

SUPPORTING STATEMENT
for the Paperwork Reduction Act Information Collection Submission for
Rule 15Fi-2 – Trade Acknowledgment and Verification of
Security-Based Swap Transactions
OMB Number 3235-0713

This submission is being made pursuant to the Paperwork Reduction Act of 1995 (“PRA”), 44 U.S.C. Section 3501 et seq.¹

A. Justification

1. Information Collection Necessity

Rules 15Fi-1 and 15Fi-2 (17 CFR 240.15Fi-1 and 240.15Fi-2) (collectively, “the Rules”) under the Securities Exchange Act of 1934 (the “Exchange Act”) prescribe standards related to timely and accurate confirmation and documentation of security-based swaps (“SBS”). Rule 15Fi-1 contains definitions of the relevant terms. Rule 15Fi-2 requires SBS dealers and major SBS participants (collectively, “SBS Entities”) to provide to their counterparties a trade acknowledgment, to provide prompt verification of the terms provided in a trade acknowledgment of transactions from other SBS Entities, and to have written policies and procedures that are reasonably designed to obtain prompt verification of the terms provided in a trade acknowledgment. The Rules promote the efficient operation of the SBS market and facilitate market participants’ management of their SBS-related risk.

Rule 15Fi-2 prescribes documentation standards for the timely and accurate acknowledgment and verification of SBS transactions by SBS Entities. The rule contains seven paragraphs: (a) the trade acknowledgment obligations of specific SBS Entities; (b) the prescribed time frames under which a trade acknowledgment must be provided;

¹ In 2011, the Commission proposed Rule 15Fi-1 to prescribe standards to provide for timely and accurate confirmation of security-based swaps transactions. See Trade Acknowledgment and Verification of Security-Based Swap Transactions, Exchange Act Release No. 63727 (Jan. 14, 2011), 76 FR 3859 (Jan. 21, 2011) (“Proposing Release”). Proposed Rule 15Fi-1 was an information collection and was assigned OMB Number 3235-0713. Proposed Rule 15Fi-1 was later separated into, and adopted as, two rules: Rule 15Fi-1, which contains definitions, and Rule 15Fi-2, which contains the substantive requirements, exceptions, and exemption. See Trade Acknowledgment and Verification of Security-Based Swap Transactions, Exchange Act Release No. 78011 (June 8, 2016), 81 FR 39807 (June 17, 2016) (“Adopting Release”). The Adopting Release stated, “Final Rule 15Fi-1 ... is not a ‘collection of information’” and “[t]he title of the new information collection will be ‘Rule 15Fi-2—Trade Acknowledgment and Verification of Security-Based Swap Transactions.’” Id. at 39829. The reference to “Rule 15Fi-1” in the title of the information collection, however, was not changed to “Rule 15Fi-2” in the PRA submission for the Adopting Release. Therefore, it is being changed with this submission.

(c) the form and content requirements of the trade acknowledgment; (d) SBS Entities' verification obligations; (e) a limited exception from the requirement to provide a clearing agency a trade acknowledgment in a clearing transaction; (f) a limited exception from the requirement to provide a trade acknowledgment for certain transactions executed on a security-based swap execution facility or a national securities exchange or accepted for clearing by a clearing agency; and (g) a limited exemption from the requirements of Exchange Act Rule 10b-10 for a broker-dealer acting as principal for its own account in a security-based swap transaction.

Under paragraph (a) of Rule 15Fi-2, sending an SBS trade acknowledgment is the obligation of a particular SBS Entity, *i.e.*, an SBS dealer or major-SBS participant, depending on whether the SBS Entity and its counterparty are SBS dealers or major SBS participants and/or in accordance with any agreements between the counterparties that delineate the trade acknowledgment responsibility.

Paragraph (b) of Rule 15Fi-2 requires trade acknowledgments to be provided promptly, but in no event later than the end of the first business day following the day of execution. Paragraph (c) of Rule 15Fi-2 requires trade acknowledgments to be provided through electronic means that provide reasonable assurance of delivery and to disclose all the terms of the security-based swap transaction. Paragraph (d)(1) of Rule 15Fi-2 requires SBS Entities to establish, maintain, and enforce policies and procedures reasonably designed to obtain prompt verification of SBS trade acknowledgments. When an SBS Entity receives a trade acknowledgment, pursuant to paragraph (d)(2) of the rule, it must promptly verify the accuracy of the trade acknowledgment or dispute the terms with its counterparty.

