchanges to file: (1) amendments to Form 1-N in the event of material changes to the information provided in the initial Form 1-N; (2) annual and three-year updates of certain information provided in the initial Form 1-N; (3) certain information that is provided to the exchange’s members; and (4) a monthly report summarizing the exchange’s trading of security futures products.

2. Information Collection Purpose and Use

The information obtained under Rule 6a-4 and Form 1-N provides the SEC with basic information about exchanges that trade security futures products. This information assists the SEC to ascertain that such exchanges’ activities do not conflict with the Exchange Act and, thus, assists the SEC’s efforts to protect investors and the public interest. An entity that is not already registered with the SEC and that does not comply with proposed Rule 6a-4 by filing the Form 1-N is not permitted to trade security futures products.

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<sup>1</sup> See 15 U.S.C. 78f(g).

### 3. Consideration Given to Information Technology

Because much of the information requested by Form 1-N consists of copies of existing documents, the SEC does not expect information technology to reduce respondents' burden in any meaningful way. However, Rule 6a-4 permits respondents to make certain information available on the Internet and to notify the Commission of its web location. The Internet has developed the potential to ease compliance burdens for respondents and increase the speed, accuracy, and availability of information, generating benefits to investors and financial markets.

### 4. Duplication

Because the CFTC shares jurisdiction with the SEC to regulate the markets for security futures products, much of the information collected by the SEC also is collected by the CFTC. The Exchange Act, as amended by the CFMA, provides that, if a futures exchange has filed documents with the CFTC, to the extent that such documents contain information satisfying the SEC's informational requirements, copies of such documents may be filed with the SEC in lieu of the SEC's required written notice.<sup>2</sup> In addition, Rule 6a-4 provides that, in lieu of providing hard copies for certain information, a Security Futures Product Exchange may simply provide the SEC with the location of the website where such information may be found.

### 5. Effect on Small Entities

Not applicable. None of the entities that will file notice to become Security Futures Product Exchanges and trade security futures products is a small business entity.

### 6. Consequences of Not Conducting Collection

To become a Security Futures Product Exchange, an entity must file a single Form 1-N. Therefore, less frequent collection is not feasible. After an entity files the initial Form 1-N and becomes a Security Futures Product Exchange, Rule 6a-4 requires the entity to file: (1) amendments to Form 1-N in the event of material changes to the information provided in the initial Form 1-N; (2) periodic updates of certain information provided in the initial Form 1-N; (3) certain information that is provided to the exchange's members; and (4) a monthly report summarizing the exchange's trading of security futures products. Any less frequent collection of information would deprive the SEC of up-to-date information that is necessary to regulate Security Futures Product Exchanges in accordance with the Exchange Act.

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

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

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<sup>2</sup> See 15 U.S.C. 78f(g)(2)(A).

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. Rule 6a-4 and Form 1-N do not contemplate providing payments or gifts to respondents.

10. Confidentiality

Not applicable. Information provided on Form 1-N is publicly available.

11. Sensitive Questions

No information of a sensitive nature, including social security numbers, will be required under this collection of information. The information collection collects basic Personally Identifiable Information (PII) that may include name, job title, work address, and work phone number. However, the agency has determined that the information collection does not constitute a system of records for purposes of the Privacy Act. Information is not retrieved by a personal identifier. In accordance with Section 208 of the E-Government Act of 2002, the agency has determined that the information collection does not trigger the Privacy Impact Assessment (PIA) requirement. The information collection is collected and maintained in paper.

