

**SUPPORTING STATEMENT for the Paperwork Reduction Act Information Collection  
Submission for Rule 18a-4 – Segregation requirements for security-based swap dealers and  
major security-based swap participants.  
3235-0700**

This submission is being made pursuant to the Paperwork Reduction Act of 1995, 44 U.S.C. Section 3501 *et seq.*

**A. JUSTIFICATION**

**1. Necessity of Information Collection**

On June 21, 2019, in accordance with Section 763 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”),<sup>1</sup> which added section 15F to the Securities Exchange Act of 1934 (the “Exchange Act”),<sup>2</sup> the Securities and Exchange Commission (the “Commission”) has adopted Rule 18a-4 to set forth segregation requirements for security-based swap dealers (“SBSDs”) and major security-based swap participants (“MSBSPs”) that are not registered as broker-dealers.<sup>3</sup> The rule establishes a number of new collections of information requirements.

Rule 18a-4, as adopted, establishes segregation requirements for cleared and non-cleared security-based swap transactions, which applies to non-broker-dealer SBSDs (*i.e.*, bank SBSDs and nonbank stand-alone SBSDs), as well as notification requirements for non-broker-dealer SBSDs and MSBSPs.<sup>4</sup> The rule requires non-broker-dealer SBSDs to open and maintain special accounts with banks and obtain written acknowledgements from, and enter into written contracts with, the banks. Non-broker-dealer SBSDs are also required to at all times maintain in a special account, through deposits into the account, cash and/or qualified securities in amounts computed

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<sup>1</sup> See *Dodd-Frank Wall Street Reform and Consumer Protection Act*, Public Law 111-203, 124 Stat. 1376 (2010).

<sup>2</sup> See 15 U.S.C. 78o-10(e)(2)(B).

<sup>3</sup> See *Capital, Margin, and Segregation Requirements for Security-Based Swap Dealers and Major Security-Based Swap Participants and Capital Requirements for Broker-Dealers*, Exchange Act Release No. 86175.

<sup>4</sup> The Commission has also adopted amendments to Rule 15c3-3 under the Exchange Act to establish segregation requirements for broker-dealers, including broker-dealer SBSDs that are parallel to the requirements in Rule 18a-4 applicable to SBSDs that are not broker-dealers. See OMB No. 3235-0078. The hour burdens for the collection of information related to Rule 15c3-3, as amended, in the final rule release were included in the collection of information for Rule 18a-4, as proposed to be adopted, in the proposing release. See *Capital, Margin, and Segregation Requirements for Security-Based Swap Dealers and Major Security-Based Swap Participants and Capital Requirements for Broker-Dealers; Proposed Rule*, Exchange Act Release No. 68071, 77 FR 70214 (Nov. 23, 2012). These hours were moved to the existing collection of information in Rule 15c3-3, as amended, as a result of changes made to the final rule in response to comments to require that broker-dealers comply with the segregation requirements of paragraph (p) to Rule 15c3-3, as amended, with respect to their security-based swap activities (rather than the requirements of Rule 18a-4, as adopted). There are other burdens in Rule 18a-4, however, that remain applicable to other entities and have not been moved to Rule 15c3-3. As discussed in more detail herein, Rule 18a-4 was adopted to establish largely parallel segregation requirements applicable to stand-alone and bank SBSDs, as well as notification requirements for nonbank SBSDs.

in accordance with the formula set forth in Exhibit A to Rule 18a-4, as adopted. The rule also requires that the computations necessary to determine the amount required to be maintained in the special bank account must be made on a daily basis.

In addition, the rule requires that both non-broker-dealer SBSBs and MSBSPs provide notice to a counterparty pursuant to Section 3E(f) of the Exchange Act prior to the execution of the first non-cleared security-based swap transaction with the counterparty occurring after the effective date of the adopted rule. The rule also requires non-broker-dealer SBSBs to obtain agreements from counterparties that do not choose to require segregation of funds or other property pursuant to Section 3E(f) of the Exchange Act or paragraph (c)(3) of Rule 18a-4, as adopted, in which the counterparty agrees to subordinate all of its claims against the SBSB to the claims of security-based swap customers of the SBSB. Finally, Rule 18a-4 also requires all registered foreign SBSBs that enter into security-based swaps to provide counterparties that are not U.S. persons certain disclosures regarding the potential treatment of their collateral and the role of U.S. and foreign law in any insolvency proceedings.<sup>5</sup>

