

SUPPORTING STATEMENT
for the Paperwork Reduction Act Information Collection Submission for
Rules 15Fi-3 through 15Fi-5 – Risk Mitigation Techniques for Uncleared Security-Based Swaps

OMB No. 3235-0777

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

Section 15F(i)(1) of the Exchange Act, as added by Section 764(a) of Title VII of the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”),¹ requires each registered security-based swap dealer (“SBS dealer”) and each registered major security-based swap participant (“major SBS participant”) (each SBS dealer and each major SBS participant hereafter referred to as an “SBS Entity”) to conform with such standards as may be prescribed by the Commission, by rule or regulation, that relate to timely and accurate confirmation, processing, netting, documentation, and valuation of all security-based swaps.² Section 15F(i)(2) of the Exchange Act provides that the Securities and Exchange Commission (“Commission”) shall adopt rules governing documentation standards for SBS Entities.³

Accordingly, on December 18, 2019, the Commission adopted, among other things, a series of rules that require the application of specific risk mitigation techniques to portfolios of security-based swaps not submitted for clearing.⁴ Specifically:

- Rule 15Fi-3 requires SBS Entities to reconcile outstanding security-based swaps with applicable counterparties on a periodic basis.
- Rule 15Fi-4 requires SBS Entities to engage in certain forms of portfolio compression exercises with their counterparties, as appropriate.
- Rule 15Fi-5 requires SBS Entities to execute written security-based swap trading relationship documentation with each of its counterparties prior to, or contemporaneously with, executing a security-based swap transaction, and to periodically audit the policies and procedures governing such documentation.

¹ Public Law 111–203, 124 Stat. 1376 (2010). Unless otherwise indicated, references to “Title VII” in this release are to Subtitle B of Title VII of the Dodd-Frank Act.

² 15 U.S.C. 78o-10(i)(1).

³ 15 U.S.C. 78o-10(i)(2).

⁴ See Risk Mitigation Techniques for Uncleared Security-Based Swaps, Exchange Act Release No. 87782 (Dec. 18, 2019), 85 FR 6359 (Feb. 4, 2020) (“Risk Mitigation Adopting Release”). See also Risk Mitigation Techniques for Uncleared Security-Based Swaps, Exchange Act Release No. 84861 (Dec. 19, 2018), 84 FR 4614 (Feb. 15, 2019) (“Risk Mitigation Proposing Release”).

Each of these rules impose a collection of information requirements on SBS Entities. The title of these collections of information is, collectively, “Rules 15Fi-3 to 15Fi-5 – Risk Mitigation Techniques for Uncleared Security-Based Swaps.”

2. Purpose and Use of the Information Collection

A. Rule 15Fi-3: Portfolio Reconciliation

The information shared by counterparties to a security-based swap transaction periodically during the portfolio reconciliation process, as contemplated by the underlying requirements in Rule 15Fi-3, plays an important role in assisting those counterparties in identifying and resolving discrepancies involving key terms of their transactions on an ongoing basis. This information also allows those counterparties to improve their management of internal risks related to the enforcement of their rights and the performance of their obligations under a security-based swap.

For example, the information obtained and provided in the course of portfolio reconciliation helps ensure that the counterparties to a security-based swap are and remain in agreement with respect to all material terms throughout the life of the transaction, thereby mitigating the possibility that a discrepancy could unexpectedly affect either side’s ability to perform any or all of its obligations under the contract, including those obligations related to the posting of collateral. Moreover, requiring SBS Entities to agree in writing with each of their counterparties on the terms of the portfolio reconciliation (including, if applicable, agreement on the selection of any third-party service provider who may be performing the reconciliation) helps to minimize any discrepancies regarding the portfolio reconciliation process itself, thereby ensuring that it operates in as efficient and cost-effective means possible.

Finally, the requirement to report certain unresolved valuation disputes to the Commission assists the Commission in identifying potential issues with respect to an SBS Entity’s internal valuation methodology, and could also serve as an indication of a widespread market disruption in cases where the Commission receives a large number of such notices from multiple firms.

Rule 15Fi-4: Portfolio Compression

The portfolio compression requirements in Rule 15Fi-4 help market participants by eliminating redundant uncleared derivatives contracts, thereby potentially reducing a market participant’s credit risk to its direct counterparties – including by eliminating all outstanding contracts with some counterparties – without affecting the market participant’s overall economic position. The rule also leads to processing improvements for market participants by virtue of the fact that SBS Entities and their counterparties ultimately have fewer trades to manage, maintain, and settle, resulting in fewer opportunities for processing errors, failures, or other problems that could develop throughout the lifecycle of a transaction.

Rule 15Fi-5: Written Trading Relationship Documentation

The information required to be contained in the underlying written trading relationship documentation pursuant to Rule 15Fi-5 helps ensure that each SBS Entity mitigates risk with

respect to its security-based swap portfolio by, among other things, enhancing clarity and legal certainty from the outset of a transaction regarding each party's rights and obligations. This outcome helps to reduce exposure to, among other things, counterparty credit risk and promote agreement regarding the proper valuation and other material terms of a security-based swap.

3. Consideration Given to Improved Information Technology

To allow for flexibility with respect to the use and development of new technologies, the rules do not prescribe particular forms or methods of compliance for SBS Entities. For example, Commission staff understands that market participants currently engaging in portfolio reconciliation and portfolio compression exercises in both the swap and security-based swap markets are doing so using automated processes, some of which are being offered by third-party vendors. Under the current rules, SBS Entities are permitted to use such platforms in connection with Rules 15Fi-3 and 15Fi-4, so long as they comply with specific elements set forth in those rules. Similarly, although Rule 15Fi-5 requires that an SBS Entity's trading relationship document with its counterparties be "in writing," it does not specify how the documentation is required to be memorialized, stored, or used. As a result, SBS Entities have the discretion to allow for such trading relationship documentation to be executed, stored, and monitored in electronic format. Such methods of storage and use also apply to the policies and procedures requirements in all three rules.

