

passed on to issuers.<sup>366</sup> Several commenters also were of the view that this practice placed an unnecessary burden on competition. In considering the impact on competition of these rebate practices, the Commission took into account the Exchange's representations that broker-dealers incur some costs related to proxy distribution beyond the cost of retaining Broadridge, and that, given the economies of scale associated with Broadridge's services, Broadridge can afford to make "cost recovery" payments to larger broker-dealers to reimburse them for some proxy distribution costs not outsourced to Broadridge.<sup>367</sup> Accordingly, these rebate arrangements may in fact appropriately reimburse broker-dealers for reasonable expenses incurred in connection with proxy distribution, and not represent an inappropriate competitive action. The Commission also considered the Exchange's representation that the proposal was expected to lower overall proxy distribution fees by at least 4%, in which case the proposal would not use Broadridge's competitive position to adversely affect, on average, the prices paid by issuers. We conclude the Exchange has adequately demonstrated that to the extent the proposed rule change allows rebate practices to continue, that does not place an unnecessary burden on competition in contravention of relevant statutory and regulatory requirements.

The Commission recognizes, as it did in the Order Instituting Proceedings, that the Exchange's proposal appears designed to make incremental improvements to the existing fee structure. For example, as noted above, the proposed five-tiered rate structure for the basic processing and supplemental fees arguably would more equitably allocate such fees among issuers by better reflecting the economies of scale in proxy processing. The proposal also would incrementally apply the rates in higher tiers, so as to avoid the rate "cliff" that currently exists with the supplemental fee tiers.

In addition, the proposal would appear to impose fees more equitably on managed accounts, where voting often is delegated by the beneficial shareholder to the investment manager and the positions held frequently are small. Specifically, the proposal would charge managed accounts one-half the rate of non-managed accounts for the

preference management fee, and no fee for managed accounts with five or fewer shares. In addition, the proposal would provide the same treatment to wrap accounts and other managed accounts, ending the current disparate practice of charging no fees to managed accounts labeled as wrap accounts, but full fees to other managed accounts.

Finally, the proposal would, for a five-year test period, provide an EBIP incentive fee to encourage broker-dealers to offer customers the ability, among other things, to access proxy materials and vote through the broker-dealers' Web sites.<sup>368</sup> Commenters expressed the view that the availability of EBIPs would re-engage individual shareholders and encourage retail voting in corporate elections, which the Commission believes would further the protection of investors and the public interest.<sup>369</sup>

In sum, and as discussed in detail above, the Exchange has proposed a variety of revisions to its schedule of reasonable rates of reimbursement by issuers for the processing of proxy materials and other issuer communications provided to beneficial holders, including with respect to the basic, supplemental, preference management, notice and access, NOBO list, and EBIP incentive fees. The Commission views the proposed rule change as an overall package of changes and fees that is, on balance, an improvement to the NYSE's existing reimbursement rate structure. The proposed rule change reflects the consensus recommendation of the PFAC, which is composed of representatives of issuers, broker-dealers and investors, key constituencies impacted by the proposal. In the Order Instituting Proceedings, the Commission questioned the rigor with which the PFAC and the Exchange reviewed the costs associated with proxy processing in developing its recommendations, and analyzed the individual components of the proposed fees to assure they met the statutory standards. The Exchange responded by providing the additional explanation and supplemental information described above, including responses to specific comments on the individual components of the proposal. The Commission believes the Exchange has addressed the questions raised in the Order Instituting Proceedings sufficiently to allow the Commission, on balance, to find that the proposal is consistent with the Act. In approving the proposal, the Commission notes that

the proxy system need not be reformed in a single step, and the Commission welcomes improvements to the current system, even incremental ones. In this regard, the Commission emphasizes that it continues to review the issues raised in the Proxy Concept Release, including ways to encourage competition in the proxy distribution process, so that more reliance can be placed on market forces to determine reasonable rates of reimbursement.

## VI. Conclusion

For the foregoing reasons, the Commission believes that the proposed rule change is consistent with the Act.