As originally proposed, all SBSBs were subject to the segregation and notice requirements of Rule 18a-4. However, due to industry comments received by the Commission on Rule 18a-4, as proposed to be adopted, the Commission codified the security-based swap segregation requirements for broker-dealers in Rule 15c3-3 (OMB No. 3235-0033), as amended, rather than in Rule 18a-4, as adopted, in order to consolidate broker-dealer customer protection requirements in Rule 15c3-3.<sup>6</sup> As a result, the collections of information for the segregation and notice requirements for broker-dealers now fall under Rule 15c3-3, and the Commission has prepared an amended Supporting Statement for Rule 15c3-3 (and reduced the estimates for the collections of information in this rule) accordingly.

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

Rule 18a-4, as adopted, is integral to the Commission's financial responsibility program for SBSBs as they are designed to protect the rights of security-based swap customers and their ability to promptly obtain their property from an SBSB. The collection of information requirements in the rule facilitates the process by which the Commission and its staff monitor how SBSBs are fulfilling their custodial responsibilities to security-based swap customers. Rule 18a-4 also requires that an SBSB provide certain notices to its counterparties.<sup>7</sup> These notices alert counterparties to the alternatives available to them with respect to segregation of non-

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<sup>5</sup> See paragraph (e) of Rule 18a-4, as adopted.

<sup>6</sup> The hour and cost burdens for broker-dealer SBSBs were included in the collection of information for Rule 18a-4, as proposed to be adopted, in the proposing release. See *Capital, Margin, and Segregation Requirements for Security-Based Swap Dealers and Major Security-Based Swap Participants and Capital Requirements for Broker-Dealers; Proposed Rule*, Exchange Act Release No. 68071, 77 FR 70214 (Nov. 23, 2012). These hour and cost burdens were moved to the existing collection of information in Rule 15c3-3, as amended, as a result of changes made to the final rule in response to comments to require that broker-dealers comply with the segregation requirements of paragraph (p) to Rule 15c3-3, as amended, with respect to their security-based swap activities (rather than the requirements of Rule 18a-4, as adopted). These information collections are under the headings of "2019 Amendments" in the supporting statement for Rule 15c3-3. See OMB No. 3235-0078.

<sup>7</sup> See paragraphs (a) and (c) of Rule 18a-4, as adopted.

cleared security-based swaps. The Commission and its staff will use this new collection of information to confirm registrants are providing the requisite notice to counterparties.

### **3. Consideration Given to Information Technology**

The information collections do not require that respondents use any specific information technology system either to prepare or submit information collections under Rule 18a-4, as adopted.

### **4. Duplication**

This information collection does not duplicate any existing information collection.

### **5. Effect on Small Entities**

The information collections required under Rule 18a-4, as adopted, do not place burdens on small entities. The information collections are relevant only to market participants whose security-based swap market activity exceeds certain thresholds of notional amounts so as to trigger registration requirements with the Commission, such that small market participants are exempted.

### **6. Consequences of Not Conducting Collection**

If the required information collections are not conducted or are conducted less frequently, the protection afforded to counterparties and the U.S. financial system would be diminished.

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

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

### **8. Consultations Outside the Agency**

The Commission requested comment on the collection of information requirements in the proposing release in October 2012.<sup>8</sup> In addition, in 2018, the Commission reopened the comment period and requested additional comment on the proposed rules and amendments (including potential modifications to proposed rule language).<sup>9</sup> While the Commission did not receive specific comments with respect to the proposed collection of information with respect to Rule 18a-4, as proposed to be adopted, the Commission received a number of comment letters in

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<sup>8</sup> See *Capital, Margin, and Segregation Requirements for Security-Based Swap Dealers and Major Security-Based Swap Participants and Capital Requirements for Broker-Dealers*, Exchange Act Release No. 68071 (Oct. 18, 2012), 77 FR 70213, 70299 (Nov. 23, 2012).

