SUPPORTING STATEMENT
Paperwork Reduction Act Information Collection Submission for Rule 604

OMB Control Number 3235-0462
2022 Extension

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

A.   JUSTIFICATION

1.   Information Collection Necessity

Section 11A of the Securities Exchange Act of 1934 ("Exchange Act") charges the Securities and Exchange Commission ("Commission") with the responsibility to assure that the national market system develop and operate in accordance with specific goals and objectives.[1] Among the national market system's goals and objectives are the public availability of quotation information, fair competition, market efficiency, best execution and disintermediation.

The Commission adopted Rule 11Ac1-4 ("Limit Order Display Rule") in furtherance of these such goals by requiring specialists and market makers to publish customer limit orders that are priced superior to the bids or offers being displayed by each such specialist or market maker.[2] Customer limit orders that match the bid or offer being displayed by a specialist or market maker must be published if the limit price also matches the national best bid or offer ("NBBO") and the size of the customer limit order is more than de minimis (i.e., more than 10% of the specialist's or market maker's displayed size). This rule was later re-numbered as Rule 604 with the adoption of Regulation NMS, but the information collection requirements of the rule remained the same:[3]

>   a.   <u>Display of Customer Limit Orders.</u> For all NMS stocks, each member of a national securities exchange that is registered by that exchange as a specialist, or is authorized by that exchange to perform functions substantially similar to that of a specialist, shall publish immediately a bid or offer that reflects[4] the price and the full size of each customer limit order held by the specialist that is at a price that would improve the bid or offer of such specialist in such security[5]; and the full

---

[1]   See 15 U.S.C. 78k-1.

[2]   See Securities Exchange Act Release No. 37619A (September 6, 1996), 61 FR 48290 (September 12, 1996).

[3]   See Securities Exchange Act Release No. 51808 (June 9, 2005), 70 FR 37496, 37570 (June 29, 2005).

[4]   See 17 CFR 242.604(a)(1).

[5]   See 17 CFR 242.604(a)(1)(i).

size of each customer limit order held by the specialist that[6] is priced equal to the bid or offer of such specialist for such security[7]; is priced equal to the national best bid or national best offer[8]; and represents more than a *de minimis* change in relation to the size associated with the specialist's bid or offer.[9] Similarly, for all NMS stocks, each registered broker or dealer that acts as an OTC market maker shall publish immediately a bid or offer that reflects[10] the price and the full size of each customer limit order held by the OTC market maker that is at a price that would improve the bid or offer of such OTC market maker in such security[11]; and the full size of each customer limit order held by the s OTC market maker that[12] is priced equal to the bid or offer of such OTC market maker for such security[13]; is priced equal to the national best bid or national best offer[14]; and represents more than a *de minimis* change in relation to the size associated with the OTC market maker's bid or offer.[15]

b. <u>Exceptions.</u> The requirements above do not apply to any customer limit order that is executed upon receipt of the order[16]; is placed by a customer who expressly requests, either at the time that the order is placed or prior thereto pursuant to an individually negotiated agreement with respect to such customer's orders, that the order not be displayed[17]; that is an odd-lot order[18]; is a block size order, unless a customer placing such order requests that the order be displayed[19]; that is delivered immediately upon receipt to a national securities exchange or national securities association-sponsored system, or an electronic communications network that complies with the requirements of § 242.602(b)(5)(ii) with respect to

---

[6]   <u>See</u> 17 CFR 242.604(a)(1)(ii).

[7]   <u>See</u> 17 CFR 242.604(a)(1)(ii)(A).

[8]   <u>See</u> 17 CFR 242.604(a)(1)(ii)(B).

[9]   <u>See</u> 17 CFR 242.604(a)(1)(ii)(C).

[10]   <u>See</u> 17 CFR 242.604(a)(2).

[11]   <u>See</u> 17 CFR 242.604(a)(2)(i).

[12]   <u>See</u> 17 CFR 242.604(a)(2)(ii).

[13]   <u>See</u> 17 CFR 242.604(a)(2)(ii)(A).

[14]   <u>See</u> 17 CFR 242.604(a)(2)(ii)(B).

[15]   <u>See</u> 17 CFR 242.604(a)(2)(ii)(C).

[16]   <u>See</u> 17 CFR 242.604(b)(1).

[17]   <u>See</u> 17 CFR 242.604(b)(2).

[18]   <u>See</u> 17 CFR 242.604(b)(3).

