

SUPPORTING STATEMENT
for the Paperwork Reduction Act Information Collection Submission for
Rule 606 of Regulation NMS
(OMB Control No. 3235-0541)

A. Justification

1. Necessity of Information Collection

This information collection is required under Rule 606 and Section 17(a) of the Securities Exchange Act of 1934 (“Exchange Act”).¹ The Commission adopted Rule 606 f/k/a Rule 11Ac1-6 as part of Regulation NMS.² The order routing information required by Rule 606 is necessary to further the national market system objectives. These objectives include the economically efficient execution of orders, fair competition among broker-dealers and among markets, the availability to broker-dealers and investors of information with respect to transactions in securities, and the practicability of broker-dealers executing investors’ orders in the best market.

On November 2, 2018, the Commission adopted amendments to Rule 606 of Regulation NMS³ to require disclosure by broker-dealers of (1) a quarterly aggregated public report on the handling of orders in NMS stocks that are submitted on a held basis and orders in NMS securities that are option contracts with a market value less than \$50,000 (“Quarterly Public Disclosure on Routing of Held Orders and Options Contracts”); (2) a report, upon request of a customer, on the routing of that customer’s orders in NMS stocks that are submitted on a held basis, orders in NMS stocks that are submitted on a not held basis and do not qualify for two de minimis exceptions, and orders in NMS securities that are option contracts, containing certain information on the broker-dealer’s routing of such orders for that customer for the prior six months (“Customer-Specific Disclosure on Routing of Held Orders, Exempt Not Held Orders, and Options Contracts”); and (3) a report, upon request of a customer that places with the broker-dealer, directly or indirectly, NMS stock orders of any size that are submitted on a not held basis (subject to two de minimis exceptions), containing certain information on the broker-dealer’s handling of such orders for that customer for the prior six months (“Customer-Specific Disclosure on Handling of Non-Exempt Not Held Orders”).

¹ OMB No. 3235-0541.

² See Securities Exchange Act Release No. 51808 (June 9, 2005), 70 FR 37496 (June 29, 2005).

³ See Securities Exchange Act Release No. 84528 (November 2, 2018), 83 FR 58338 (November 19, 2018).

The collections of information required by Rule 606 are summarized below:

- Rule 606(a)(1) - Quarterly Public Disclosure on Routing of Held Orders and Options Contracts
- Rule 606(b)(1) - Customer-Specific Disclosure on Routing of Held Orders, Exempt Not Held Orders, and Options Contracts
- Rule 606(b)(3) - Customer-Specific Disclosure on Handling of Non-Exempt Not Held Orders

2. Purpose and Use of the Information Collection

The purpose of the information collection is to make information about order handling practices available to individual investors and the public. The information disclosed by Rule 606 is used by investors and broker-dealers. Investors use the information in selecting a broker-dealer and in determining whether the broker-dealers they have chosen are making sound order handling decisions. Broker-dealers use the information to compete on the basis of order handling services.

The order handling disclosures required under Rule 606(b)(1) and (b)(3) provide detailed information that would investors to evaluate how their orders were handled by their broker-dealers, assess conflicts of interest facing their broker-dealers in providing order routing services, and have the ability to engage in informed discussions with their broker-dealers about the broker-dealer's order handling practices. These disclosures could inform future decisions on whether to retain a broker-dealer's order handling services or engage the order handling services of a new broker-dealer. In addition, broker-dealers may use the public disclosures to compete on the basis of order handling services.

3. Consideration Given to Information Technology

Rule 606 requires broker-dealers to prepare and disseminate quarterly order routing reports and, upon request, customer-specific order handling reports. The information needed to generate these reports should already be collected by broker-dealers to comply with the 2018 amendments after incurring one-time hour and cost burdens to update their systems to create and retain the information and disseminate the disclosures required by the amended Rule. However, to comply with the Rule on an ongoing basis, broker-dealers would incur additional burdens in (1) preparing the quarterly public reports and making them publically available and (2) responding to requests for customer-specific disclosures.

Broker-dealers are not prohibited from using any technology that facilitates consumer understanding and that permits review, as appropriate, by the Commission or other appropriate regulatory authorities.

4. Duplication

Duplication of information is currently not a concern; the reported information is not available elsewhere.

5. Effect on Small Entities

Under the standard for determining whether a broker-dealer is a small entity in Exchange Act Rule 0-10(b), the Commission estimates that no broker-dealers subject to Rule 606 is a small entity.

6. Consequences of Not Conducting Collection

The quarterly and customer-specific disclosures on order handling required by Rule 606 would allow customers to evaluate and monitor their broker-dealer's order routing decisions on both a periodic and ad-hoc basis. A less frequent collection would limit investors' opportunities to undertake this critical evaluation.