<sup>9</sup> See *Capital, Margin, and Segregation Requirements for Security-Based Swap Dealers and Major Security-Based Swap Participants and Capital Requirements for Broker-Dealers*, Exchange Act Release No. 84409 (Oct. 11, 2018), 83 FR 53007 (Oct. 19, 2018) (“Capital, Margin, and Segregation Comment Reopening”).

response to the 2012 proposal.<sup>10</sup> In response to comments received regarding Rule 18a-4, as proposed to be adopted, the associated information collection burdens related to security-based swap segregation requirements for broker-dealers have been moved from Rule 18a-4 to Rule 15c3-3.<sup>11</sup>

## **9. Payment or Gift**

No payment or gift is provided to respondents.

## **10. Confidentiality**

The information collected by the Commission under Rule 18a-4, as adopted, is kept confidential to the extent permitted by the Freedom of Information Act (5 U.S.C. § 552 *et seq.*).

## **11. Sensitive Questions**

The collections of information do not expressly include Personally Identifiable Information (“PII”).<sup>12</sup> 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, or phone number) 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. As such, we believe that the treatment of any PII with the collection of information associated with this rule is not likely to implicate the Federal Information Security Management Act of 2002 or the Privacy Act of 1974.

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

### Special Accounts (Rule 18a-4(a))

Rule 18a-4, as adopted, requires non-broker-dealer SBSBs to establish certain special accounts with banks and obtain written acknowledgements from, and enter written agreements

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<sup>10</sup> Comments *available at* <https://www.sec.gov/comments/s7-08-12/s70812.shtml>.

<sup>11</sup> For example, in response to the request for comments on Rule 18a-4, as proposed to be adopted, the Commission received a comment that Rule 15c3-3 should be amended to take into account margin that is posted at a clearing agency by broker-dealers not registered as SBSBs for the purposes of determining the broker-dealers omnibus segregation requirements. *See* Letter from Kathleen M. Cronin, Senior Managing Director, General Counsel, CME Group Inc. (Feb. 22, 2013). The Commission agreed with the commenter and, in the 2019 amendments, adopted amendments to Rule 15c3-3 to establish segregation requirements for broker-dealers, including broker-dealer SBSBs that parallel the requirements in Rule 18a-4 applicable to SBSBs that are not broker-dealers. These new segregation requirements have corresponding hour and cost burdens, as discussed in the supporting statement for Rule 15c3-3, as amended. *See* OMB No. 3235-0078.

<sup>12</sup> The term “Personally Identifiable Information” refers to information which can be used to distinguish or trace an individual’s identity, such as their name, social security number, biometric records, etc. alone, or when combined with other personal or identifying information which is linked or linkable to a specific individual, such as date and place of birth, mother’s maiden name, etc.

with, those banks. These special accounts include qualified clearing agency accounts, qualified SBSB accounts, and special accounts for the exclusive benefit of security-based swap customers (collectively, the “special accounts”). The staff estimates that there will be three non-broker-dealer SBSBs that will have to open an average of 6 special accounts (2 for each type of special account). Based on the Commission staff’s experience with similar requirements under Rule 15c3-3, the staff estimates that each non-broker-dealer SBSB will spend approximately 30 hours drafting and obtaining the written acknowledgement and agreement for each account. **This will result in a one-time industry-wide hours burden of 540 recordkeeping hours, or 180 hours on an annualized basis.**<sup>13</sup>

The staff also estimates that 25% of non-broker-dealer SBSBs (or 1 SBSB) will, in any given year, establish a new account for each type of special account totaling 3 special accounts a year (and it takes 30 hours to draft and obtain the written acknowledgment and agreement for each account) because, for example, they changed their banking relationships. **This will result in an ongoing annual industry-wide hours burden of 90 recordkeeping hours.**<sup>14</sup>

#### Customer Reserve Computation (Rule 18a-4(c))

Rule 18a-4 requires SBSBs to perform daily computations of the customer reserve amount, and ensure that the relevant special accounts hold sufficient cash and/or qualified securities to meet that amount. Based on the staff’s experience with similar computations performed by broker-dealers under Rule 15c3-3, the staff estimates that non-broker-dealer SBSBs will spend on average 2.5 hours per week for each computation.<sup>15</sup> **This will result in a burden of 130 recordkeeping hours per non-broker-dealer SBSB and an annual industry-wide hours burden of 390 recordkeeping hours.**<sup>16</sup>

#### Counterparty Notice (Rule 18a-4(d)(1))

Both non-broker-dealer SBSBs and MSBSPs are required under Rule 18a-4 to give counterparties notice that they may elect segregation of their collateral, as required by the Dodd-Frank Act. This notice is given once, prior to the counterparty’s first trade with the non-broker-

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<sup>13</sup> 3 non-broker-dealer SBSBs x 6 special accounts x 30 hours = 540 hours. This amount annualized is 180 recordkeeping hours per year and 60 hours per SBSB per year (6 special accounts x 30 hours/3 years).