4. Duplication

Rules 15Fi-3 through 15Fi-5 generally do not require the collection of duplicate information that is otherwise available in a similar form, other than under certain limited circumstances. Specifically, Commission staff expects that many SBS Entities may be dually-registered with the Commodity Futures Trading Commission ("CFTC") as swap dealers and major swap participants. As the Rules 15Fi-3 through 15Fi-5 are largely similar to those adopted by the CFTC, dually-registered entities may have procedures and systems in place to collect the information, thereby minimizing compliance burdens. However, the information provided to the CFTC⁵ addresses swaps while the information provided to the Commission addresses security-based swaps ("SBS"). With respect to mixed swaps, duplicative information may be provided to both the CFTC and the Commission, depending on the facts and circumstances of the transaction. In these instances, the requirement to provide duplicative information to the Commission and CFTC would be unavoidable due to the fact that the Dodd-Frank Act provides that the two agencies share jurisdiction over mixed swaps.

5. Effects on Small Entities

Rules 15Fi-3 through 15Fi-5 impose requirements directly on SBS Entities, which the staff believes are not small entities. Accordingly, Rules 15Fi-3 through 15Fi-5 are not likely to have a significant economic impact on a substantial number of small entities.

⁵ See National Futures Association ("NFA") Notice to Members I-17-13 (July 20, 2017) available at: <https://www.nfa.futures.org/news/newsNotice.asp?ArticleID=4827> ("In January 2016, the CFTC issued an order...authorizing NFA to receive, review, maintain and serve as the official custodian of swap valuation dispute notices that [swap dealers] are required to file pursuant to [CFTC] Regulation 23.502(c).").

6. Consequences of Not Conducting Collection

Rules 15Fi-3 through 15Fi-5 have been promulgated pursuant to Section 15F(i)(2) of the Exchange Act, which requires that the Commission “adopt rules governing *documentation standards* for security-based swap dealers and major security-based swap participants.”⁶ Accordingly, the collections of information are at the heart of each of the underlying documentation requirements of the rules, such that not conducting them (or reducing the frequency of collection) would not be consistent with the statutory provisions. Moreover, the policies and procedures required to be established, maintained, and followed pursuant to Rules 15Fi-3 through 15Fi-5 are instrumental in focusing and assessing compliance with the underlying rules, consistent with how similar requirements are used in numerous other Commission rules. Thus, eliminating such collections (or reducing the frequency of collection) also would be inconsistent with the applicable statutory provisions and the intended effects of the rules.

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

The frequency with which Rule 15Fi-3 requires SBS Entities to provide valuation dispute notices and amendments to the Commission and any applicable prudential regulator depends on the frequency with which SBS Entities experience valuation disputes in amounts that satisfy the notice and amendment thresholds.⁷ Therefore, SBS Entities might be required to provide notices and amendments more or less often than quarterly, or not at all.

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

No payment or gift is provided to respondents.

10. Confidentiality

Rule 15Fi-3(c) requires an SBS Entity to promptly notify the Commission and any applicable prudential regulator of any security-based swap valuation dispute in excess of \$20,000,000 (or its equivalent in any other currency) if not resolved within: (1) three business days, if the dispute is with a counterparty that is an SBS Entity; or (2) five business days, if the dispute is with a counterparty that is not an SBS Entity.

The rule also requires SBS Entities to notify the Commission and any applicable prudential regulator, if the amount of any security-based swap valuation dispute that was the subject of a previous notice increases or decreases by more than \$20,000,000 (or its equivalent in any other currency), at either the transaction or portfolio level. These amendments are required to be provided to the Commission, and any applicable prudential regulator, no later than the last business day of the calendar month in which the applicable security-based swap valuation

⁶ 15 U.S.C. 78o-10(i)(2) (emphasis added).

⁷ See 17 CFR 240.15Fi-3(c); see also Item 10 below.

dispute increases or decreases by the applicable dispute amount. No other information is required to be submitted directly to the Commission under Rules 15Fi-3 through 15Fi-5.

To the extent that the Commission receives confidential information pursuant to this collection of information that is otherwise not publicly available, including in connection with examinations or investigations, the SBS Entity can request the confidential treatment of the information.⁸ If such a confidential treatment request is made, the Commission anticipates that it would keep the information confidential, subject to the provisions of applicable law;⁹ whether any material is confidential is determined pursuant to applicable law, including but not limited to the Freedom of Information Act and Commission rules governing requests for confidential treatment.

11. Sensitive Questions

As described in Item 10 above, Rule 15Fi-3(c) requires an SBS Entity to promptly notify the Commission of certain valuation disputes and to amend the notice in certain circumstances. The notices and amendments are not required to include specific fields, in order to provide SBS Entities with the flexibility to submit the required information to the Commission in a manner that is most efficient for each SBS Entity. However, SBS Entities are encouraged to include, in the notice, basic information about the SBS valuation dispute, including: (1) identifying information about both counterparties (including each party's Legal Entity Identifier); (2) the date of the dispute (or the termination date, if applicable); (3) the type of dispute; (4) disclosure about which counterparty is the receiver and which is the payer; and (5) the disputed amount, in U.S. Dollars ("USD"). SBS Entities are also encouraged to provide any applicable identifier about the relevant SBS (such as the product ID), the notional amount of the SBS, and disclosure about which counterparty is calling the dispute (i.e., the direction of the dispute).¹⁰

SBS Entities filing such notices are encouraged to include certain contact information (including, but not limited to, a person's name, email, or phone number) in order to allow Commission staff to follow-up with the SBS Entities with any follow-up questions on the contents of the notice. The 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 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, we believe that the information collection does not trigger the Privacy Impact Assessment ("PIA") requirement.