*It is therefore ordered*, pursuant to Section 19(b)(2) of the Act,<sup>370</sup> that the proposed rule change (SR-NYSE-2013-07) be, and it hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>371</sup>

**Kevin M. O'Neill,**

*Deputy Secretary.*

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-70713; SR-NYSE-2013-21; SR-NYSEMKT-2013-25]

### Self-Regulatory Organizations; New York Stock Exchange LLC; NYSE MKT LLC; Notice of Designation of Longer Period for Commission Action on Proceedings To Determine Whether To Disapprove Proposed Rule Changes, as Modified by Amendment Nos. 1, Amending NYSE Rule 104 and NYSE MKT Rule 104—Equities to Codify Certain Traditional Trading Floor Functions That May Be Performed by Designated Market Makers, To Make Exchange Systems Available to DMMs That Would Provide DMMs With Certain Market Information, To Amend the Exchanges' Rules Governing the Ability of DMMs To Provide Market Information To Floor Brokers, and To Make Conforming Amendments to Other Rules

October 18, 2013.

On April 9, 2013, the New York Stock Exchange LLC ("NYSE") and NYSE MKT LLC ("NYSE MKT") (collectively, the "Exchanges") each filed with the Securities and Exchange Commission ("Commission"), pursuant to Section 19(b)(1) of the Securities Exchange Act

<sup>366</sup> See Order Instituting Proceedings, 78 FR 32523.

<sup>367</sup> See NYSE Letter III. NYSE supported its representations with a description prepared by SIFMA of these additional proxy distribution costs.

<sup>368</sup> See *supra* notes 106, 108, 109, 110 and accompanying text for a description of the EBIP fee.

<sup>369</sup> See Section IV.G, *supra*.

<sup>370</sup> 15 U.S.C. 78s(b)(2).

<sup>371</sup> 17 CFR 200.30-3(a)(12).

of 1934 (“Act”)<sup>1</sup> and Rule 19b–4 thereunder,<sup>2</sup> proposed rule changes (“Proposals”) to amend certain of their respective rules relating to Designated Market Makers (“DMMs”)<sup>3</sup> and floor brokers. The SRO Proposals were published for comment in the **Federal Register** on April 29, 2013.<sup>4</sup> The Commission received two comment letters on the NYSE proposal.<sup>5</sup> On June 11, 2013, the Commission extended to July 26, 2013 the period in which to approve, disapprove, or institute proceedings to determine whether to disapprove the Proposals.<sup>6</sup>

On July 26, 2013, the Commission instituted proceedings to determine whether to approve or disapprove the Proposals.<sup>7</sup> The Commission thereafter received one comment letter on the NYSE proposal.<sup>8</sup> NYSE Euronext, on

<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b–4.

<sup>3</sup> See NYSE Rule 98(b)(2). “DMM unit” means any member organization, or division or department within an integrated proprietary aggregation unit of a member organization that (i) has been approved by NYSE Regulation pursuant to section (c) of NYSE Rule 98, (ii) is eligible for allocations under NYSE Rule 103B as a DMM unit in a security listed on NYSE, and (iii) has met all registration and qualification requirements for DMM units assigned to such unit. The term “DMM” means any individual qualified to act as a DMM on the Floor of the Exchange under NYSE Rule 103. See also NYSE MKT Equities Rule 2(i). NYSE MKT Rule 2(i) defines the term “DMM” to mean an individual member, officer, partner, employee or associated person of a DMM unit who is approved by the Exchange to act in the capacity of a DMM. NYSE MKT Equities Rule 2(j) defines the term “DMM unit” as a member organization or unit within a member organization that has been approved to act as a DMM unit under NYSE MKT Equities Rule 98.

<sup>4</sup> See Securities Exchange Act Release Nos. 69427 (April 23, 2013), 78 FR 25118 (SR–NYSE–2013–21) (“NYSE Notice”); 69428 (April 23, 2013), 78 FR 25102 (SR–NYSEMKT–2013–25). On April 18, 2013, the Exchanges each filed Partial Amendment No. 1 to the Proposals. The purpose of the amendment was to file the Exhibit 3, which was not included in the April 9, 2013 filings.

<sup>5</sup> See Letter to Elizabeth M. Murphy, Secretary, Commission, from Daniel Buenza, Lecturer in Management, London School of Economics and Yuval Millo, Professor of Social Studies of Finance, University of Leicester, dated May 20, 2013 (“LSE Letter I”); Letter to Commission, from James J. Angel, Ph.D., CFA, Associate Professor of Finance, Georgetown University, McDonough School of Business, dated May 14, 2013 (“Angel Letter”). Although the comment letters addressed only the NYSE proposal, the NYSE and NYSE MKT proposals are essentially identical for relevant purposes.