7. Inconsistencies with Guidelines in 5 CFR Part 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

Not applicable.

11. Sensitive Questions

The information collection does not collect personally identifiable information. The agency has determined that neither a PIA nor a SORN are required in connection with the collection of information.

12. Burden of Information Collection

The Total annual time burden associated with rule 606 is approximately 190,240 hours per year calculated as described below.

A. Rule 606(a)(1)

The collection of information obligations of Rule 606(a)(1) apply to broker-dealers that route non-directed customer orders in covered securities. The Commission estimates that there are approximately 264 broker-dealers that are potentially subject to the collection of information obligations of Rule 606.⁴ Each of these respondents (if engaged in the business of routing non-directed orders on behalf of customers) is required to respond to the collection of information on a quarterly basis with respect to the Rule's reporting obligations. The Commission believes, however, that clearing brokers primarily bear the burden of complying with the reporting and recordkeeping requirements of the Rule on behalf of small to mid-sized introducing firms. There currently are approximately 186 clearing brokers.⁵ In addition, there are approximately 78 introducing brokers that receive funds or securities from their customers.⁶ Because at least some of these firms also may have greater involvement in determining where customer orders are routed for execution, they have been included, along with clearing brokers, in estimating the total burden.

The Commission staff estimates that each firm significantly involved in order routing practices will incur an average burden of 40 hours to prepare and disseminate a quarterly report required by Rule 606, or a burden of 160 hours per year. With an estimated 264 broker-dealers significantly involved in order routing practices, the total industry-wide burden per year to comply with the quarterly reporting requirement in Rule 606(a)(1) is estimated to be 42,240 hours (160 x 264).

For each of the 264 broker-dealers subject to disclosure requirements of Rule 606(a)(1), the Commission estimates the annual burden under Rule 606(a)(1)(iv) to monitor payment for order flow and profit-sharing relationships and potential self-regulatory organization rule changes that could impact their order routing decisions and incorporate any new information into their reports to be 10 hours and the annual burden for each broker-dealers to describe and update any terms of payment for order flow arrangements and profit-sharing relationships with a Specified Venue that may influence their order routing decisions to be 15 hours, for a total annual burden of 6,600 hours (25 x 264).

Therefore, the estimated total annual burden to comply with Rule 606(a)(1) is 48,840

4 2021 Form BD and Form Custody data.

5 Id.

6 Id.

hours (42,240 hours + 6,600 hours).⁷

B. Rule 606(b)(1)

Rule 606(b)(1) requires broker-dealers to respond to individual customer requests for information on orders handled by the broker-dealer for that customer. Clearing brokers generally bear the burden of responding to these requests. The Commission staff estimates that an average clearing broker will incur an annual burden of 400 hours (2000 responses x 0.2 hours/response) to prepare, disseminate, and retain responses to customers required by Rule 606. With an estimated 186 clearing brokers subject to the Rule, the total industry-wide burden per year to comply with the customer response requirement in Rule 606 is estimated to be 74,400 hours (186 x 400).

C. Rule 606(b)(3)

Rule 606(b)(3) requires broker-dealers to produce, upon request of a customer, a Customer-Specific Disclosure on Handling of Non-Exempt Not Held Orders. The Commission estimates that approximately 200 broker-dealers are involved in routing orders subject to the disclosure requirements of Rule 606(b)(3). The Commission believes that some such broker-dealers will respond to requests for customer-specific reports in house, while others will engage a third-party service provider to do so. The Commission estimates that approximately 135 broker-dealers will respond in-house to individual customer requests for information on order handling under Rule 606(b)(3), and that for each, the individual annual burden will be 400 hours (200 responses x 2 hours/response), with a total annual burden of 54,000 hours (400 x 135). The Commission estimates that approximately 65 broker-dealers will engage a third party to respond to individual customer requests, and that for each, the individual annual burden will be 200 hours (200 responses x 1 hour/response), with a total annual burden of 13,000 hours (200 x 65).

Therefore, the estimated total annual burden to comply with Rule 606(b)(3) is 67,000 hours.

⁷ Broker-dealers incurred a number of initial one-time only hour burdens to comply with the 2018 amendments to Rule 606. As these are no longer ongoing burdens, they are reflected in the summary chart at the end of this item with values of 0.