⁸ See 17 CFR 200.83.

⁹ See, e.g., 5 U.S.C. 552 *et seq.*; 15 U.S.C. 78x (governing the public availability of information obtained by the Commission). See also Risk Mitigation Adopting Release 85 FR at 6389-90.

¹⁰ See https://www.sec.gov/about/privacy/sorn/sec-03_sec_division_of_trading_and_markets_records.pdf.

12. Burden of Information Collection

Commission staff estimated, based on data obtained from the CFTC, the Depository Trust & Clearing Corporation and conversations with market participants, that approximately 50 entities may meet the definition of SBS dealer, and up to five entities may meet the definition of major SBS participant.¹¹ The Commission estimated that approximately 20 entities would be dually registered with the CFTC as swap dealers or major swap participants (each swap dealer and each major swap participant hereafter referred to as a “Swap Entity” and together referred as “Swap Entities”).¹² This estimate identified the breakdown between SBS Entities that would already have established written policies and procedures to comply with the CFTC’s rules for Swap Entities (which are similar to the Commission’s rules), and those that would need to prepare such policies and procedures for the first time.

Since the adoption of Rules 15Fi-3 through 15Fi-5, the Commission has received application for registration as an SBS D from 51 entities and estimates that two additional entities might apply to register as an SBS D within the next year, but otherwise the Commission continues to believe that these estimates are appropriate.¹³ Thus, the Commission believes that approximately 58 entities will be required to register with the Commission under either category, and will therefore be subject to Rules 15Fi-3 through 15Fi-5. Accordingly, we used 58 as the estimate of the number of respondents for the calculation of reporting burdens. The rules were adopted pursuant to the Commission’s authority to prescribe standards by rule or regulation, and the resulting collection of information is being categorized as a program change due to agency discretion. A summary of the estimated hourly burdens is in the following chart, with a more detailed explanation below.

Summary of Hourly Burdens								
Name of Information Collection	Number of Entities Impacted (A)	Small Business Entities Affected (B)	Type of Burden	Ongoing or Initial Burden	Annual Responses per Entity (C)	Burden Hours per Entity per Response (D)	Annual Burden Hours Per Entity (E) (C)*(D)	Annual Industry Burden (F) (A)*(E)
Reconciliation with other SBS Entities	58	0	Recordkeeping	Ongoing	760	0.25	190	11,020
				Initial One-Time	N/A	N/A	N/A	
Reconciliation with non-SBS Entities	58	0	Recordkeeping	Ongoing	455	0.5	227.5	13,195
				Initial One-Time	N/A	N/A	N/A	
	20	0	Recordkeeping	Ongoing	1	40	40	807

¹¹ See Risk Mitigation Adopting Release, 85 FR at 6383 nn. 209 and 210 (citing to a number of prior Commission releases estimating that approximately 50 entities may meet the definition of SBS dealer, and up to five entities may meet the definition of major SBS participant).

¹² See Risk Mitigation Adopting Release, 85 FR at 6383.

¹³ See List of Security-Based Swap Dealers and Major Security-Based Swap Participants (Sept. 28, 2023), available at <https://www.sec.gov/tm/List-of-SBS-Dealers-and-Major-SBS-Participants>.

Reconciliation Policies and Procedures (Dual SEC/CFTC)				Initial One-Time	N/A	1	0.33	
Reconciliation Policies and Procedures (SEC Only)	38	0	Recordkeeping	Ongoing	1	40	40	2,533
				Initial One-Time	N/A	80	26.67	
Valuation Dispute Notices (including amendments) ¹⁴	58	0	Reporting	Ongoing	1	30	30	1,740
				Initial One-Time	N/A	N/A	N/A	
Compression and Offsets with All Counterparties	58	0	Recordkeeping	Ongoing	736	0.1687 ¹⁵	124.16	7,201
				Initial One-Time	N/A	N/A	N/A	
Compression Policies and Procedures (Dual SEC/CFTC)	20	0	Recordkeeping	Ongoing	1	40	40	807
				Initial One-Time	N/A	1	0.33	
Compression Policies and Procedures (SEC Only)	38	0	Recordkeeping	Ongoing	1	40	40	2,533
				Initial One-Time	N/A	80	26.67	
Prepare and Negotiate Documentation	58	0	Recordkeeping	Ongoing	N/A	N/A	N/A	208,220
				Initial One-Time	N/A	10,771.36	3,590	
Documentation Policies and Procedures (Dual SEC/CFTC)	20	0	Recordkeeping	Ongoing	1	40	40	807
				Initial One-Time	N/A	1	0.33	
Documentation Policies and Procedures (SEC Only)	38	0	Recordkeeping	Ongoing	1	40	40	2,533
				Initial One-Time	N/A	80	26.67	

¹⁴ The currently approved estimate of the average annual industry burden of this information collection is 1,320 hours, based on an estimated average annual information collection burden per entity of 24 hours; see Supporting Statement for the Paperwork Reduction Act Information Collection Submission for Rules 15Fi-3 through 15Fi-5 – Risk Mitigation Techniques for Uncleared Security-Based Swaps (Aug. 18, 2021), available at https://www.reginfo.gov/public/do/PRAViewICR?ref_nbr=202108-3235-011. Additionally, when the Commission adopted Rule 15Fi-3(c) it noted that, although it believed that the time required to submit amendments to existing notices was likely included in the 24-hour estimate, it was “conservatively increasing that estimate by 25% to account for the submission of amended notices. As such, [the Commission estimated that] SBS Entities will spend on average of 30 hours each year complying with this requirement, for an estimated average annual burden of 1,650 hours in the aggregate for all 55 respondents.” See *infra* Item 15.

