

SUPPORTING STATEMENT
for the Paperwork Reduction Act Information Collection Submission for
Rule 17Ad-27

OMB Control No. 3235-0799

A. JUSTIFICATION

1. Necessity of Information Collection

Legal Requirements

i. Exchange Act

Section 17A of the Securities Exchange Act of 1934 (“Exchange Act”) directs the Securities and Exchange Commission (“Commission”) to facilitate the establishment of (i) a national system for the prompt and accurate clearance and settlement of securities transactions and (ii) linked or coordinated facilities for clearance and settlement of securities transactions.¹ In facilitating the establishment of the national clearance and settlement system, the Commission must have due regard for the public interest, the protection of investors, the safeguarding of securities and funds, and maintenance of fair competition among brokers and dealers, clearing agencies, and transfer agents.²

Clearing agencies are broadly defined in the Exchange Act and undertake a variety of functions.³ Under Section 17A of the Exchange Act and Rule 17Ab2-1 under the Exchange Act, an entity that meets the definition of a clearing agency is required to register with the Commission or obtain from the Commission an exemption from registration prior to performing the functions of a clearing agency.⁴ To grant registration to a clearing agency, the Exchange Act requires the Commission to determine that the rules and operations of the applicant clearing agency meet the standards set forth in Section 17A of the Exchange Act.⁵ It also states that, upon

¹ See 15 U.S.C. 78q-1(a)(2); see also Report of the Senate Committee on Banking, Housing & Urban Affairs, S. Rep. No. 94-75, at 4 (1975) (urging that “[t]he Committee believes the banking and security industries must move quickly toward the establishment of a fully integrated national system for the prompt and accurate processing and settlement of securities transactions”).

² See 15 U.S.C. 78q-1(a)(2)(A).

³ See 15 U.S.C. 78c(a)(23)(A) (defining a “clearing agency” as, among other things: [A]ny person who acts as an intermediary in making payments or deliveries or both in connection with transactions in securities or who provides facilities for comparison of data respecting the terms of settlement of securities transactions, to reduce the number of settlements of securities transactions, or for the allocation of securities settlement responsibilities.)

⁴ See 15 U.S.C. 78q-1; 17 CFR 240.17Ab2-1.

⁵ See 15 U.S.C. 78q-1(b)(3)(A) through (I) (identifying nine determinations that the Commission must make regarding the rules and structure of a clearing agency to grant registration). In 1980, the Commission published a

the Commission's motion or upon a clearing agency's application, the Commission may conditionally or unconditionally exempt a clearing agency from any provision of Section 17A of the Exchange Act or the rules or regulations thereunder if the Commission finds that such exemption is consistent with the public interest, the protection of investors, and the purposes of Section 17A, including the prompt and accurate clearance and settlement of securities and funds.⁶

In 1998,⁷ the Commission concluded that an entity providing matching services as an intermediary between broker-dealers and institutional customers is a clearing agency within the meaning of Section 3(a)(23) of the Exchange Act,⁸ and therefore subject to the registration requirements of Section 17A of the Exchange Act.⁹ The Commission also noted that an entity that limited its clearing agency functions to providing matching services might not have to be subject to the full range of clearing agency regulation. In addition, the Commission stated that it anticipated an entity seeking an exemption from clearing agency registration for matching services would be required to (i) provide the Commission with information on its matching service and notice of material changes to its matching service; (ii) establish an electronic link to a registered clearing agency that provides for the settlement of its matched trades; (iii) allow the Commission to inspect its facilities and records; and (iv) make periodic disclosures to the Commission regarding its operations.¹⁰ Currently, one entity operates under an exemption from registration as a clearing agency to perform matching services.¹¹

ii. Final Rule 17Ad-27

As part of the final set of rules to achieve a further shortening of the standard settlement cycle for securities transactions from two business days after the transaction date to one business

statement of the views and positions of Commission staff regarding the requirements of Section 17A. See Exchange Act Release No. 16900 (June 17, 1980), 45 FR 41920 (June 23, 1980).

⁶ See 15 U.S.C. 78q-1(b)(1).