Total Annual Hour Burden for Respondents: 190,240 hours

		A.	B.	C.	D.	E.	F.	G.		
Name of Information Collection	Burden Description	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 Annual Burden	Small Business Entities Affected
					[C / 3 years]		[D + E]	[F * B]	[G * A]	
Update Compliance Manuals	Revise compliance manuals in house	0	0	0 hours	0 hours	0 hours	0 hours	0 hours	0 hours	0
Rule 606(a)(1)	Update data capture systems and create reports in house	0	0	0 hours	0 hours	0 hours	0 hours	0 hours	0 hours	0
	Engage third party to update data capture systems and create reports	0	0	0 hours	0 hours	0 hours	0 hours	0 hours	0 hours	0
	Assess payment for order flow and profit-sharing relationships	264	1	0 hours	0 hours	25 hours	25 hours	25 hours	6,600.00 hours	0
	Create and issue quarterly report	264	4	0 hours	0 hours	40 hours	40 hours	160 hours	42,240 hours	0
Rule 606(b)(1)	Update systems in-house to apply existing disclosure requirements to updated order categories	0	0	0 hours	0 hours	0 hours	0 hours	0 hours	0 hours	0
	Engage third party to update systems to apply existing disclosure requirements to updated order categories	0	0	0 hours	0 hours	0 hours	0 hours	0 hours	0 hours	0
	Respond to customer requests	186	2,000	0 hours	0 hours	0.2 hours	0.2 hours	400 hours	74,400 hours	0
Rule 606(b)(3)	Update data capture systems and create reports in house	0	0	0 hours	0 hours	0 hours	0 hours	0 hours	0 hours	0
	Engage third party to update data capture systems and create reports	0	0	0 hours	0 hours	0 hours	0 hours	0 hours	0 hours	0
	Respond to customer requests in house	135	200	0 hours	0 hours	2 hours	2 hours	400 hours	54,000 hours	0
	Engage third party to respond to customer requests	65	200	0 hours	0 hours	1 hour	1 hour	200 hours	13,000 hours	0

13. Costs to Respondents

The Total annual cost burden associated with rule 606 is approximately \$1,300,000 per year calculated as described below.

There are no applicable costs associated with compliance with the information collection requirements of Rule 606(a)(1), (b)(1), and (b)(3) for those broker-dealers subject to the requirements of Rule 606(b)(3) that will respond to customer-specific disclosure requests in house: (a) it is not anticipated that respondents will have to incur any capital or startup costs to comply with the rule; (b) it is not anticipated that the respondents will have to incur any additional operational or maintenance cost (other than provided for in item no. 12) to comply with the rule.

As discussed in Item 12, the Commission estimates that approximately 65 broker-dealers subject to the requirements of Rule 606(b)(3) will engage a third party to respond to individual customer requests. The total annual cost burden associated with engaging such third parties is approximately \$1,300,000 (65 x 200 annual requests x \$100 per request to engage a third-party service provider).⁸

⁸ Broker-dealers incurred a number of initial one-time only cost burdens to comply with the 2018 amendments to Rule 606. As these are no longer ongoing burdens, they are reflected in the summary chart at the end of this item with values of 0.

Total Annual Cost Burden for Respondents: \$1,300,000.00

Summary of Dollar Costs										
		A.	B.	C.	D.	E.	F.	G.		
Name of Information Collection	Burden Description	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 Annual Industry Cost	Small Business Entities Affected
					[C * 3 years]		[D + E]	[F * B]	[G * A]	[A * 0 %]
Rule 606(a)(1)	Engage third party to update data capture systems and create reports	0	0	0	0	\$0.00	0	\$0.00	\$0.00	0
Rule 606(b)(1)	Engage third party to update data capture systems and create reports	0	0	0	0	\$0.00	0	\$0.00	\$0.00	0
Rule 606(b)(3)	Engage third party to update data capture systems and create reports	0	0	0	0	\$0.00	0	\$0.00	\$0.00	0
	Update data capture systems and create reports in house (hardware and software)	0	0	0	0	\$0.00	0	\$0.00	\$0.00	0
	Engage third party to respond to customer requests	65	200	\$0.00	\$0.00	\$100.00	\$100.00	\$20,000.00	\$1,300,000.00	0

14. Costs to Federal Government

Not applicable.

15. Changes in Burden

The total annual hour burden decreased from approximately 229,782 hours to approximately 190,240 hours. As detailed below, the reduction is attributed to (1) a decrease in the estimated number of Rule 606(a)(1) respondents from 292 to 264 and a decrease in the number of Rule 606(b)(1) respondents from 217 to 186, and (2) the obsolescence of certain one-time only hour burdens imposed by the 2018 amendments. The total annual cost burden decreased from approximately \$5,591,667 to approximately \$1,300,000 due to the obsolescence of certain one-time only cost burdens imposed by the 2018 amendments (as detailed below).