¹⁵ Revised from 0.1715 hours to 0.1687 due to a calculation of error (not due to a change of burden) to reflect the “Annual Responses per Entity” and the “Annual Burden Per Entity” described in this Item 12. See also *infra* Item 15.

Periodic Audit of Documentation	58	0	Recordkeeping	Ongoing	368	10	3680	213,440
				Initial One-Time	N/A	N/A	N/A	
TOTAL ANNUAL INDUSTRY BURDEN¹⁶								464,836

A. Rule 15Fi-3 (Portfolio Reconciliation)

1. Portfolio Reconciliation with Other SBS Entities

Under Rule 15Fi-3(a), we estimate that approximately 58 respondent SBS Entities will be required to reconcile uncleared security-based swap portfolios with other SBS Entities on a daily, weekly, or quarterly basis, depending upon the size of the portfolio. For purposes of this requirement, we estimate that each SBS Entity would engage in security-based swap transactions with approximately 18 SBS Entities. Of this total, we believe that, on average, two such portfolios would require daily reconciliation (i.e., a portfolio consisting of 500 or more uncleared security-based swaps), four portfolios would require weekly reconciliation (i.e., a portfolio of more than 50 but fewer than 500 uncleared security-based swaps), and the remaining 12 portfolios would require quarterly reconciliation (i.e. a portfolio of no more than 50 uncleared security-based swaps).¹⁷ We therefore estimated that each SBS Entity would engage in an average of 760 portfolio reconciliations with other SBS Entities per year.¹⁸

We also believe that each portfolio reconciliation was likely to be conducted through an automated process.¹⁹ As a result, we believe that each reconciliation would require an average of 30 minutes to complete in total (which is the combined estimate for both counterparties), regardless of the size of the security-based swap portfolio with the applicable counterparty.²⁰ Using these figures, we estimate that compliance with Rule 15Fi-3(a) would impose an average

¹⁶ The currently approved estimate of the total annual industry information collection burden is 440,381.30 hours. The total of the estimated aggregate annual industry burden adjusted to reflect the 25% increase related to Rule 15Fi-3(c) described *supra* note 14 and the increase in burden attributable to additional respondents is 464,836.67 hours.

¹⁷ These estimates were consistent with those used by the CFTC in connection with its portfolio reconciliation rule. *See Confirmation, Portfolio Reconciliation, and Portfolio Compression Requirements for Swap Dealers and Major Swap Participants*, 75 FR 81519, 81528 (Dec. 28, 2010).

¹⁸ This estimate uses 252 business days for purposes of the daily portfolio reconciliation requirement, which is consistent with the definition of “business day” in Rule 15Fi-1(b).

¹⁹ Commission staff recognizes that some respondents may choose to engage a third-party vendor to conduct portfolio reconciliations. For simplicity, however, the burden estimate is based upon SBS Entities conducting these activities internally, without the use of third-party vendors.

²⁰ Because the 30-minute estimate is for the entire reconciliation process, without respect to how that time is allocated between the two parties, to avoid double-counting we divided it by one-half in the context of security-based swap portfolios between two SBS Entities, resulting in an estimate of 15 minutes per reconciliation per counterparty for those portfolios.

annual burden of approximately 190 hours annually on each of the estimated 58 SBS Entity respondent, for an estimated average annual burden of **11,020 hours in the aggregate**.²¹

2. Portfolio Reconciliation with Non-SBS Entities

Pursuant to Rule 15Fi-3(b), each SBS Entity is required to establish, maintain, and follow written policies and procedures reasonably designed to ensure that it engages in portfolio reconciliation for all uncleared security-based swaps in which its counterparty is not an SBS Entity.²² In calculating the burden of performing the portfolio reconciliations required by these policies and procedures, staff estimated that: (1) there were 13,082 market participants in security-based swaps who would not be required to register as SBS Entities,²³ and (2) each SBS Entity would have an average of approximately 350 of these non-SBS Entity market participants as counterparties.²⁴ Further, we believed that reconciliations with these parties would be conducted on a quarterly basis for 10% of these portfolios (*i.e.*, portfolios with more than 100 uncleared security-based swaps), and on an annual basis for the remaining 90% of these portfolios (*i.e.*, portfolios that do not involve 100 or more uncleared security-based swaps). Accordingly, of the estimated 350 security-based swap portfolios that an SBS Entity maintains with non-SBS Entities, approximately 90% (or 315) would require only one portfolio reconciliation each year (for a total of 315 annual reconciliations), and 10% (or 35) would require quarterly portfolio reconciliations (for a total of 140 quarterly reconciliations), resulting in a total of 455 portfolio reconciliations per SBS Entity per year.

We further estimated that each portfolio reconciliation between an SBS Entity and a non-SBS Entity would require an average of 30 minutes to complete (which is the combined estimate

²¹ Rule 15Fi-3(a)(1) and 15Fi-3(b)(1) also require an SBS Entity to agree in writing with each of its counterparties on the terms of the portfolio reconciliation including, if applicable, agreement on the selection of any third-party service provider who may be performing the reconciliation. Commission staff believed that SBS Entities are likely to undertake this agreement as part of the written trading relationship documentation that they are required to enter into with their counterparties as a result of Rule 15Fi-5. Thus, the estimate here does not account for this burden, which is instead assumed to form part of the burden of complying with Rule 15Fi-5.

²² The estimated hourly burden for preparing these policies and procedures is discussed below.

²³ In the Economic Analysis in the Risk Mitigation Adopting Release, the Commission estimated that there are approximately 13,137 market participants in the security-based swap market. *See* Risk Mitigation Adopting Release, 85 FR at 6393. Subtracting the estimated 55 SBS Entities from this figure resulted in an estimated 13,082 non-SBS Entities.