⁷ See Exchange Act Release No. 34-39829 (Apr. 6, 1998), 63 FR 17943 (Apr. 13, 1998) (providing interpretive guidance and requesting comment on the confirmation and affirmation of securities trades and matching) ("Matching Release").

⁸ Section 3(a)(23) defines a "clearing agency" as, among other things: [A]ny person who acts as an intermediary in making payments or deliveries or both in connection with transactions in securities or who provides facilities for comparison of data respecting the terms of settlement of securities transactions, to reduce the number of settlements of securities transactions, or for the allocation of securities settlement responsibilities. See 15 U.S.C. 78c(a)(23).

⁹ Specifically, the Commission concluded that matching services constitute comparison of data respecting the terms of settlement of securities transactions. See Matching Release, supra note 7, at 17943.

¹⁰ See id. at 17947 n.28.

¹¹ See Exchange Act Release No 34-44188 (Apr. 17, 2001), 66 FR 20494 (Apr. 23, 2001) (providing an exemption from registration as a clearing agency to DTCC ITP Matching US LLC, formerly known as Global Joint Ventures Matching Services US, LLC). At the time the rule was issued, there were two additional such entities but they have withdrawn their exemptions.

day following the transaction date, Rule 17Ad-27 requires exempt entities that perform matching services to facilitate the settlement of securities transactions (referred to as a “central matching service provider” or “CMSP”) to establish, implement, maintain and enforce policies and procedures reasonably designed to facilitate straight-through processing for transactions involving broker-dealers and their customers.¹² CMSPs electronically facilitate communication among a broker-dealer, an institutional investor or its investment adviser, and the institutional investor’s custodian to reach agreement on the details of a securities trade. CMSPs emerged as a result of efforts by market participants to develop a more efficient and automated matching process that are an important resource for advancing the straight-through processing of the settlement of institutional trades.

The term “straight-through processing” generally refers to processes that allow for the automation of the entire trade process from trade execution through settlement without manual intervention. In the context of institutional trade processing under this rule, straight-through processing occurs when a market participant or its agent uses the facilities of a CMSP to enter trade details and completes the trade allocation, confirmation, affirmation, and/or matching processes without manual intervention.

Rule 17Ad-27 also requires a CMSP to submit every twelve months to the Commission a report that describes the following:

- A summary of its policies and procedures reasonably designed to facilitate straight-through processing, current as of the last day of the twelve-month period covered by the report;
- A qualitative description of its progress in facilitating straight-through processing during the twelve-month period covered by the report;
- A quantitative presentation of data that includes: (i) the total number of trades submitted to the clearing agency for processing; (ii) the total number of allocations submitted to the clearing agency; (iii) the total number of confirmations submitted to the clearing agency, as well as the total number of confirmations cancelled by a user; (iv) the percentage of confirmations submitted to the clearing agency that are affirmed on trade date, specifying to the extent practicable the relevant timeframe in which the affirmation is processed on trade date; (v) the percentage of allocations and confirmations submitted to the clearing agency that are matched and automatically confirmed through the clearing agency’s services; and (vi) metrics concerning the use of manual and automated processes by the clearing agency’s users with respect to its services that may be used to assess progress in facilitating straight-through processing; and

¹² See 17 CFR 240.17Ad-27; Exchange Act Release No. 96930 (Feb. 15, 2023) 88 FR 13872 (Mar. 6, 2023) (“Rule 17Ad-27 Adopting Release”); see also Exchange Act Release No. 94196 (Feb. 9, 2022), 87 FR 10436 (Feb. 24, 2022) (“Rule 17Ad-27 Proposing Release”).

- A qualitative description of the actions it intends to take to facilitate straight-through processing during the twelve-month period that follows the period covered by the report.

In addition, data sets provided pursuant to Rule 17Ad-27 must be: (i) organized on a month-by-month basis, beginning with January of each year, for the twelve months covered by the report; (ii) separated, where applicable, between the use of central matching and electronic trade confirmation services offered by the clearing agency; (iii) separated, as appropriate, by asset class; (iv) separated by type of user; and (v) presented on an anonymized and aggregated basis.