	2018			2021			Change		
	Respondents	Individual burden	Annual burden	Respondents	Individual burden	Annual burden	Respondents	Individual burden	Annual burden
Rule 606(a)(1)	Hourly burden								
	292	160 hours/year annualized burden to issue quarterly reports	46,720 hours	264	160 hours/year annualized burden to issue quarterly reports	42,240 hours	-28	0 hours/year	-4,480 hours
	97	80 hours/year annualized initial burden to implement amendments in-house.	7,760 hours	0	0 hours/year annualized initial burden to implement amendments in-house.	0 hours	-97	-80 hours/year	-7,760 hours
	195	6.67 hours/year annualized initial burden to implement amendments using third party.	1,300 hours	0	0 hours/year annualized initial burden to implement amendments using third party.	0 hours	-195	-6.67 hours/year	-1,300 hours
	292	3.33 hours/year annualized initial burden to assess payment for order flow and profit-sharing relationships	973.33 hours	0	0 hours/year annualized initial burden to assess payment for order flow and profit-sharing relationships	0 hours	-292	-3.33 hours/year	-973.33 hours
	292	25 hours/year annualized burden to assess payment for order flow and profit-sharing relationships	7,300 hours	264	25 hours/year annualized burden to assess payment for order flow and profit-sharing relationships	6,600 hours	-28	0 hours/year	-700 hours
	Cost burden								
195	\$10,666.67/year annualized initial cost to implement amendments using third party.	\$2,080,000	0	\$0/year annualized initial cost to implement amendments using third party.	\$0	-195	-\$10,666.67/year	-\$2,080,000	
Rule 606(b)(1)	Hourly burden								
	97	8 hours/year annualized initial burden to update systems in-house to apply existing disclosure requirements to updated order categories	776 hours	0	0 hours/year annualized initial burden to update systems in-house to apply existing disclosure requirements to updated order categories	0 hours	-97	-8 hours/year	-776 hours
	195	1 hour/year annualized initial burden to engage third party to update systems to apply existing disclosure requirements to updated order categories	195 hours	0	0 hours/year annualized initial burden to engage third party to update systems to apply existing disclosure requirements to updated order categories	0 hours	-195	-1 hour/year	-195 hours
	217	400 hours/year annualized burden to respond to customer requests	86,800 hours	186	400 hours/year annualized burden to respond to customer requests	74,400 hours	-31	0 hours/year	-12,400 hours
	Cost burden								
195	\$1,666.67/year annualized initial cost to implement	\$325,000	0	\$0/year annualized initial cost to implement amendments	\$0	-195	-\$1,666.67/year	-\$325,000	

		amendments using third party.			using third party.				
Rule 606(b)(3)	Hourly burden								
	67	86.67 hours/year annualized initial burden to implement amendments in-house.	5,806.67 hours	0	0 hours/year annualized initial burden to implement amendments in-house.	0 hours	-67	-86.67 hours/year	-5,806.67 hours
	133	16.67 hours/year annualized initial burden to implement amendments using third party.	2,216.67 hours	0	0 hours/year annualized initial burden to implement amendments using third party.	0 hours	-133	-16.67 hours/year	-2,216.67 hours
	135	400 hours/year annualized burden to respond to customer requests in-house	54,000 hours	135	400 hours/year annualized burden to respond to customer requests in-house	54,000 hours	0	0 hours/year	0 hours
	65	200 hours/year annualized burden to respond to customer requests using third party	13,000 hours	65	200 hours/year annualized burden to respond to customer requests using third party	13,000 hours	0	0 hours/year	0 hours
	Cost burden								
	67	\$5,000.00/year annualized initial cost for hardware/software upgrades	\$335,000	0	\$0/year annualized initial cost for hardware/software upgrades	\$0	-67	-\$5,000/year	-\$335,000
	133	\$11,666.67/year annualized initial cost to implement amendments using third party.	\$1,551,666.67	0	\$0/year annualized initial cost to implement amendments using third party.	\$0	-133	-\$11,666.67/year	-\$1,551,666.67
	65	\$20,000.00/year annualized cost to respond to customer requests using third party	\$1,300,000	65	\$20,000.00/year annualized cost to respond to customer requests using third party	\$1,300,000	0	\$0/year	\$0
	Update Compliance Manuals	Hourly burden							
4,405		0.67 hours/year annualized initial burden to update compliance manuals	2,936.67 hours	0	0 hours/year annualized initial burden to update compliance manuals	0 hours	-4,405	-0.67 hours	-2,936.67 hours

16. Information Collections Planned for Statistical Purposes

These are disclosures from brokers to the general public and to specific consumers who request certain information. The Commission is not collecting data. The Commission has no information to publish and no plans to publish any data for statistical or other purposes.

17. Approval to Omit OMB Expiration Date

Not applicable. 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. Collection of Information Employing Statistical Methods.

Not applicable.