²⁴ This estimate was based upon the assumption that each non-SBS Entity market participant would do business with, on average, between one or two SBS Entities and was calculated as follows: $((13,082 \text{ non-SBS Entity market participants} / 55 \text{ SBS Entities}) \times 1.5 \text{ SBS Entities per non-SBS market participant}) = \text{approximately } 350 \text{ non-SBS Entity counterparties per SBS Entity}$.

for both counterparties).²⁵ Using these figures, the we estimate that compliance with Rule 15Fi-3(b), as it relates to conducting portfolio reconciliations with non-SBS Entities, would impose an annual hourly burden of approximately 227.5 hours for each of the estimated 58 SBS Entity respondents, for an estimated average annual burden of approximately **13,195 hours in the aggregate.**

3. Establishing, Maintaining, and Enforcing Written Policies and Procedures (Dual SEC/CFTC Entities)

Rule 15Fi-3 also contains policies and procedures requirements applicable to SBS Entities in connection with engaging in portfolio reconciliation with both SBS Entities and other counterparties. As previously noted, Commission staff estimates that of the estimated 58 persons that may register with the Commission as SBS Entities, approximately 20 would be dually-registered with the CFTC as Swap Entities.²⁶ In addition, and as we previously noted, the CFTC's adopted final rules on portfolio reconciliation written policies and procedures are substantively identical to those required by Rule 15Fi-3. Accordingly, these entities were already required to establish, maintain, and follow written policies and procedures as they relate to the reconciliation of their swap portfolios, and these policies and procedures were expected to be largely consistent with those that would be required with respect to their security-based swap portfolios. Assuming that these existing policies and procedures would simply need to be amended to apply to security-based swap transactions as required by Rule 15Fi-3, we estimated that the initial burden of revising these policies and procedures would be one hour per respondent (or .33 hours on a three-year annualized basis) for each of the 20 dually-registered SBS Entities, for an estimated one-time initial burden of 35 hours in the aggregate (or 6.67 hours on a three-year annualized basis). Once these policies and procedures were established, we believed that that it would take an average of 40 hours annually to revise and maintain these policies and procedures per respondent,²⁷ for an estimated average annual burden of 800 hours in the aggregate for all 20 respondents.²⁸ Combining the initial and annual burdens associated with creating and updating the required policies and procedures resulted in a total estimated average annual burden of **807 hours in the aggregate** for all of the 20 respondents that we estimated may be registered with both the SEC and CFTC.

²⁵ This figure is identical to the estimate used for reconciliations between two SBS Entities (before dividing by one-half to avoid double-counting).

²⁶ See supra note 12 and accompanying text.

²⁷ Although dually-registered SBS Entities would technically need to revise and maintain their policies and procedures to ensure compliance with both the Commission and CFTC rules, we decided to conservatively assume that all of the estimated hours would be incurred in connection with compliance with the collection of information associated with Rule 15Fi-3.

²⁸ This estimate was 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. See Trade Acknowledgment and Verification of Security-Based Swap Transactions, Exchange Act Release No. 78011 (June 8, 2016), 81 FR 39807, 39831 n. 243 (June 17, 2016) ("Trade Acknowledgment and Verification Adopting Release").

4. Establishing, Maintaining, and Enforcing Written Policies and Procedures (SEC-Only Entities)

With respect to the remaining 38 SBS Entities that we estimate would not be dually-registered with the CFTC, staff estimates, based on prior estimates in earlier Dodd-Frank rulemakings, that these policies and procedures would require an average of 80 hours per non-dually-registered respondent to initially prepare and implement (or 26.67 hours on a three-year annualized basis) for each of the 38 Commission-only SBS Entities, for an estimated one-time initial burden of 3,040 hours in the aggregate (or 1,013.33 hours on a three year-annualized basis).²⁹ Once these policies and procedures were established, we believed that that it would take an average of 40 hours annually to revise and maintain these policies and procedures per respondent, for an estimated average annual burden of 1,520 hours in the aggregate for all 38 respondents.³⁰ Combining the initial and annual burdens associated with creating and updating the required policies and procedures resulted in a total estimated average annual burden of **2,533 hours in the aggregate** for all 38 respondents that we estimated may be registered only with the SEC.

5. Reporting of Certain Valuation Disputes

Rule 15Fi-3(c) requires each SBS Entity to promptly notify the Commission (and any applicable prudential regulator for an SBS Entity that is also a bank), in a form and manner acceptable to the Commission, of any security-based swap valuation dispute in excess of \$20,000,000 (or its equivalent in any other currency) if not resolved within a prescribed time period. The rule was designed to provide SBS Entities with flexibility to determine the most efficient and cost-effective form and manner of making such submissions, so long as it is deemed to be acceptable by the Commission.³¹ Accordingly, Commission staff did not expect there to be any initial burden of designing a system for submitting these notices. Staff also believed that the associated ongoing hourly burden of preparing and submitting such notices would be minimal. When the Commission initially adopted Rule 15Fi-3, it noted that, until SBS Entities were registered with the Commission, it was difficult for the Commission to determine the typical number of valuation disputes meeting the applicable thresholds that SBS Entities would be required to submit on an annual basis.³² Because SBS Entities have been required to submit Valuation Dispute Notices (“VDNs”) under Rule 15fi-3(c) for a limited time, it remains difficult for the Commission to determine the typical number of VDNs that an SBS Entity will submit annually.

²⁹ This estimate was based on Commission staff discussions with market participants and was 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. See Trade Acknowledgment and Verification Adopting Release, 81 FR at 39831 n. 242.

³⁰ See supra note 28.

³¹ See Risk Mitigation Proposing Release, 84 FR at 4621 n. 47, 4643.

