

comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet Web site (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for Web site viewing and printing in the Commission's Public Reference Room, 100 F Street NE., Washington, DC 20549 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of such filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-NASDAQ-2014-041, and should be submitted on or before May 22, 2014.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>36</sup>

**Kevin M. O'Neill,**

*Deputy Secretary.*

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-72026; File No. SR-NYSE-2014-08]

### Self-Regulatory Organizations; New York Stock Exchange LLC; Order Approving a Proposed Rule Change To Adopt the Bond Trading License and the Bond Liquidity Provider Programs Pursuant to NYSE Rules 87 and 88

April 25, 2014.

#### I. Introduction

On February 27, 2014, New York Stock Exchange LLC ("NYSE" or "Exchange") filed with the Securities and Exchange Commission ("Commission"), 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> a proposed rule change that would provide for a bond trading license ("BTL") for member organizations that desire to trade only debt securities on the Exchange and that would establish a new class of market participants called bond liquidity providers ("BLPs"). The proposal was published for comment in the **Federal Register** on March 14, 2014.<sup>3</sup> The Commission received no comments on the proposal. This order approves the proposed rule change.<sup>4</sup>

#### II. Description of the Proposal

##### A. Bond Trading License

The Exchange proposes to establish a trading license for its member organizations to trade only debt securities on the Exchange. Generally, to effect any transaction on the Exchange, a member organization must obtain a trading license pursuant to NYSE Rule 300. Under proposed NYSE Rule 87, the Exchange may issue a BTL to any approved member organization to effectuate bond transactions on the Exchange. The BTL would not be transferrable and could not be assigned, sublicensed, or leased.<sup>5</sup>

##### B. Bonds Liquidity Providers

Proposed NYSE Rule 88 would provide for a class of market participants called BLPs. The Exchange would provide BLPs with incentives, in the form of rebates, for quoting and for providing liquidity with respect to bonds to which they have been assigned.

##### 1. Qualifications

To qualify as a BLP, an Exchange member organization would have to demonstrate an ability to meet the quoting requirement described below. In addition, an Exchange member organization would need to have mnemonics that identify to the

Exchange BLP trading activity in assigned BLP bonds. Finally, an Exchange member organization would need to have adequate trading infrastructure and technology to support electronic trading.

##### 2. Application Process

To become a BLP, an Exchange member organization would be required to submit an application form with supporting documentation to the Exchange. The Exchange would review the application and determine whether the applicant was qualified to be a BLP. In the event an applicant were disapproved or disqualified as a BLP, the applicant could request an appeal or reapply three months after the month in which the applicant received the disapproval or disqualification notice from the Exchange.

##### 3. Matching of BLPs and Issuers

Only one BLP would be assigned with respect to the bonds of a single issuer. Prior to the commencement of the program, the Exchange would match issuers with approved BLPs. For issuers that have at least one debt issue with current outstanding principal of at least \$500 million, each BLP would select the issuers it will represent in the program, with the order of selection among BLPs determined by lottery. For issuers that do not have any debt issue with current outstanding principal of at least \$500 million, each BLP would submit a list of issuers and bonds it would be willing to represent. The BLP that is willing to represent the most bonds for a given issuer would be matched to that issuer. In the event of a tie, the BLP with the highest lottery number from the first round of matching would be matched with the issuer.

After the commencement of the program, on a monthly basis, BLPs would be able to apply for unrepresented issuers. The BLP willing to represent the most debt issuances of any given unrepresented issuer would be awarded status as a BLP for that issuer, with ties resolved by lottery.

A BLP would be required, with respect to an assigned issuer, to represent each debt issuance of that issuer that has an outstanding principal of \$500 million or more. A BLP could, but would not be required to, represent any debt issuance with a smaller outstanding principal amount. If a BLP were representing a debt issuance that was above \$500 million but fell below that level, or if a BLP had been voluntarily representing an issuance below the \$500 million level where the outstanding principal amount had since been reduced, the BLP would be

<sup>2</sup> 17 CFR 240.19b-4

<sup>3</sup> See Securities Exchange Act Release No. 71671 (March 10, 2014), 79 FR 14558 (March 14, 2014).

<sup>4</sup> The Commission notes that it previously approved the proposed BTL and BLP program on a pilot basis. See Securities Exchange Act Release No. 63736 (January 9, 2011), 76 FR 4959 (January 28, 2011) (SR-NYSE-2010-74). The pilot program was originally scheduled to expire on January 19, 2012, but the Commission approved two one-year extensions. See Securities Exchange Act Release No. 65995 (December 16, 2011), 76 FR 79726 (December 22, 2011) (SR-NYSE-2011-63); Securities Exchange Act Release No. 68533 (December 21, 2012), 77 FR 77166 (December 31, 2012) (SR-NYSE-2011-63). The pilot program terminated on January 19, 2014.