Paragraphs (e), (f), and (g) of Rule 15Fi-2 are exemptive provisions and are not a collection of information.

The Rules are adopted and in effect. However, the compliance date for them is dependent upon the adoption of another rule that has been proposed, but not yet adopted. As a consequence, no entity is currently required to comply with the Rules. **Thus, the previously approved burdens and costs have not yet been incurred and all are being submitted again (including initial, one-time burdens) for extension.**

2. Information Collection Purpose and Use

The trade acknowledgment and verification requirements of Rule 15Fi-2 apply to both types of SBS Entities depending on whether the entity and its counterparty are SBS dealers or major SBS participants and on any agreements between the counterparties addressing the obligation to send a trade acknowledgment. Generally, the transaction details that must be provided in a trade acknowledgment serve as a written record by which the counterparties to a transaction memorialize the terms of a transaction. In effect, the trade acknowledgment reflects the contract entered into between the counterparties. In addition, the rule's verification requirements are intended to ensure that the written record of the transaction, *i.e.*, the trade acknowledgment, accurately reflects the terms of the transaction as understood by the respective counterparties. If an SBS Entity is provided a trade

acknowledgment that that does not accurately reflect its agreement, Rule 15Fi-2 requires the SBS Entity to dispute the terms of the transaction.

3. Consideration Given to Information Technology

Rule 15Fi-2 requires SBS Entities to provide all trade acknowledgments electronically. The rule also permits SBS Entities to rely on the services of a third party to provide electronic trade acknowledgments on its behalf.

4. Duplication

The Commission made a deliberate effort to identify and avoid duplication. For example, the Commission expected most SBS transactions would be electronically executed and cleared through the facilities of a clearing agency, a process that generally includes the matching and verification of such transactions. Therefore, to avoid duplication, the Commission excepted SBS Entities from the obligation to provide a trade acknowledgment in clearing transactions. The Commission also provided an exemption from Rule 10b-10 when an SBS Entity acts as principal for its own account in an SBS transaction. As noted in the Adopting Release, requiring an SBS Entity to comply with both Rule 10b-10 and Rule 15Fi-2 would have been duplicative since the SBS Entity would have effectively been required to provide two sets of similar disclosures to the same counterparty.

5. Effect on Small Entities

The Commission believes that none of the SBS Entities subject to the Rules are small entities, and thus, the Rule impose no burden on small entities.

6. Consequences of Not Conducting Collection

The information is collected as each transaction warrants, and therefore there is no way to omit the information collection requirements or require less frequent collection without undermining the purpose of the Rules.

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

By its terms, Rule 15Fi-2 does not require respondents to share information with the Commission and thus the Commission will not make any such information available to the public.

11. Sensitive Questions

No information of a sensitive nature will be required under this collection of information. The information collection collects business contact information that may include name, job title, work address, telephone number, fax number, and email address. This rule does not require information to be provided to the Commission nor does the Commission prescribe the particular form for the trade acknowledgement or verification. 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 Rules apply to SBS Entities, *e.g.*, SBS dealers and major SBS participants. The Commission continues to estimate that approximately 50 entities fit within the definition of SBS dealer, and up to five entities fit within the definition of major SBS participant. Thus, we expect that approximately 55 entities will be required to register with the Commission as SBS Entities and will be subject to the trade acknowledgment provision and verification requirements of Rule 15Fi-2. There are four separate burdens in this collection of information. We have labelled them as IC1, IC2, IC3, and IC4.

a. Trade Acknowledgment Requirement—IC1 and IC2

Pursuant to Rule 15Fi-2, all SBS transactions must be acknowledged and verified through the methods and by the timeframes prescribed in the rule. Collectively, paragraphs (a), (b), (c), and (d) of Rule 15Fi-2 identify the information to be included in a trade acknowledgment; the party responsible for sending the trade acknowledgment; the permissible methods for sending the trade acknowledgment; and criteria for verifying the terms of a trade acknowledgment. In 2018, there were 1,592,529 single-name credit default swap (“CDS”) transactions reported to the DTCC Derivatives Repository Limited Trade Information Warehouse (“TIW”). For purposes of this analysis, we assume there were approximately 1.59 million single-name CDS transactions in 2018. In addition, although we lack comprehensive data on equity swaps and other security-based swaps, we have estimated in prior rulemakings that single-name CDS represent approximately 82% of the total SBS market. This implies that there are an additional 350,000 transactions, or approximately 1.94 million total SBS transactions. Assuming that at least one SBS Entity is a party to every SBS transaction, the Commission estimates that the

number of SBS transactions subject to Rule 15Fi-2 will be approximately 35,273 transactions per SBS Entity per year.²