³² See Risk Mitigation Adopting Release 85 FR at 6385-86.

The Commission staff estimates that each of the 58 SBS Entity respondents would spend on average of 24 hours each year complying with this requirement,³³ for an estimated average annual burden of 1,320 hours in the aggregate. Additionally, when the Commission adopted Rule 15Fi 3(c) it noted that, although it believed that the time required to submit amendments to existing notices is likely included in the 24-hour estimate, it was “conservatively increasing that estimate by 25% to account for the submission of amended notices. As such, [the Commission estimated that] SBS Entities would spend on average of 30 hours each year complying with this requirement, for an estimated average annual burden of **1,740 hours in the aggregate** for all 58 respondents.”³⁴

B. Rule 15Fi-4: Portfolio Compression

1. Conducting Bilateral Offsets and Portfolio Compression

Staff estimated that respondents would also incur hourly burdens as they undertook bilateral offsets and portfolio compression exercises pursuant to the written policies and procedures required by Rule 15Fi-4. As noted above staff believes that each of the 58 estimated SBS Entities would be counterparty to an average of 18 other SBS Entities and 350 non-SBS Entities, for a total of 368 counterparties. For purposes of conducting bilateral offsets and portfolio compression exercises, we estimated that: (1) each SBS Entity would have an average of one set of security-based swaps eligible for annual bilateral offset with each of these 368 counterparties, (2) each SBS Entity would conduct an annual bilateral compression exercise with one-third, or six of its 18 SBS Entity counterparties, (3) each SBS Entity would conduct an annual bilateral compression exercise with each of its 350 non-SBS Entity counterparties, and (4) each SBS Entity would engage in multilateral compression exercises at an average rate of 12 exercises per year.

Commission staff also believed that each bilateral offset and portfolio compression exercise was likely to be conducted through an automated process. As a result, we believed that: (1) each bilateral offset would require on average five minutes of respondent time to complete with each of the 350 non-SBS Entity counterparties, (2) each bilateral offset would require on average 2.5 minutes of respondent time to complete with each of the 18 SBS Entity counterparties,³⁵ (3) each bilateral compression would require an average of 15 minutes of respondent time to complete with each of the 350 non-SBS Entity counterparties, (4) each bilateral compression would require an average of 7.5 minutes with each of the six SBS Entity

³³ This estimate was identical to the one used by the CFTC in the course of adopting a similar rule in 2011. See Swap Trading Relationship Documentation Requirements for Swap Dealers and Major Swap Participants, 76 FR 6715, 6723 (Feb. 8, 2011).

³⁴ See supra note 14.

³⁵ Similar to our estimates in the context of the portfolio reconciliation requirements, because the five minute estimate was for the entire bilateral offset process, without respect to how that time is allocated between the two parties, to avoid double-counting we divided it by one-half in the context of security-based swap portfolios between two SBS Entities, resulting in an estimate of 2.5 minutes per bilateral offset for those portfolios.

counterparties,³⁶ and (5) each multilateral compression exercise would require an average of 30 minutes of respondent time to complete 12 times annually. In each of those hourly burdens, the figure used was the combined estimate for both counterparties. Accordingly, the Commission estimated the average annual hourly burden for these activities to be 124.16 hours for each of the 58 SBS Entity respondents, for an estimated average annual burden of **7,201 hours in the aggregate**.

2. Establishing, Maintaining, and Enforcing Written Policies and Procedures (Dual SEC/CFTC Entities)

As previously noted, the approximately 20 SBS Entities that we estimated would be dually-registered with the CFTC as Swap Entities were already required to establish, maintain, and follow relevant written policies and procedures related to bilateral offsets and portfolio compression exercises involving their swap portfolios, and these policies and procedures were expected to be largely consistent with those required with respect to their security-based swap portfolios. Assuming that these existing policies and procedures would simply need to be amended to apply to security-based swap transactions as required by Rule 15Fi-4, we estimated that the initial burden of revising these policies and procedures would be one hour per respondent (or .33 hours on a three-year annualized basis) for each of the 20 dually-registered SBS Entities, for an estimated one-time initial burden of 20 hours in the aggregate (or 6.67 hours on a three-year annualized basis). Once these policies and procedures were established, we believed that that it would take an average of 40 hours annually to revise and maintain these policies and procedures per respondent, for an estimated average annual burden of 800 hours in the aggregate for all 20 respondents.³⁷ Combining the initial and annual burdens associated with creating and updating the required policies and procedures resulted in a total estimated average annual burden of **807 hours in the aggregate** for all of the 20 respondents that we estimated may be registered with both the SEC and CFTC.

3. Establishing, Maintaining, and Enforcing Written Policies and Procedures (SEC-Only Entities)

With respect to the remaining 38 SBS Entities that we estimate would not be dually-registered with the CFTC, Commission staff estimates, based on prior estimates in earlier Dodd-Frank rulemakings, that these policies and procedures would require an average of 80 hours per non-dually-registered respondent to initially prepare and implement (or 26.67 hours on a three-year annualized basis) for each of the 38 Commission-only SBS Entities, for an estimated average annual burden of 3,040 hours in the aggregate (or 1,013.33 hours on a three-year annualized basis).³⁸ Once these policies and procedures were established, we estimated that it would take an average of 40 hours annually to revise and maintain these policies and procedures per respondent, for an estimated average annual burden of 1,520 hours in the aggregate for all 38

³⁶ Again, we divided the 15-minute estimate to complete the bilateral compression exercise by one-half in the context of security-based swap portfolios between two SBS Entities, resulting in an estimate of 7.5 minutes per bilateral compression for those portfolios.

³⁷ See supra note 28.

³⁸ See supra note 29.

respondents.³⁹ Combining these initial and annual burdens resulted in a total estimated average annual burden of **2,533 hours in the aggregate** for all 38 respondents that we estimated may be registered only with the SEC.