[19]   <u>See</u> 17 CFR 242.604(b)(4).

that order[20]; that is delivered immediately upon receipt to another exchange member or OTC market maker that complies with the requirements of this section with respect to that order[21]; that is an "all or none" order.[22]

    c.   <u>Exemptions.</u> The Commission may exempt from the provisions of Rule 604, either unconditionally or on specified terms and conditions, any responsible broker or dealer, electronic communications network, national securities exchange, or national securities association if the Commission determines that such exemption is consistent with the public interest, the protection of investors and the removal of impediments to and perfection of the mechanism of a national market system.[23]

2.   Information Collection Purpose and Use

The information collected pursuant to Rule 604 is necessary to further the above-described statutory directive to facilitate the establishment of a national market system for securities.[24] The Limit Order Display Rule benefits investors because the publication of trading interests that improve specialists' and market makers' quotes presents investors with improved execution opportunities and improved access to the best available prices when they buy or sell securities.

3.   Consideration Given to Improved Information Technology

Improved information technology, such as the increased speed of electronic order handling systems, facilitates the dissemination of quotation information in an accurate and timely fashion. The Commission believes that improved information technology minimizes the burden of collecting and disseminating information because such technology enables specialists and market makers to publish customer limit orders automatically and instantaneously.

4.   Duplication

The Commission has sought to effect the dissemination of customer limit orders through existing channels. The rules of the various SROs generally do not require specialists and market makers to publish customer limit orders. Rule 604 requires that they publish such orders in certain circumstances. Rule 604 does not create duplicative reporting requirements for the specialists or market makers.

---

[20]   <u>See</u> 17 CFR 242.604(b)(5).

[21]   <u>See</u> 17 CFR 242.604(b)(6).

[22]   <u>See</u> 17 CFR 242.604(b)(7).

[23]   <u>See</u> 17 CFR 242.604(c).

[24]   <u>See</u> notes 1 and 2 and associated text <u>supra</u>.

5.   Effect on Small Entities

The Limit Order Display Rule impacts small businesses proportionately with other entities. No methods are used to minimize the burden on small businesses.

6.   Consequences of Not Conducting Collection

The information collected pursuant to Rule 604 is necessary to further the above-described statutory directive to facilitate the establishment of a national market system for securities.[25] If the required dissemination procedures are not adhered to, or adhered to inconsistently, the goals of the national market system will not be advanced. In the absence of Rule 604, there would be a lack of transparency regarding trading interests that improve specialists' and market makers' quotes, which could adversely investors by minimizing favorable execution opportunities and diminishing access to the best available prices when they buy or sell securities.

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

The specialists and market makers are required by law to retain the records and information that are collected pursuant to Rule 604 for a period of not less than 3 years, the first 2 years in an easily accessible place.[26] Rule 604 does not affect this existing requirement.

There are no other special circumstances, and this collection is otherwise 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. No payment or gift is provided to respondents.

10.   Confidentiality

Not Applicable. The information is disseminated to the public for the benefit of public investors.

11.   Sensitive Questions

Not applicable. No information of a sensitive nature, including Personally Identifiable Information (PII), is required under this collection of information.

---

[25]   See notes 1 and 2 and associated text supra.

[26]   See 17 CFR 240.17a-4(b).

12.   Burden of Information Collection

Rule 604 requires specialists and market makers to change their published quote to reflect the price and/or size of a customer limit order that would improve their published bid or offer. The likely respondents to the collection and dissemination of customer limit order information are approximately 318 specialists and market makers. They will respond to the collection and dissemination requirements each time they receive a displayable customer limit order. However, the amount of times each respondent must update his quote is dependent on the number of customer limit orders that he receives and his public quote at the time and whether he immediately executes the customer limit order or delivers it to another market participant pursuant to a permissible exception to the Limit Order Display Rule. The estimate of how often a respondent receives a customer limit order is, on average, 15,136.767 times per trading day with an estimate average time of 0.1 second per quote update. Accordingly, assuming 252 days in a trading year, an average 105.957 hours per year per respondent is spent on updating quotations pursuant to Rule 604. **This would result in an average aggregated annual burden of approximately 33,694 hours.**[27]

Name of Information Collection	Number of Respondents	Type of Burden	Number of Annual Responses Per Respondent	Burden Per Response (Seconds)	Annual Burden Per Respondent (Hours)	Total Annual Industry Burden (Hours)
Rule 604	318	3rd Party Disclosure	3,814,465.409	0.1 second	105.957	33,694

13.   Costs to Respondents

The Commission does not estimate any costs to respondents.

14.   Cost to Federal Government

Not applicable.

15.   Changes in Burden

Not applicable. The Commission recently reinstated this OMB number and does not have any changes to the estimated burdens that were in the previous submission.

---

[27]   105.957 burden hours * 318 Participants = approximately 33,694 burden hours.

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 in 5 CFR 1320.9.

B. COLLECTIONS OF INFORMATION EMPLOYING STATISTICAL METHODS

This collection does not involve statistical methods.