12. Information Collection Burden

a. Total Burden

The SEC estimates that the total annual burden for all Security Futures Product Exchanges to comply with Rule 6a-4 after initial filing is 171 hours. This hour burden is comprised of: (1) 60 hours for four respondents combined to prepare and submit periodic amendments to Form 1-N required under Rule 6a-4(b)(1); (2) 60 hours for four respondents combined to prepare annual amendments to Form 1-N required under Rule 6a-4(b)(3); (3) 27 hours for four respondents combined to prepare and submit 3-year amendments to Form 1-N required under Rule 6a-4(b)(4); and (4) 24 hours for four respondents combined to prepare and submit supplementary materials and monthly reports.<sup>3</sup>

b. Periodic Amendments

Rule 6a-4(b)(1) requires existing Security Futures Product Exchanges to file an amendment to Form 1-N whenever material information supplied in the initial Form 1-N changes and to update

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<sup>3</sup> SEC believes that initial filings will be infrequent, if ever. Therefore, we estimate the burden for initial Form 1-N filings is 0 hours.

certain information on a periodic basis. The SEC estimates the burden associated with these periodic amendments to be 60 hours.

In its most recent Paperwork Reduction Act submission for Form 1, the SEC estimates that each exchange will file one amendment or periodic update per year at an average burden of 25 hours per response. The Commission believes that Security Futures Product Exchanges will file one amendment or update per year, but, because Form 1-N will be a less comprehensive filing than Form 1, the SEC estimates that the average burden for filing each amendment or update to Form 1-N will be 15 hours per response. Therefore, the SEC estimates that each respondent will incur a burden of 15 hours in association with this requirement, for a total burden of 60 hours for four exchanges.<sup>4</sup>

The Commission estimates compliance per amendment to consist of: 10 hours of in-house professional work + 5 hours of in-house clerical work x 1 response = 15 hours. The internal cost of compliance per amendment, therefore, will be approximately \$4,575 ((10 hours x \$417) + (5 hours x \$81) x 1 response) and the total internal cost of compliance for all four periodic amendments will be approximately \$18,300 per year.

c. Annual Amendments

Additionally, Rule 6a-4(b)(3) requires existing Security Futures Product Exchanges to file an amendment to Form 1-N at certain mandatory intervals. Every year, a Security Futures Product Exchange shall file, as an amendment to Form 1-N, Exhibits F, H, and I. The SEC estimates the average burden for each annual filing will be 15 hours, for a total burden of 60 hours for all four respondents.

The Commission estimates compliance per amendment to consist of: 10 hours of in-house professional work + 5 hours of in-house clerical work x 1 response = 15 hours. The cost of compliance per amendment, therefore, will be approximately \$4,575 ((10 hours x \$417) + (5 hours x \$81) x 1 response) and the total internal cost of compliance for all amendments will be approximately \$18,300 per year.

d. Three-Year Amendments

As discussed above, Rule 6a-4(b)(4) requires existing Security Futures Product Exchanges to file an amendment to Form 1-N at certain mandatory intervals. In addition to the annual amendments discussed above, a Security Futures Product Exchange shall file, as an amendment to Form 1-N, Exhibits A, B, C, and E every three years. The SEC estimates the burden for each Three-Year Amendments to be 20 hours. Since we expect four respondents to file every three years, we expect 1.33 filings on an annual basis. Thus, the Commission estimates the total annualized burden for complying with the three-year amendments to be 27 hours.

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<sup>4</sup>

The Commission notes that while there are currently five Security Futures Product Exchanges, one of those exchanges, NQLX, is dormant.

The Commission estimates compliance per amendment to consist of: 15 hours of in-house professional work + 5 hours of in-house clerical work x 1 response = 20 hours. The cost of compliance per amendment, therefore, will be approximately \$6660 (15 hours x \$417) + (5 hours x \$81).

e. Supplemental Materials

Finally, Rule 6a-4(c) requires each existing Security Futures Product Exchange to provide the SEC with copies of certain supplemental materials sent to the exchange's members, and to file monthly reports concerning security futures products traded on the exchange.<sup>5</sup> The SEC estimates that the preparation and filing of amendments generally involves photocopying existing documents and would usually take less than one-half hour per response. The Commission estimates that each active exchange will make approximately 12 such filings annually. The SEC estimates that each exchange will incur an annual burden of 6 hours, for a total burden across four exchanges of 24 hours.