<sup>14</sup> 1 non-broker-dealer SBSB x 3 special accounts x 30 hours = 90 hours. Annualized each SBSB would spend 90 hours (3 special accounts x 30 hours).

<sup>15</sup> A commenter requested that the Commission require a weekly SBS Customer Reserve Account computation rather than a daily computation. The commenter stated that calculating the reserve account formula is an onerous process that is operationally intensive and requires a significant commitment of resources. The commenter further stated that the Commission can achieve its objective of decreasing liquidity pressures on SBSBs while limiting operational burdens by requiring weekly computations and permitting daily computations. See Letter from Kenneth E. Bentsen, Jr., Executive Vice President, Securities Industry and Financial Markets Association (Feb. 22, 2013). In response to comments, the Commission modified its final rules to require a weekly SBS Customer Reserve Account computation. The final rules further provide that stand-alone broker-dealers or SBSBs may perform daily computations if they choose to do so.

<sup>16</sup> 1 non-broker-dealer SBSB x 52 weeks x 2.5 hours/week = 130 hours. 3 non-broker-dealer SBSBs x 130 hours = 390 hours.

dealer SBSD or MSBSP. All non-broker-dealer SBSDs and MSBSPs are subject to this requirement, and the staff estimates that there will be 38 such firms. The staff estimates that these firms will have an average of 1,000 counterparties to which they would have to send notices, spending an average of ten minutes per counterparty. **This will result in an initial, one-time industry-wide internal hours burden of 6,333.33 third party disclosure hours, or approximately 2,280 when annualized.**<sup>17</sup>

The staff estimates that, on average, non-broker-dealer SBSDs and MSBSPs will initiate security-based swap trading with 200 new counterparties per year. **This will result in an annual industry-wide hours burden of 1,292 third party disclosure hours.**<sup>18</sup>

#### Subordination Agreements (Rule 18a-4(d)(2))

Rule 18a-4, as adopted, will require that non-broker-dealer SBSDs obtain subordination agreements from counterparties that elect to either require individual segregation with a third-party or waive segregation. The staff estimates that an SBSD will spend on average 200 hours internally to draft and prepare standard subordination agreements, **resulting in an initial, one-time industry-wide internal hours burden of 600 recordkeeping hours, or 200 hours when annualized.**<sup>19</sup>

As discussed above, the staff estimates that non-broker-dealer SBSDs will on average have approximately 1,000 counterparties at any given time. The staff further estimates that half of these counterparties will either elect individual segregation or waive segregation altogether. The staff estimates that non-broker-dealer SBSDs will spend an average of 20 hours per counterparty to enter into a written subordination agreement,<sup>20</sup> **resulting in an initial, one-time industry-wide hours burden of 30,000 third-party disclosure hours, or 10,000 hours when annualized.**<sup>21</sup>

The staff also estimates that half of the estimated 200 new counterparties non-broker-dealer SBSDs are expected to add per year will either elect individual segregation or waive

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<sup>17</sup> 38 firms x 1,000 counterparties x 1/6 hour = 6,333.33 hours. Each firm has a one-time internal hours burden of 166.67 hours (6,333.33 hours/38 = 166.666, rounded to 166.67). This amount annualized is 55.56 hours (166.67 hours/3 = 55.556, rounded to 55.56) and an annualized total industry-wide recordkeeping burden of 2,280 hours. For purposes of calculating the annual burden, each respondent would have to give notice to 533.33 counterparties (1000 counterparties averaged over three years (333.33) + 200 new counterparties each year).

<sup>18</sup> 38 firms x 200 counterparties x 1/6 hour = 1,292 hours.

<sup>19</sup> 3 non-broker-dealer SBSDs x 200 hours = 600 hours. This one-time burden annualized is 66.67 hours per firm (600 hours/3 = 200; 200/3 non-broker-dealer SBSDs = 66.667 hours, rounded to 66.67) and 200 hours industry-wide (600 hours/3 = 200 hours).