2. Purpose and Use of Information Collection

Rule 17Ad-27 requires a CMSP to establish, implement, maintain, and enforce written policies and procedures reasonably designed to facilitate straight-through processing. CMSPs are required to submit every twelve months to the Commission a report that describes the following: (a) the CMSP's current policies and procedures for facilitating straight-through processing; (b) its progress in facilitating straight-through processing during the twelve month period covered by the report; and (c) the steps the CMSP intends to take to facilitate and promote straight-through processing during the twelve month period that follows the period covered by the report

The purpose of the collection under Rule 17Ad-27 is to ensure that CMSPs facilitate the ongoing development of operational and technological improvements associated with the straight-through processing of institutional trades, which may in turn facilitate further shortening of the settlement cycle in the future. The collections would be mandatory. To the extent that the Commission receives confidential information pursuant to this collection of information, such information would be kept confidential subject to the provisions of applicable law.

3. Consideration Given to Information Technology

As a general matter, the collection of information contemplated by Rule 17Ad-27 depends on the use of technologies and systems that a CMSP already maintains to conduct its business, including its risk management and recordkeeping functions. Improvements to these technologies and systems may, over time, reduce the burdens contemplated under Rule 17Ad-27.

4. Duplication

The information collections described in this supporting statement do not duplicate information required to be collected by other Commission rules or regulations.

5. Effect on Small Entities

For the purposes of Commission rulemaking and as applicable to Rule 17Ad-27, a small entity includes, when used with reference to a clearing agency, a clearing agency that (i) compared, cleared, and settled less than \$500 million in securities transactions during the preceding fiscal year, (ii) had less than \$200 million of funds and securities in its custody or control at all times during the preceding fiscal year (or at any time that it has been in business, if

shorter), and (iii) is not affiliated with any person (other than a natural person) that is not a small business or small organization.¹³

Based on the Commission's existing information about the currently exempt CMSPs, the Commission believes that all such CMSPs exceed the thresholds defining "small entities" set out above. While other clearing agencies may emerge and seek to obtain an exemption from the Commission to perform matching services, the Commission does not believe that any such entities would be "small entities" as defined in Exchange Act Rules 0-10.

6. Consequences of Not Conducting Collection

The consequences of not conducting collections of information or any less frequent collections of information pursuant to Rule 17Ad-27 would significantly impair the Commission's ability to carry out its statutory obligations under the Exchange Act.

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

No payment or gift will be provided to any respondents.

10. Confidentiality

Except for the report required to be submitted every twelve months to the Commission under Rule 17Ad-27, the recordkeeping burdens under this information collection generally need not be submitted to the Commission, though the Commission may request that the records be provided, such as during an inspection or examination of a respondent. When the Commission requests that records be provided, a respondent can request confidential treatment pursuant to Section 24(b) of the Exchange Act and 17 CFR 240.24b-2.

A CMSP would be required to submit every twelve months to the Commission a report that describes the following: (a) the CMSP's current policies and procedures for facilitating straight-through processing; (b) its progress in facilitating straight-through processing during the twelve month period covered by the report; and (c) the steps the CMSP intends to take to facilitate and promote straight-through processing during the twelve month period that follows the period covered by the report. The Commission preliminarily intends to make this annual report publicly available on its website to enable the public to review and analyze progress on achieving straight-through processing. A CMSP would submit this report to the Commission

¹³ See 17 CFR 240.0-10(d).

using the Commission’s Electronic Data Gathering, Analysis, and Retrieval system (“EDGAR”), and would tag the information in the report using the structured (i.e., machine-readable) Inline eXtensible Business Reporting Language (“XBRL”).

11. Sensitive Questions

No information of a sensitive nature, including social security numbers, will be required under this collection of information. The information collection does not collect personally identifiable information. The agency has determined that a system of records notice and privacy impact assessment are not required in connection with the collection of information.

