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December 19, 2014

The Honorable Tim Johnson
Chairman
The Honorable Mike Crapo
Ranking Member
Committee on Banking, Housing, and Urban Affairs
United States Senate

The Honorable Jeb Hensarling
Chairman
The Honorable Maxine Waters
Ranking Member
Committee on Financial Services
House of Representatives

Subject: *Securities and Exchange Commission: Regulation Systems Compliance and Integrity*

Pursuant to section 801(a)(2)(A) of title 5, United States Code, this is our report on a major rule promulgated by the Securities and Exchange Commission (Commission) entitled “Regulation Systems Compliance and Integrity” (RIN: 3235-AL43). We received the rule on November 24, 2014. It was published in the *Federal Register* as a “final rule and form; final rule amendment; technical amendment” on December 5, 2014. 79 Fed. Reg. 72,252.

The final rule adopts new Regulation Systems Compliance and Integrity (Regulation SCI) under the Securities Exchange Act of 1934 (Exchange Act) and conforming amendments to Regulation ATS under the Exchange Act. The final rule will apply to certain self-regulatory organizations (including registered clearing agencies), alternative trading systems (ATSs), plan processors, and exempt clearing agencies (collectively, SCI entities), and will require these SCI entities to comply with requirements with respect to the automated systems central to the performance of their regulated activities.

Enclosed is our assessment of the Commission’s compliance with the procedural steps required by section 801(a)(1)(B)(i) through (iv) of title 5 with respect to the rule. Our review of the procedural steps taken indicates that the Commission complied with the applicable requirements.

If you have any questions about this report or wish to contact GAO officials responsible for the evaluation work relating to the subject matter of the rule, please contact Shirley A. Jones, Assistant General Counsel, at (202) 512-8156.

signed

Robert J. Cramer
Managing Associate General Counsel

Enclosure

cc: Brent J. Fields
Secretary
Securities and Exchange Commission

REPORT UNDER 5 U.S.C. § 801(a)(2)(A) ON A MAJOR RULE
ISSUED BY THE
SECURITIES AND EXCHANGE COMMISSION
ENTITLED
"REGULATION SYSTEMS COMPLIANCE AND INTEGRITY"
(RIN: 3235-AL43)

(i) Cost-benefit analysis

The Commission prepared a cost-benefit analysis in conjunction with the final rule. The Commission noted that many of the benefits are difficult to quantify with certainty, and in those cases the discussion included was qualitative rather than quantitative. According to the Commission, the benefits of the final rule include that it will further the goals of the national market system as a result of each SCI entity establishing, maintaining, and enforcing written policies and procedures reasonably designed to ensure that its SCI systems and, for purposes of security standards, indirect SCI systems, have levels of capacity, integrity, resiliency, availability, and security, adequate to maintain the SCI entity's operational capability and promote the maintenance of fair and orderly markets. In this respect, the final rule will promote the capacity, integrity, resiliency, availability, and security of the automated systems of entities important to the functioning of the U.S. securities markets, as well as reinforce the requirement that such systems operate in compliance with the Exchange Act and rules and regulations, thus strengthening the infrastructure of the U.S. securities markets and improving their resilience when technological issues arise. The Commission believes that adopting the final rule will result in fewer market disruptions due to systems issues, which could lead to fewer interruptions in the price discovery process and liquidity flows and may result in fewer periods with pricing inefficiencies. The Commission believes that the information provided to the Commission should enhance the Commission's review and oversight of U.S. securities market infrastructure and foster cooperation between the Commission and SCI entities in responding to SCI events.

According to the Commission, many but not all of the quantifiable costs of the final rule involve a collection of information. When the Paperwork Reduction Act burdens are monetized, the estimated paperwork compliance burdens for the final rule total approximately \$117 million initially and \$100 million annually. In addition, the Commission quantified non-paperwork related costs that total between approximately \$14 million and \$106 million in initial costs and between \$9 million and \$70 million in annual ongoing costs. The Commission estimated the total connectivity costs to members or participants of SCI entities associated with the testing of business continuity and disaster recovery plans to be \$18 million annually.

(ii) Agency actions relevant to the Regulatory Flexibility Act (RFA), 5 U.S.C. §§ 603-605, 607, and 609

The Commission certified that the final rule will not have a significant economic impact on a substantial number of small entities.

(iii) Agency actions relevant to sections 202-205 of the Unfunded Mandates Reform Act of 1995, 2 U.S.C. §§ 1532-1535

As an independent regulatory agency, the Commission is not subject to title II of the Act.

(iv) Other relevant information or requirements under acts and executive orders

Administrative Procedure Act, 5 U.S.C. §§ 551 et seq.

The Commission published a notice of proposed rulemaking in the *Federal Register* on March 25, 2013. 78 Fed. Reg. 18,083. The Commission received 60 comment letters on the proposal from national securities exchanges, registered securities associations, registered clearing agencies, ATSS, broker-dealers, institutional and individual investors, industry trade groups, software and technology vendors, and academics. The Commission responded to comments in the final rule.

Paperwork Reduction Act (PRA), 44 U.S.C. §§ 3501-3520

Certain rules under Regulation SCI impose new “collection of information” requirements within the meaning of the Paperwork Reduction Act of 1995. An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless it displays a currently valid control number. In accordance with 44 U.S.C. 3507 and 5 CFR 1320.11, the Commission submitted these collections of information to the Office of Management and Budget (OMB) for review. The title for the collection of information requirement is “Regulation Systems Compliance and Integrity.” The collection of information was assigned OMB Control No. 3235-0703.

Regulation SCI includes four categories of obligations that require a collection of information within the meaning of PRA. Specifically, an SCI entity is required to: (1) establish specified written policies and procedures and mandate participation by designated members or participants in certain testing of the SCI entity’s business continuity and disaster recovery plans; (2) provide certain notifications, disseminate certain information, and create reports; (3) take corrective actions, and identify critical SCI systems, major SCI events, de minimis SCI events, and material systems changes; and (4) comply with recordkeeping requirements. According to the Commission, the estimated paperwork related compliance burdens for the final rule total approximately \$117 million initially and approximately \$100 million annually.

Statutory authorization for the rule

The final rule is authorized by sections 6(b), 11A(a)(2), 15A, and 17A(b)(3) of the Securities Exchange Act of 1934, as amended. 15 U.S.C. §§ 78f(b)(1), 78k-1(a)(2), 78o-3(b)(2), and 78q-1(b)(3).

Executive Order No. 12,866 (Regulatory Planning and Review)

As an independent regulatory agency, the Commission is not subject to the review requirements of the Order.

Executive Order No. 13,132 (Federalism)

As an independent regulatory agency, the Commission is not subject to the review requirements of the Order.