<sup>20</sup> For purposes of calculating the annual burden, this would average out to 10 hours per counterparty.

<sup>21</sup> 3 non-broker-dealer SBSDs x 20 hours x 500 counterparties = 30,000 hours. The annualized industry-wide burden is 10,000 hours per year (30,000 hours /3 = 10,000 hours) and 3,333.33 hours per firm (10,000 hours/3 non-broker dealer SBSDs = 3,333.33 hours).

segregation altogether. **This will result in an annual industry-wide hours burden of 6,000 third-party disclosure hours.**<sup>22</sup>

Disclosures to U.S. Counterparties (Rule 18a-4(e)(3))<sup>23</sup>

Rule 18a-4, as adopted, requires registered foreign SBSBs to provide disclosures to their U.S. counterparties regarding the potential treatment of segregated assets in insolvency proceedings. The staff estimates that there will be up to 30 potential jurisdictions in which trade associations or industry working groups may be able to develop standard disclosure forms that can be adopted by foreign SBSBs with little or no modification. The Commission estimates that each notice will require 5 hours of in-house counsel time for each agreement jurisdiction.

**Therefore, the Commission estimates that there will be a one-time industry burden of 3,300 third-party hours, or 1,100 hours when annualized.**<sup>24</sup>

The Commission estimates that there are 22 foreign SBSBs and that each foreign SBSB will have 50 active non-U.S. counterparties. The Commission further estimates that the total paperwork burden associated with incorporating new disclosure language into each foreign SBSB's trading documentation will require 10 hours of in-house counsel time for each of the firm's 50 active non-U.S. counterparties, **resulting in 500 third-party hours per foreign SBSB and 11,000 third-party hours across the industry, or 3,666.67 (rounded to 3,667) hours when annualized.**<sup>25</sup>

The Commission also estimates that each of the 22 foreign SBSBs will not need to spend more than 5 hours a year updating these disclosures. **This will cause an annual third-party burden of 110 hours per year.**<sup>26</sup>

Exemptions (Rule 18a-4(f))

Finally, based on comments received,<sup>27</sup> the Commission modified the language in Rule 18a-4 to add paragraph (f) to the rule to exempt a stand-alone or bank SBSB from the

<sup>22</sup> 3 non-broker-dealer SBSBs x 20 hours x 100 counterparties = 6,000 hours. The annual industry-wide burden is 2,000 hours and the annual burden per respondent is 666.67.

<sup>23</sup> Although not discussed in the supporting statement for Rule 18a-4, as proposed, the Commission proposed disclosure requirements for foreign SBSBs because the treatment of security-swap customers in a liquidation proceeding may vary depending on the foreign SBSB's status and the insolvency laws applicable to the foreign SBSB.

<sup>24</sup> 5 hours x 30 jurisdictions x 22 foreign SBSBs = 3,300 hours. This one-time burden annualized is 1,100 hours industry-wide (3,300 hours/3 = 1,100) and 50 hours per firm (1,100/22 firms = 50).

<sup>25</sup> 500 hours x 22 foreign SBSBs = 11,000 hours. 500 hours/3 years x 22 foreign SBSBs = 3,666.67 hours.

<sup>26</sup> 5 hours x 22 foreign SBSBs = 110 hours.

<sup>27</sup> In adopting Rule 18a-4, the Commission is persuaded by comments stating that it would be appropriate to exempt from the omnibus segregation requirements stand-alone and bank SBSBs that do not clear security-based swaps for other persons. If the stand-alone or bank SBSB does not clear security-based swaps for other persons then there is no need for the omnibus segregation requirements with respect to those positions. Moreover, with respect to non-cleared security-based swaps, the omnibus segregation requirements provide an alternative to the statutory options available to counterparties to request individual segregation or to waive segregation. Thus, counterparties will have the option of protecting their initial

requirements of 18a-4, if certain conditions are met. These conditions include that the SBSB must provide notice to the counterparty regarding the right to segregate initial margin at an independent third-party custodian, and makes certain disclosures in writing regarding collateral received by the SBSB. The commission estimates that the total paperwork burden associated with developing new disclosure language under paragraph (f)(3) of Rule 18a-4, as adopted will require each of the 31 SBSBs (25 bank SBSBs and 6 stand-alone nonbank SBSBs) to spend 5 hours of in-house counsel time. **This would create a total one-time third-party industry burden of 155 hours, or 51.67 (rounded to 52) hours when annualized.**<sup>28</sup> This estimate assumes little or no reliance on standardized disclosure language.

