

Regulation Review



Regulation Review: Dodd-Frank Security-Based Swaps Requirements

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Derivatives trading is one of Dodd-Frank's primary regulatory targets. Many agencies have already proposed or implemented new standards on these financial instruments. On October 18, the Securities and Exchange Commission (SEC) released its proposed rule seeking to regulate security-based swaps. The pre-publication [version](#) is 501 pages.

The proposal imposes a series of capital and margin standards that parties must meet during a trade. In addition, it establishes a number of reporting requirements to ensure compliance. The parties affected by this proposal include security-based swap dealers (SBSD), major security-based swap participants (MSBSD), and a sub-set of broker-dealers. Security-based swaps are derivative trades from credit and equity assets.

Breakdown:

Regulatory Costs: \$211 Million

Paperwork Burden: 711,243.5 Hours

Analysis:

SEC notes that it is "difficult" to quantify the effects of this rulemaking with current data, a refrain that echoes from other Dodd-Frank regulations. Although, they do make clear that this proposal could affect the competitiveness of this market both domestically and abroad. Only the Commission's paperwork burden estimates contain quantified costs estimates. In testimony earlier this year, SEC Chair Mary Schapiro promised that "where feasible," SEC would quantify costs and benefits.

The rule's paperwork requirements are extensive. There are 23 information collections, ranging from 4.5 hours to half a million hours per year. The most burdensome collection, agreements with counterparties, brings more than \$95 million in costs. Many of burden estimates include different pay rates because of the variety of tasks involved. The rates range from \$60 an hour for a "compliance officer" to \$400 per hour for out-of-house legal counsel.

Although it pales in comparison to some of CFTC's derivative requirements, it is still a significant regulation. At more than seven hundred thousand hours, it is the third most burdensome SEC rule under Dodd-Frank, in terms of paperwork burden hours.

It is one of the last derivatives rules proposed. And if past is prologue, it may take SEC some time to officially publish it in the Federal Register. Nonetheless, if its burdens are included, the overall tally for Dodd-Frank increases to [\\$14.4 billion](#) in published costs and more than 52 million burden hours.