The Commission estimates compliance per filing to consist of 0.5 hours of in-house clerical work. The cost of compliance per filing, therefore, is approximately \$41.

Summary of Hourly Burdens

Rule	Burden Type	Number of Respondents	Number of Annual Responses Per Respondent	Time Per Response (Hours)	Total Burden Per Burden Type (Hours)
<b>Rule 6a-4 (b)(1)</b>	Periodic Amendments	4	1	15	60
<b>Rule 6a-4 (b)(3)</b>	Annual Amendments	4	1	15	60
<b>Rule 6a-4 (b)(4)</b>	3-Year Amendments	1.33	1	20	27
<b>Rule 6a-4 (c)</b>	Supplemental Materials	4	12	0.5	24
<b>Total Aggregate Burden</b>					171

13. Costs to Respondents

The SEC estimates that the total annual cost burden for all Security Futures Product Exchanges after filing Form 1-N is \$1216, calculated as follows: (1) \$400 in miscellaneous clerical expenses for four respondents combined to prepare and submit periodic amendments to Form 1-N required under Rule 6a-4(b)(1); (2) \$400 in miscellaneous clerical expenses for four respondents combined to prepare and submit annual amendments under Rule 6a-4(b)(3); \$176 in miscellaneous clerical expenses for four respondents combined to prepare and submit three-year amendments to

<sup>5</sup> Existing Rule 6a-3 imposes a similar requirement on securities exchanges registered under Form 1.

Form 1-N required under Rule 6a-4(b)(4); and (4) \$240 in miscellaneous clerical expenses for four respondents combined to prepare and submit supplementary materials and monthly reports.

#### Summary of Cost Burden

Rule	Burden Type	Number of Respondents	Number of Annual Responses Per Respondent	Cost per Response (Dollars)	Total Cost Per Burden Type (Dollars)
<b>Rule 6a-4 (b)(1)</b>	Periodic Amendments	4	1	\$100	\$400
<b>Rule 6a-4 (b)(3)</b>	Annual Amendments	4	1	\$100	\$400
<b>Rule 6a-4 (b)(4)</b>	3-Year Amendments	1.33	1	\$176	\$176
<b>Rule 6a-4 (c)</b>	Supplemental Materials	4	12	\$5	\$240
<b>Total Aggregate Burden</b>					<b>\$1216</b>

#### 14. Costs to Federal Government

The cost to the Federal Government in administering Rule 6a-4 is \$13,226, which results from appropriate regulatory staff time and related overhead costs devoted to reviewing the filings submitted by respondents.

The SEC estimates that its aggregate annual costs to review amendments and updates to Form 1-N filings will be \$10,496 (four respondents x one amendment or update per year per respondent x \$2,624/amendment). The SEC estimates that it will devote approximately 8 hours of professional time to review amendments and updates to Form 1-N which, at \$280/hour, has a related cost of \$2,320 (((\$280 x 8 hours) + (\$10 (miscellaneous clerical expenses) x 8)). The SEC also estimates that it will devote approximately 4 hours of administrative time to review each Form 1-N which, at \$76/hour, has a related cost of \$304. The total cost to review amendments and updates to each Form 1-N is \$2,624. If the SEC receives four amendments to Forms 1-N, one from each respondent as estimated above, the total estimated cost to review these forms is \$10,496.

In addition, the SEC estimates that its total operational cost to review periodic information updates and monthly reports required by Rule 6a-4 will be approximately \$2,730 per year. This amount was based on our computation of the value of staff time devoted to reviewing similar filings made under existing Rule 6a-3 on a regular basis and the related overhead value at 35 percent of the value of such staff time (\$162.50 to review 1 Rule 6a-3 filing x .35 x 48 responses). Therefore, the total cost to the Federal Government in administering Rule 6a-4 is \$13,226.

#### 15. Changes in Burden

No applicable. The burdens have not changed.

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. Collections of Information Employing Statistical Methods**

This collection does not involve statistical methods.