C. Rule 15Fi-5: Written Trading Relationship Documentation

1. Preparation of Written Trading Relationship Documentation

As noted above, Commission staff estimated that each SBS Entity would have 18 SBS Entity counterparties and 350 non-SBS Entity counterparties, for a total of 368 counterparties per SBS Entity. For purposes of the underlying documentation requirements (i.e., as opposed to the requirements to establish and maintain policies and procedures), and based on staff discussions with market participants, we understood that many SBS Entities already had in place industry-standard written trading relationship documentation that was likely to contain many of the elements required by this rule. With this in mind, staff estimated that: (1) the initial burden per respondent to negotiate and draft written trading relationship documentation with 350 non-SBS Entities that is compliant with Rule 15Fi-5 would be approximately 30 hours (which is the combined estimate for both counterparties), or (10,500 hours for each of the 58 estimated SBS Entities), and (2) the initial burden per respondent to negotiate and draft written trading relationship documentation with 18 SBS Entities that is compliant with Rule 15Fi-5 would be approximately 15 hours (or 270 hours for each of the 58 SBS Entities).⁴⁰ These estimates were averages, and both accounted for the fact that some SBS Entities may lack appropriate documentation in certain respects and would need to enter into new documentation with counterparties, while in other cases existing documentation would need only to be modified to be brought into compliance with Rule 15Fi-4. These estimates were further based on an assumption that, in each case, the written documentation would always include the valuation agreements set forth in Rule 15Fi-5(b)(4), notwithstanding the fact that the rule only requires this information in certain circumstances.

Based on these estimates and assumptions, Commission staff estimated that the requirement to prepare written relationship documentation in accordance with Rule 15Fi-5 would result in an estimated one-time initial burden of 10,770 hours for each of the 58 SBS Entity respondents, for an estimated average one-time burden of **624,660 hours in the aggregate (or 208,220 on a three-year annualized basis)**. The Commission also estimated that there would be little need to modify the written trading relationship documentation on an ongoing basis once it is in place, and therefore did not estimate any additional annual hourly burden for ongoing modifications.

³⁹ See supra note 28.

⁴⁰ As was the case in calculating the estimated burdens for the portfolio reconciliation and portfolio compression requirements, because the 30 hours estimate was for the entire process of negotiating and executing written trading relationship documentation, without respect to how that time was allocated between the two parties, to avoid double-counting we divided it by one-half in the context of counterparties that were also SBS Entities, resulting in an estimate of 15 hours to negotiate and execute such documentation.

2. Establishing, Maintaining, and Enforcing Written Policies and Procedures

As previously noted, the approximately 20 SBS Entities that we estimated would be dually-registered with the CFTC as Swap Entities were already required to establish, maintain, and follow written policies and procedures requiring the execution of written trading relationship documentation are substantively identical to those required by Rule 15Fi-5. Accordingly, these 20 entities were already required to establish, maintain, and follow relevant written policies as they relate to the execution of written trading relationship documentation involving their swap portfolios, and these policies and procedures were expected to be largely consistent with those that would be required with respect to their security-based swap portfolios. Assuming that these existing policies and procedures would simply need to be amended to apply to security-based swap transactions as required by Rule 15Fi-5, we estimated that the average initial burden of revising these policies and procedures would be one hour per respondent (or .33 hours on a three-year annualized basis) for each of the 20 dually-registered SBS Entities, for an estimated one-time burden of 20 hours in the aggregate (or 6.67 hours on a three-year annualized basis). Once these policies and procedures were established, we believed that that it would take an average of 40 hours annually to revise and maintain these policies and procedures per respondent, for an estimated average annual burden of 800 hours in the aggregate for all 20 respondents.⁴¹ Combining the initial and annual burdens associated with creating and updating the required policies and procedures resulted in a total estimated average annual burden of **807 hours in the aggregate** for all of the estimated 20 respondents that we estimated may be registered with both the SEC and CFTC.

3. Establishing, Maintaining, and Enforcing Written Policies and Procedures (SEC-Only Entities)

With respect to the remaining 38 SBS Entities that we estimated would not be dually-registered with the CFTC, Commission staff estimated, based on prior estimates in earlier Dodd-Frank rulemakings, that these policies and procedures would require an average of 80 hours per non-dually-registered respondent to initially prepare and implement (or 26.67 hours on a three-year annualized basis) for each of the 38 Commission-only SBS Entities, for an estimated average annual burden of 3,040 hours in the aggregate (or 1013.3 hours on a three year-annualized basis).⁴² Once these policies and procedures were established, we estimated that it would take an average of 40 hours annually to revise and maintain these policies and procedures per respondent (including both dually-registered and non-dually-registered SBS Entities), for an estimated average annual burden of 1,520 hours in the aggregate for all 38 respondents.⁴³ Combining the initial and annual burdens associated with creating and updating the required policies and procedures resulted in a total estimated average annual burden of **2533 hours in the aggregate** for all 38 respondents that we estimated may be registered only with the SEC.

⁴¹ See supra note 28.

⁴² See supra note 29.

⁴³ See supra note 28.

4. Audit of Security-Based Swap Trading Relationship Documentation

With regard to having an independent auditor conduct the required periodic audit of written trading relationship documentation and the requirement to retain a record of each such audit, staff estimated that it would take an average of 10 hours to audit an SBS Entity's documentation with each of its 368 counterparties, for a total of 3,680 hours per SBS Entity, or **213,400 hours in the aggregate** for all 58 SBS Entity respondents.

