



441 G St. N.W.  
Washington, DC 20548

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May 31, 2016

The Honorable Richard Shelby  
Chairman  
The Honorable Sherrod Brown  
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: Business Conduct Standards for Security-Based Swap Dealers and Major Security-Based Swap Participants*

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 “Business Conduct Standards for Security-Based Swap Dealers and Major Security-Based Swap Participants” (RIN: 3235-AL10). We received the rule on April 19, 2016. It was published in the *Federal Register* as a final rule on May 13, 2016. 81 Fed. Reg. 29,960.

The final rule implements provisions of title VII of the Dodd-Frank Wall Street Reform and Consumer Protection Act relating to business conduct standards and the designation of a chief compliance officer for security-based swap dealers and major security-based swap participants.<sup>1</sup> The final rule also addresses the cross-border applicability and the availability of substituted compliance.

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.

<sup>1</sup>P.L. No. 111-203, § 764, 124 Stat. 1376, 1784–1796 (July 21, 2010).

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  
“BUSINESS CONDUCT STANDARDS FOR  
SECURITY-BASED SWAP DEALERS AND  
MAJOR SECURITY-BASED SWAP PARTICIPANTS”  
(RIN: 3235-AL10)

(i) Cost-benefit analysis

The Securities and Exchange Commission (the Commission) presented an analysis of the economic effects of this rule, including costs and benefits. The Commission noted that, where possible, it has attempted to quantify the costs and benefits but that in many cases it was unable to quantify the economic effects because they are inherently difficult to quantify or it lacked information necessary to provide reasonable estimates. Some of the costs that were quantified include:

- Direct costs of compliance with verification of status requirements related to adherence to standardized protocols by securities-based swap dealers and major security based SWAP participants (SBS Entities) that are not dually registered as Swap Entities, which the Commission estimated will be approximately \$17,600.
- Direct, ongoing costs of “know your counterparty” obligations, which the Commission estimates will be approximately \$4,370,000 per year for all SBS Dealers.
- Costs associated with the verification of status requirement and related adherence letters incurred by counterparties of SBS Entities that are not also participating in swap markets and relying on the above protocols, which the Commission estimated at approximately \$3,051,840.
- Costs associated with the requirement that counterparties or their agents collect and provide essential facts to the SBS Dealer to comply with the “know your counterparty” obligations, which the Commission estimated an initial total cost of approximately \$41,420,000.
- Costs of compliance with disclosure rules, which the Commission estimated an initial cost burden of approximately \$25,080,000 and an ongoing burden of \$2,508,000 for all SBS Entities.
- Costs of information technology infrastructure required to comply with final disclosure rules, which the Commission estimates will cost approximately \$124,520,000 initially, and an additional \$62,260,000 per year for all SBS Entities.
- Costs of evaluating whether more particularized disclosures are necessary for each transaction and of developing the additional disclosures, which the Commission estimated an ongoing aggregate cost of \$121,124,000.

The Commission stated that if market participants become better informed as a result of this final rule, they may increase their activity in security-based swaps, which may facilitate greater informational efficiency and liquidity in security-based swap markets. Disclosures may inform counterparties of SBS Entities about security-based swap markets, and counterparties may learn from repeatedly accessing these markets. Hence, it expects most of the benefits to be

incurred by existing participants when the first disclosures are made, and by new market participants when they first enter the market.

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

The Commission certified that this final rule will not have a significant economic effect 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 the Act.

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

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

On July 18, 2011, the Commission published a proposed rule. 76 Fed. Reg. 42,396. On May 23, 2013, the Commission published a notice re-opening the comment period for this rule. 78 Fed. Reg. 30,800. The Commission received 40 comments on the proposed rule, to which it responded to in the final rule.

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

The Commission determined that this final rule imposes new information collection requirements under the Act. The Commission submitted them to the Office of Management and Budget (OMB) for review. The titles for these collections are “Business Conduct Standards for Security-Based Swap Dealers and Major Security-Based Swap Participants” and “Designation of Chief Compliance Officer of Security-Based Swap Dealers and Major Security-Based Swap Participants.” OMB assigned control number 3235–0732 to the new collections of information. The Commission believes there will be minimal additional burden in complying with the requirements.

Statutory authorization for the rule

The Commission promulgated this final rule under the authority of the Securities Exchange Act of 1934 and, particularly, sections 2, 3(b), 3C, 9, 10, 11A, 15, 15F, 17(a) and (b), 23(a) and 30(c) thereof. 15 U.S.C. §§ 78b, 78c(b), 78i(i), 78i(j), 78j, 78k–1, 78o, 78o–10, 78q(a) and (b), 78w(a), 78dd(c).

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

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

Executive Order No. 13,132 (Federalism)

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