The Commission believes that most transactions will be electronically executed and cleared through the facilities of a clearing agency. The Commission understands that the clearing of SBS transactions through the facilities of a clearing agency generally includes the matching and verification of such transactions. The Commission has taken this process into account in paragraph (e) of Rule 15Fi-2, which excepts SBS Entities from the obligation to provide a trade acknowledgment in clearing transactions. The Commission estimates that of the approximately 1.94 million SBS transactions estimated per year based on the 2018 data, approximately 1.19 million will be clearing transactions excepted from the trade acknowledgment requirement pursuant to paragraph (e) of Rule 15Fi-2. Of the remaining 0.75 million transactions, approximately 75%, or 0.57 million, will be transactions executed on an SBSEF or exchange and thus excepted from the trade acknowledgment requirement pursuant to the exception for in paragraph (f) of Rule 15Fi-2. Thus, we estimate that SBS Entities will have to provide approximately 0.18 million trade acknowledgments³ pursuant to Final Rule 15Fi-2, or 3,273 transactions per SBS entity per year.⁴

The Commission estimates that modifying internal order and trade management systems (“OMSs”) by SBS Entities for electronic processing of SBS transactions with the capabilities described above imposes a one-time burden of approximately 355 burden hours per SBS Entity⁵ or roughly .11 per SBS transaction.⁶ **Thus, the total aggregate initial burden**

² This figure is based on the following: $(1,940,000 \text{ estimated SBS transactions}) / (55 \text{ SBS Entities}) = 35,272.73 \text{ SBS transactions per SBS Entity per year}$. The Commission understands that many of these transactions may arise from previously executed SBS transactions.

³ This figure is based on the following: $(0.75 \text{ million transactions}) - (0.57 \text{ million transactions}) = 0.18 \text{ million transactions}$.

⁴ This figure is based on the following: $(.18 \text{ million transactions}) / (55 \text{ SBS Entities}) = 3,272.73 \text{ transactions per SBS entity per year}$.

⁵ This estimate is based on Commission staff discussions with market participants and is calculated as follows: $(\text{Sr. Programmer at 160 hours}) + (\text{Sr. Systems Analyst at 160 hours}) + (\text{Compliance Manager at 10 hours}) + (\text{Director of Compliance at 5 hours}) + (\text{Compliance Attorney at 20 hours}) = 355 \text{ burden hours}$. The Commission understands that many SBS Entities may already have computerized systems in place for electronically processing SBS transactions, whether internally or through a clearing agency. This may result in lesser burdens for those parties.

⁶ $355 \text{ burden hours} / 3,273 \text{ transactions} = .108$.

attributed to Rule 15Fi-2 (IC1) for the initial modification of OMSs is 19,525 hours for all respondents,⁷ or 6,508 annualized over 3 years.⁸

The Commission further estimates that the Rules impose an ongoing annual hour burden of approximately 436 hours per SBS Entity (including the first year).⁹ This estimate includes day-to-day technical support of the OMS, as well as the amortized annual burden associated with system or platform upgrades and periodic implementation of significant updates based on new technology, products, or both. **Thus, the total aggregate ongoing burden attributed to Rule 15Fi-2 (IC2) is 23,980 hours annually for all respondents.¹⁰**

Over a three-year period, the total industry hourly third-party disclosure burden attributable to Rule 15Fi-2 in connection with providing trade acknowledgments is 91,465 hours, or 30,488 when annualized over three years.

b. Policies and Procedures—IC3 and IC4

In addition, pursuant to paragraph (d)(1) of Rule 15Fi-2, SBS Entities must develop written policies and procedures reasonably designed to obtain prompt verification of transaction terms. This requirement constitutes a recordkeeping requirement. While the cost of these policies and procedures vary, **the Commission estimates that such policies and procedures require an average of 80 hours per respondent¹¹ to initially prepare and implement (IC3), with a total aggregate initial burden of 4,400 hours, or 1,467 hours when annualized over three years, for all respondents.¹²**

⁷ This estimate is based on Commission staff discussions with market participants and is calculated as follows: (355 hours per SBS Entity) x (55 SBS Entities) = 19,525 burden hours. The Commission understands that many SBS Entities may already have computerized systems in place for electronically processing SBS transactions, whether internally or through a clearing agency. This may result in lesser burdens for those parties.