In addition, the Commission estimates that the average SBSB will have approximately 1,000 counterparties at any given time. Accordingly, the Commission staff estimates the cost of incorporating new disclosure language into the trading documentation of an average SBSB **would be 10,000 third party disclosure hours per SBSB<sup>29</sup> and approximately 310,000 third party disclosure hours for all 31 SBSBs, or 103,333.33<sup>30</sup> when annualized.**<sup>31</sup>

Furthermore, the Commission expects that the majority of the paperwork burden associated with the new disclosure requirements under paragraph (f)(3) of Rule 18a-4, as adopted, will be experienced during the first year as language is developed. After the new disclosure language is developed and incorporated into trading documentation, the Commission believes that the ongoing burden associated with paragraph (f)(3) will be limited to periodically updating the disclosures. **The Commission estimates that this ongoing paperwork burden will be approximately 5 hours per SBSB per year, and therefore creates an ongoing third-party burden of 155 hours per year for all 31 SBSBs.**<sup>32</sup>

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margin for non-cleared security-based swaps by exercising their statutory right to individual segregation. This modification from the proposed rule is designed to mitigate commenters' concerns that the proposed omnibus segregation requirements may conflict with bank liquidation or resolution schemes. *See, e.g.*, Letter from Richard M. Whiting, Executive Director and General Counsel, The Financial Services Roundtable (Feb. 22, 2013); Letter from Kenneth E. Bentsen, Jr., Executive Vice President, Securities Industry and Financial Markets Association (Feb. 22, 2013).

<sup>28</sup> 31 SBSBs x 5 in-house counsel hours = 155 hours. This one-time burden annualized 51.67 hours industry-wide (155 hours/3 = 51.667, rounded to 51.67) and 1.67 hours per firm (51.67 hours/31 firms = 1.667, rounded to 1.67).

<sup>29</sup> 10 in-house counsel hours x 1,000 counterparties = 10,000 hours.

<sup>30</sup> This number (103,333.33) is different from the number that is represented in the summary of hourly burden chart (103,230) because of a different order of operations and rounding in arriving at the final hour burden.

<sup>31</sup> 31 SBSBs x 10,000 hours = 310,000 hours. This one-time burden annualized is 103,333.33 hours industry-wide (310,000 hours/3 = 103,333.33) and 3,333.33 hours per firm (103,333.33 hours/31 firms = 3,333.33).

<sup>32</sup> 31 SBSBs x 5 hours per SBSB = 155 hours.



Summary of Hourly Burdens <sup>33</sup>										
Name of Information Collection	Type of Burden	Number of Entities Impacted	Annual Responses per Entity	Initial Burden per Entity per Response	Initial Burden Annualized per Entity per Response	Ongoing Burden per Entity per Response	Annual Burden Per Entity per Response	Total Annual Burden Per Entity	Total Industry Burden	Small Business Entities Affected
Rule 18a-4(a) (Special Accounts)—Initial Burden	Recordkeeping	3	6	30.00	10.00	0	10	60.00	180	0
Rule 18a-4(a) (Special Accounts)—Ongoing Burden	Recordkeeping	1	3	0	0	30.00	30.00	90.00	90	0
Rule 18a-4(c) (Customer Reserve Computation)—Ongoing Burden	Recordkeeping	3	52	0	0	2.50	2.50	130.00	390	0
Rule 18a-4(d)(1) (Counterparty Notice)—Initial Burden	Third-Party	38	1,000	.17	.06	0	.06	60	2,280	0
Rule 18a-4(d)(1) (Counterparty Notice)—Ongoing Burden	Third-Party	38	200	0	0	0.17	0.17	34.00	1292	0
Rule 18a-4(d)(2) (Subordinations Agreements, Drafting)—Initial Burden	Recordkeeping	3	1	200	66.67	0	66.67	66.67	200	0
Rule 18a-4(d)(2) (Subordination Agreements, Entering Into)—Initial Burden	Third-Party	3	500	20	6.67	0	6.67	3,335.00	10,000	0
Rule 18a-4(d)(2) (Subordination Agreements)—Ongoing Burden	Third-Party	3	100	0	0	20.00	20.00	2,000.00	6,000	0
Rule 18a-4(e)(3) (Disclosures to U.S. Counterparties, Developing Forms)—Initial Burden	Third-Party	22	30	5	1.67	0	1.67	50.10	1,100	0
Rule 18a-4(e)(3) (Disclosures to U.S. Counterparties, Incorporating New Language)—Initial Burden	Third-Party	22	50	10	3.33	0	3.33	166.50	3,667	0
Rule 18a-4(e)(3) (Disclosures to U.S. Counterparties)—Ongoing Burden	Third-Party	22	1	0	0	5	5	5	110	0
Rule 18a-4(f) (Exemptions, Developing Disclosure Language)—Initial Burden	Third-Party	31	1	5	1.67	0	1.67	1.67	52	0
Rule 18a-4(f) (Exemptions,	Third-Party	31	1,000	10	3.33	0	3.33	3,333.33	103,333	0