12. Information Collection Burden

There is one respondent under Rule 17Ad-27. Rule 17Ad-27 requires a CMSP to establish, implement, maintain, and enforce written policies and procedures

Rule 17Ad-27 imposes ongoing burdens on a respondent CMSP as follows: (i) ongoing monitoring and compliance activities with respect to the written policies and procedures required by the proposed rule; and (ii) ongoing documentation activities with respect to the required annual report. The Commission estimates that the ongoing activities required by Rule 17Ad-27 imposes an aggregate annual burden on a respondent CMSP of 37 hours, and 37 hours total for the industry.¹⁴ The total annual cost estimate for each CMSP is \$16,642, and total annual cost to the industry is estimated to be \$16,642.¹⁵

In sum, the total annual burden per respondent would be 37¹⁶ hours at a cost of \$16,642,¹⁷ and **the total annual industry burden imposed by Rule 17Ad-27 would be 37 hours¹⁸ at a cost of \$16,642.**¹⁹

¹⁴ This figure was calculated as follows: (Compliance Attorney for 24 hours + Computer Operations Manager for 10 hours) = 34 hours. The Commission estimates that the Inline XBRL requirement would require respondent CMSPs to incur three additional ongoing burden hours to apply and review Inline XBRL tags, as follows: (Compliance Attorney for 3 hours) = 3 hours. Taken together, the total ongoing burden is 37 hours (34 hours + 3 hours = 37 hours).

¹⁵ This figure was calculated as follows: [(Compliance Attorney at \$426/hour × 24 hours = \$10,224) + (Computer Operations Manager at \$514/ hour × 10 hours = \$5,140)] = \$15,364 × 1 CMSPs = \$15,364. The Commission also estimates the costs associated with the one burden hour associated with applying and review Inline XBRL tags as follows: (Compliance Attorney at \$426/hour × 3 hours = \$1,278). Taken together, the total amount is \$16,642 (\$15,364 + \$1,278 = \$16,642).

¹⁶ This figure was calculated as follows: 37 hours of annual ongoing burden = 37 hours total annual burden per respondent.

¹⁷ This figure was calculated as follows: annual ongoing cost per CMSP is \$16,642.

¹⁸ This figure was calculated as follows: 37 hours total annual burden per respondent x 1 respondents = 37 hours.

¹⁹ This figure was calculated as follows: annual burden per CMSP of \$16,642 x 1 CMSPs = \$16,642.

i. Table Summary of Hourly Burdens for Rule 17Ad-27

The table below summarizes the Commission’s estimates of the total hourly burden for all respondents under Rule 17Ad-27.²⁰

Name of Information Collection	Type of Burden	Number of Respondents	Number of Annual Responses per Respondent	Ongoing Burden Per Respondent	Total Annual Burden Per Respondent	Total Annual Industry Burden
17Ad-27	Reporting/ Recordkeeping	1	1	37	37	37
Total Aggregate Burden for All Respondents						37 hours

13. Costs to Respondents

Not applicable. Respondents will not incur any capital or start-up costs or any ongoing operation and maintenance costs.

14. Costs to Federal Government

The SEC is in the process of revising its methodologies to estimate annualized costs to the Federal government for all its relevant collections of information. The SEC anticipates that future extensions of this collection of information will reflect the revised methodologies.

15. Changes in Burden

The change in burden from 166.67 to 37 hours resulted from the change in the number of respondents from four to one as well as the removal of the calculations for initial burdens.

The table below summarizes the changes in the Annual Industry Burden from the Proposed Rule 17Ad-27 to the Final Rule 17Ad-27.

Summary of Changes in Burden Hours				
Name of Information Collection	Annual Industry Burden	Annual Industry Burden Previously Proposed	Change in Burden	Reason for Change
17Ad-27	37	166.67	-129	The final rule’s calculations were based on four respondents, as well as initial hourly burden. Currently, there is one respondent and no initial burden.
TOTAL CHANGE			-129	

²⁰ The information collection requirement has both reporting and recordkeeping components, but as it results in a single estimate we entered the ICR as a “reporting” burden in OMB’s ROCIS system.

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

Not applicable. 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.