⁸ The burden will not change regardless of the number of acknowledgments sent out.

⁹ This estimate is based on Commission staff discussions with market participants and is calculated as follows: (Sr. Programmer at 32 hours) + (Sr. Systems Analyst at 32 hours) + (Compliance Manager at 60 hours) + (Compliance Clerk at 240 hours) + (Director of Compliance at 24 hours) + (Compliance Attorney at 48 hours) = 436 hours per SBS Entity.

¹⁰ This estimate is based on Commission staff discussions with market participants and is calculated as follows: (436 hours per SBS Entity) x (55 SBS Entities) = 23,980 burden hours.

¹¹ This estimate is based on Commission staff discussions with market participants and is calculated as follows: (Compliance Attorney at 40 hours) (Director of Compliance at 20 hours) + (Deputy General Counsel at 20 hours) = 80 hours per SBS Entity.

¹² This estimate is based on Commission staff discussions with market participants and is calculated as follows: (80 hours per SBS Entity) x (55 SBS Entities) = 4,400 burden hours.

Once these policies and procedures are established, the Commission estimates that it will take an average 40 hours¹³ annually to maintain these policies and procedures per respondent (IC4), with a total aggregate ongoing burden of 2,200 hours for all respondents.¹⁴

Based on the above discussion, the total aggregate burden is 34,155 hours.

Summary of Hourly Burdens						
Name of Information Collection	Burden Type	Number of Respondents	Annual Responses per Respondent	Annual Total Responses	Time Per Response (Hours)	Total Annual Burden (Hours)
IC1 - Initial Modification of OMSs	Third-Party	55	1	55	118.33	6,508
IC2 - Ongoing Support of OMSs	Third-Party	55	1	55	436	23,980
IC3 - Policies & Procedures – Initial Burden	Record-keeping	55	1	55	26.67	1,467
IC4 - Policies & Procedures – Ongoing Burden	Record-keeping	55	1	55	40	2,200
Total Aggregate Burden						34,155

13. Costs to Respondents

It is not anticipated that respondents will incur any costs to comply with the collection of information.

14. Costs to Federal Government

The Rules will impose no costs to the federal government.

¹³ This estimate is based on Commission staff discussions with market participants and is calculated as follows: (Compliance Attorney at 20 hours) (Director of Compliance at 10 hours) + (General Counsel at 10 hours) = 40 hours per SBS Entity.

¹⁴ This estimate is based on Commission staff discussions with market participants and is calculated as follows: (40 hours per SBS Entity) x (55 SBS Entities) = 2,200 hours.

15. Changes in Burden

There is no change in burden. As noted above, the compliance date for the Rules has not yet passed, and the staff has not changed its estimates of the burdens and costs the respondents will incur when the compliance date is in effect.

The staff has, however, changed how the burdens in IC1 and IC2 are calculated in order to more effectively present the burdens for each SBS entity. When the rule was adopted, the staff viewed each trade acknowledgement as a response, with each response having a very low burden associated with it. Practically speaking, however, the burden associated with modifying and supporting OMSs is not dependent on the number of trade acknowledgments sent; the burden will not change regardless of that number. Therefore, we have revised the calculation so that it has the number of SBS entities as the respondents and the number of hours to modify or support the OMS as the burden per respondent. Both the earlier analysis and the current analysis yield the same number of burden hours per year.

In addition, the burdens were previously presented as two ICs, but we have separated them into four (i.e., the first burden is now IC1 and IC2 and the second burden is now IC3 and IC4). We did this so the estimates would be easier to follow and to revise in the future.

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 Commission is not seeking approval to omit the expiration date.

18. Exceptions to Certification for Paperwork Reduction Act Submissions

This collection complies with the requirements of 5 CFR 1320.9.

B. Collection of Information Employing Statistical Methods

This collection does not involve statistical methods.