D. Summary

Combining the total estimates included above, Commission staff estimates that the total estimated aggregate annual burden associated with Rules 15Fi-3 through 15Fi-5 would be 464,836 hours. These estimates were derived from a number of different sources. With respect to the requirements to: (1) reconcile portfolios of security-based swaps (with both SBS and non-SBS Entities); (2) providing notices of valuation disputes; (3) participate in compression exercises and bilateral offsets (with both SBS and non-SBS Entities); (4) prepare and negotiating new written security-based swap trading relationship documentation; and (5) audit the documentation policies, the estimates were consistent with those used by the CFTC in the course of adopting a similar rules.⁴⁴ For the requirement to establish, maintain, and enforce written policies and procedures, the estimates were consistent with those used in other Commission rulemakings that contained similar requirements for SBS Entities.⁴⁵

13. **Costs to Respondents**

In connection with the currently approved cost burden, The Commission did not estimate that any of the rules would impose costs on respondents. At the same time, however, Commission staff understood that some at least some respondents may choose to utilize third parties to comply with the requirements underlying the collections of information. For example, respondents may choose to utilize the services of a third-party vendor to perform the reconciliations required by Rule 15Fi-3 or the compression exercises contemplated by Rule 15Fi-4. Commission staff did not have access to the information necessary to determine how many market participants would use such third-party services or data on the monetized costs of using such services. Accordingly, this Paperwork Reduction Act analysis was based entirely on hourly burdens without monetizing those costs. Because cost is likely to be a significant factor in determining whether market participants would use third-party vendors in these instances, Commission staff believes that relying solely on the hourly burdens was likely to provide a more conservative estimate.

14. **Cost to Federal Government**

Not applicable. The federal government would not incur a cost in connection with the collection of this information.

⁴⁴ See Swap Trading Relationship Documentation Requirements for Swap Dealers and Major Swap Participants, 76 FR 6715, 6723 (Feb. 8, 2011).

⁴⁵ See e.g., Trade Acknowledgment and Verification Adopting Release, 81 FR at 39831.

15. Changes in Burden

Increase in Respondents

As previously discussed, we estimate that approximately 58 entities will submit applications to register as an SBS entity (as opposed to the 55 estimated SBS entities in the current approved burden).⁴⁶ This change impacts the requirements where the burdens impact all 58 SBS entities or the 38 SBS entities that we estimate are not registered with the CFTC as Swap Entities.

The change in burden in the collection of information for Rule 15Fi-3 through 15Fi-5 is an **increase in the total estimated aggregate burden of 24,434 hours** (as compared to the current approved burden), which is broken down as follows:

CHANGES IN ANNUALIZED HOURLY BURDEN			
Changes due to an increase in the estimate of the number of SBS Entities.			
Requirement	Current Burden Estimate	Revised Burden Estimate	Total Change
Reconciliation with other SBS Entities	10,450	11,020	570
Reconciliation with non-SBS Entities	12,513	13,195	682
Reconciliation Policies and Procedures (Dual SEC/CFTC)	807	807	0
Reconciliation Policies and Procedures (SEC Only)	2,333	2,533	200
Valuation Dispute Notices (including amendments)	1,320	1,740	420
Compression and Offsets with All Counterparties	6,829	7,201	372
Compression Policies and Procedures (Dual SEC/CFTC)	807	807	0
Compression Policies and Procedures (SEC Only)	2,333	2,533	200
Prepare and Negotiate Documentation	197,450	208,220	10,770
Documentation Policies and Procedures (Dual SEC/CFTC)	807	807	0

⁴⁶ See supra note 12 and accompanying text.

Documentation Policies and Procedures (SEC Only)	2,333	2,533	200
Periodic Audit of Documentation	202,420	213,440	11,020
Total Burden Change			24,434

Valuation Dispute Notices

In addition to the change in burden described above, this supporting statement also reflects the estimated increase in the hourly burden of submitting valuation dispute notices to account for submission of amended notices as described in the Risk Mitigation Adopting Release.⁴⁷ The estimated increase is summarized in the chart below.

Requirement	Annual Industry Burden	Annual Industry Burden Previously Reviewed	Change in Burden	Reason for Change
Valuation Dispute Notices (including amendments)	1,740 hours	1,320 hours	420 hours	To account for submission of amended notices and the increase in burden attributable to additional respondents.

Compression and Offsets with All Counterparties

As described in Item 12.B.1 above, the Commission estimated the average annual hourly burden of certain bilateral offsets and portfolio compression exercises to be 124.16 hours for the estimated 736 annual responses of each of the 58 SBS Entity respondents, for an estimated average annual burden of 7,201.8 hours in the aggregate. As such, the burden described in this supporting statement reflects an estimated average burden per entity per response of 0.1687 hours⁴⁸ which has been revised from 0.1715 hours.⁴⁹

Requirement	Annual Industry Burden	Annual Industry Burden Previously Reviewed	Change in Burden	Reason for Change
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⁴⁷ When the Commission adopted Rule 15Fi-3(c) it noted that, although it believed that the time required to submit amendments to existing notices was likely included in its estimate described in the Risk Mitigation Proposing Release, it was “conservatively increasing that estimate by 25% to account for the submission of amended notices.” See Risk Mitigation Adopting Release, 85 FR at 6386. See *supra* notes 14 and 16.

⁴⁸ 124.16 average annual hourly burden per entity ÷ 736 average annual responses per entity = 0.1687 average hours per response.

⁴⁹ See *supra* note 15.

Compression and Offsets with All Counterparties	7,201.28 hours	6,828.8 hours	0 hours	We revised the burden per entity per response described in this supporting statement to reflect the previously estimated annual industry burden and the previously estimated annual burden per entity; <u>see supra</u> notes 15 and 48. The change in burden is attributable to additional respondents added to the estimate. Otherwise, the change in burden would be zero.
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16. Information Collection Planned for Statistical Purposes

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

17. OMB 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.