<sup>33</sup>

The hour burdens in this chart have been separated out by both type of burden (e.g., recordkeeping, reporting, or third-party/disclosure), and whether the burden is an initial burden or an ongoing one. These burdens have been collapsed in ROCIS.

Incorporating Disclosure Language)—Initial Burden										
Rule 18a-4(f) (Exemptions)—Ongoing Burden	Third-Party	31	1	0	0	5	5	5	155.00	0
TOTAL HOURLY BURDEN FOR ALL RESPONDENTS									128,849	

### 13. Costs to Respondents

#### Counterparty Notice (Rule 18a-4(d)(1))

The staff estimates that SBSs and MSBSs will engage outside counsel for 10 hours to draft and review the template counterparty notice regarding segregation, resulting in a one-time industry-wide external hours burden of 380 hours.<sup>34</sup> The staff predicts that firms will hire an outside counsel to draft the template counterparty notice regarding segregation, at a cost \$400 per hour resulting in an industry-wide one-time third party disclose cost of \$152,000. **This results in a one-time industry-wide external third party disclosure cost of about \$152,000, or \$50,666.67 when annualized over 3 years.**<sup>35</sup>

#### Subordination Agreements (Rule 18a-4(d)(2))

The staff also estimates that non-broker-dealer SBSs are likely to hire an outside counsel to review the template subordination agreement, requiring on average a total of 20 hours, or a one-time industry-wide external hours burden of 60 hours.<sup>36</sup> **This results in a one-time industry-wide external recordkeeping cost of \$24,000, or \$8,000 when annualized over 3 years.**<sup>37</sup>

Summary of Dollar Costs										
Name of Information Collection	Type of Burden	Number of Entities Impacted	Annual Responses per Entity	Initial Cost per Entity per Response	Initial Cost Annualized per Entity per Response	Ongoing Cost per Entity per Response	Annual Cost Per Entity per Response	Total Annual Cost Per Entity	Total Industry Cost	Small Business Entities Affected
Rule 18a-4(d)(1) (Counterparty Notice, Outside Counsel Review)—Initial Cost	Third-Party	38	1	\$4,000.00	\$1,333.33	\$0.00	\$1,333.33	\$1,333.33	\$50,666.54	0
Rule 18a-4(d)(2) (Subordination Agreements, Outside	Recordkeeping	3	1	\$8,000.00	\$2,666.67	\$0.00	\$2,666.67	\$2,666.67	\$8,000.00	0

<sup>34</sup> 38 firms x 10 hours = 380 hours.

<sup>35</sup> 380 hours x \$400/hour / 3 years = \$50,666.67. The cost per firm annualized is \$1,333.33 (\$50,666.67/38 = \$1,333.33).

<sup>36</sup> 3 non-broker-dealer SBSs x 20 hours = 60 hours.

<sup>37</sup> 60 hours x \$400/hour = \$24,000. \$24,000/ 3 years = \$8,000. This also results in a one-time cost of \$8,000 per non-broker-dealer SBS (\$24,000/ 3 non-broker-dealer SBSs), which results in an annual cost of \$2,666.67 per entity (\$8,000/3 = 2,666.667, rounded to 2,666.67).