<sup>6</sup> See Securities Exchange Act Release No. 69736, 78 FR 36284 (June 17, 2013) (SR–NYSE–2013–21); Release No. 69733, 78 FR 36284 (SR–NYSEMKT–2012–25) (June 17, 2013).

<sup>7</sup> See Securities Exchange Act Release No. 70047, 78 FR 46661 (August 1, 2013) (“Order Instituting Proceedings”).

<sup>8</sup> See Letter to Elizabeth M. Murphy, Secretary, Commission, from Daniel Buenza, Lecturer in Management, London School of Economics and Yuval Millo, Professor of Social Studies of Finance, University of Leicester, dated August 22, 2013 (“LSE Letter II”).

behalf of the Exchanges, submitted a response letter on September 5, 2013.<sup>9</sup>

Section 19(b)(2) of the Act<sup>10</sup> provides that, after initiating disapproval proceedings, the Commission shall issue an order approving or disapproving the proposed rule change not later than 180 days after the **Federal Register** publishes notice of the proposed rule change, unless the Commission determines that a longer period is appropriate and publishes the reasons for this determination, in which case the Commission may extend the period for issuing an order approving or disapproving the proposed rule change by not more than 60 days. The proposed rule changes were published for notice and comment in the **Federal Register** on April 29, 2013. October 26, 2013 is 180 days from that date, and December 25, 2013 (which is a Federal holiday) is an additional 60 days from that date.

The Commission finds it appropriate to designate a longer period within which to issue an order approving or disapproving the Proposals so that the Commission has sufficient time to consider the Proposals, the issues raised in the comment letters that have been submitted in connection with the Proposals, and the response to these issues in the NYSE Euronext response letter. Accordingly, the Commission, pursuant to Section 19(b)(2) of the Act,<sup>11</sup> designates December 24, 2013, as the date by which the Commission must either approve or disapprove the proposed rule changes SR–NYSE–2013–21 and SR–NYSEMKT–2013–25.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>12</sup>

**Kevin M. O’Neill,**

*Deputy Secretary.*

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–70719; File No. SR–OCC–2013–16]

### Self-Regulatory Organizations; The Options Clearing Corporation; Notice of Filing and Order Granting Accelerated Approval of Proposed Rule Change Amending OCC’s By-Laws and Rules To Reflect Enhancements in OCC’s System for Theoretical Analysis and Numerical Simulations as Applied to Longer-Tenor Options

October 18, 2013.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b–4 thereunder,<sup>2</sup> notice is hereby given that on October 10, 2013, The Options Clearing Corporation (“OCC”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I and II below, which Items have been prepared by OCC.<sup>3</sup> The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons and to approve the proposed rule change on an accelerated basis.

#### I. Clearing Agency’s Statement of the Terms of Substance of the Proposed Rule Change

The proposed rule change would provide for enhancements in OCC’s margin model for longer-tenor options (*i.e.*, those options with at least three years of residual tenor) and to reflect those enhancements in the description of OCC’s margin model in OCC’s Rules.

#### II. Clearing Agency’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, OCC included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. OCC has prepared summaries, set forth in sections A, B,

<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b–4.

<sup>3</sup> OCC also filed the proposed change as an advance notice under Section 806(e)(1) of Title VIII of the Dodd-Frank Wall Street Reform and Consumer Protection Act titled the Payment, Clearing, and Settlement Supervision Act of 2010 (“Payment, Clearing and Settlement Supervision Act”). 12 U.S.C. 5465(e)(1). The Commission issued a notice of no objection to the advance notice on October 17, 2013. See Securities Exchange Act Release No. 70709 (October 17, 2013) (SR–OCC–2013–803).

<sup>9</sup> See Letter to Elizabeth M. Murphy, Secretary, Commission, from Janet McGinness, Executive Vice President and Corporate Secretary, NYSE Euronext, dated September 5, 2013.

<sup>10</sup> 15 U.S.C. 78s(b)(2).

<sup>11</sup> 15 U.S.C. 78s(b)(2).

<sup>12</sup> 17 CFR 200.30–3(a)(57).