Counsel Review) — Initial Cost										
TOTAL COST FOR ALL RESPONDENTS									\$58,666.54	

#### 14. Cost to Federal Government

The staff does not anticipate this information collection to impose additional costs to the Federal Government.

#### 15. Changes in Burden

Name of Information Collection	Annual Industry Burden	Annual Industry Burden Previously Reviewed	Change in Burden	Reason for Change
Rule 18a-4(a) (Special Accounts)	2 distinct hour burdens as shown in the summary chart above, totaling 270  (180+90)	4,170	(3,990)	Number of entities impacted has been reduced because broker-dealer SBSDs and MSBSPs entities were moved to the information collection for Rule 15c3-3 (OMB No. 3235-0033) and new paragraph (f) to Rule 18a-4, as adopted (Exemptions) reduces number of entities impacted by 6 stand-alone nonbank SBSDs.
Rule 18a-4(c) (Customer Reserve Computation)	390	31,250	(30,860)	Provision altered to require weekly rather than daily customer reserve calculation (and burden therefore reduced) pursuant to the adoption of Rule 18a-4 in the SBSD Adopting Release, based on comments received. Also,

				number of entities impacted has been reduced because broker-dealer SBSB and MSBSP entities were moved to the information collection for Rule 15c3-3 (OMB No. 3235-0033) and new paragraph (f) to Rule 18a-4, as adopted (Exemptions) reduces number of entities impacted by 25 bank SBSBs and 6 stand-alone nonbank SBSBs.
Rule 18a-4(d)(1) (Counterparty Notice)	2 distinct hour burdens, as shown in the summary chart above, totaling 3,572  (2,280+1,292)	4,889	(1,317)	Number of entities impacted has been reduced because broker-dealer SBSBs and MSBSPs entities were moved to the information collection for Rule 15c3-3 (OMB No. 3235-0033). Any further differences can be explained by rounding differences due to separate calculations.
Rule 18a-4(d)(2) (Subordination Agreements)	3 distinct hour burdens, as shown in the summary chart above, totaling 16,200  (200+10,000+6,000)	270,000	(253,800)	Number of entities impacted has been reduced because broker-dealer SBSBs and MSBSPs entities were moved to the information collection for Rule 15c3-3 (OMB No. 3235-0033) and new paragraph (f) to Rule 18a-4, as adopted (Exemptions) reduces number of entities

				impacted by 25 bank SBDSs and 6 stand-alone nonbank SBDSs.
Rule 18a-4(e)(3) (Disclosures to U.S. Counterparties)	3 distinct hour burdens, as shown in the summary chart above, totaling 4,877  (1,100+3,667+110)	0	4,877  (1,100+3,667+110)	Although not discussed in the supporting statement for Rule 18a-4, as proposed, the Commission proposed disclosure requirements for foreign SBDSs because the treatment of security-swap customers in a liquidation proceeding may vary depending on the foreign SBSD's status and the insolvency laws applicable to the foreign SBSD.
Rule 18a-4(f) (Exemptions)	3 distinct hour burdens, as shown in the summary chart above, totaling 103,437  (52+103,230+155)	0	103,437  (52+103,230+155)	New provision adopted in the adoption of Rule 18a-4 described in the SBSD Adopting Release, based on comments received.
Rule 18a-4(d)(1) (Counterparty Notice) – Cost Burdens	\$50,666.54	\$73,333	(\$22,666.46)	Number of entities impacted has been reduced because broker-dealer SBDSs and MSBSPs entities were moved to the information collection for Rule 15c3-3 (OMB No. 3235-0033).
Rule 18a-4(d)(2) (Subordination Agreements) – Cost Burdens	\$8,000	\$133,334	(\$125,334)	Number of entities impacted has been reduced because broker-dealer SBDSs and MSBSPs entities

				were moved to the information collection for Rule 15c3-3 (OMB No. 3235-0033) and new paragraph (f) to Rule 18a-4, as adopted (Exemptions) reduces number of entities impacted by 25 bank SBDSs and 6 stand-alone nonbank SBDSs.
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**16. Information Collected Planned for Statistical Purposes**

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

**17. OMG Expiration Date Display Approval**

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

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

This collection complies with the requirements in 5 CFR 1320.9.

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

This collection does not involve statistical methods.