<sup>5</sup> The holder of the BTL may, with the Exchange's prior written consent, transfer the BTL to a qualified and approved member organization that is an affiliate or that continues substantially the same business of the BTL holder. See proposed NYSE Rule 87.

<sup>36</sup> 17 CFR 200.30-3(a)(12).

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

permitted to cease representing that debt issuance by notifying the Exchange in writing by the 15th day of the month, in which case the BLP could cease representing the issuance on the first day of the following month.

#### 4. Appeal of Disapproval or Disqualification

An Exchange member organization would be able to dispute the Exchange's decision to disapprove an application or to disqualify a member from BLP status by requesting, within five business days of receiving notice of the decision, review by the Bond Liquidity Provider Panel ("BLP Panel"). The BLP Panel would be composed of the Exchange's Chief Regulatory Officer (or a designee) and two officers of the Exchange designated by the Co-Head of U.S. Listings and Cash Execution. In the event an Exchange member organization were disqualified from its status as a BLP, the Exchange would not reassign the appellant's bonds to a different BLP until the BLP Panel had informed the appellant of its ruling. The BLP Panel would review the facts and render a decision within the time frame prescribed by the Exchange, and all determinations by the BLP Panel would constitute final action by the Exchange.

#### 5. Voluntary Withdrawal of BLP Status

A BLP would be able to withdraw its status as a BLP by giving notice to the Exchange. After the Exchange received the notice of withdrawal, the Exchange would reassign bonds assigned to the withdrawing BLP as soon as practicable, but no later than 30 days from the date the notice was received by the Exchange. Withdrawal would become effective when bonds assigned to the withdrawing BLP were reassigned to another BLP. If the reassignment of bonds took longer than the 30-day period, the withdrawing BLP would have no further obligations and would not be responsible for any matters concerning its previously assigned BLP bonds.

#### 6. Quoting Requirement

A BLP would be required to maintain: (1) A bid at least 70% of the trading day for each assigned bond; (2) an offer at least 70% of the trading day for each assigned bond; and (3) a bid or offer at the Exchange's Best Bid ("BB") or Exchange's Best Offer ("BO") at least 5% of the trading day in each of its bonds in the aggregate. A BLP that met these quoting requirements would receive a liquidity provider rebate, to be set forth in the Exchange's Price List.

#### 7. Calculation of Quoting Requirement

On a daily and monthly basis, the Exchange would calculate whether a BLP met its 70% quoting requirement by determining the average percentage of time a BLP posted bids and offers in each of its BLP bonds during the regular trading day.<sup>6</sup> The 5% quoting requirement would take effect starting the third month of a BLP's participation. On a daily and monthly basis, the Exchange would determine whether a BLP had met its 5% quoting requirement by determining the average percentage of time a BLP was at the BB or BO in each of its assigned BLP bonds during the regular trading day.<sup>7</sup>

#### 8. Failure To Meet Quoting Requirements

After an initial two-month grace period, if, in any given calendar month, a BLP failed to meet any of the quoting requirements for an assigned bond, the BLP would not receive the rebate for transactions in that bond for that month. If a BLP's failure to meet the quoting requirements continued for three consecutive calendar months in any assigned BLP bond, the Exchange could, in its discretion, take one or more of the following actions: (i) Revoke the assignment of all of the affected issuer's bonds from the BLP; (ii) revoke the assignment of an additional unaffected issuer from the BLP; or (iii) disqualify a member organization from its status as a BLP.

The Exchange would determine if and when a member organization would be disqualified from its status as a BLP. One calendar month prior to any such determination, the Exchange would notify a BLP of its impending disqualification in writing. When disqualification determinations were made, the Exchange would provide a disqualification notice to the member organization.

If a member organization were denied approval or disqualified from its status as a BLP, that member organization could re-apply for BLP status three calendar months after the month in which the member organization received its disapproval or disqualification notice.

### III. Discussion and Findings

After carefully reviewing the proposal, the Commission finds that the proposed rule change to create a BTL for member organizations and to establish BLPs as a class of NYSE market participants is consistent with the requirements of the Act and the rules

and regulations thereunder applicable to a national securities exchange.<sup>8</sup> In particular, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act,<sup>9</sup> which, among other things, requires that the rules of a national securities exchange be designed to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system and, in general, to protect investors and the public interest.

The Commission notes that the proposed BTL would allow a member organization that wishes to trade only debt securities to become authorized to trade on the Exchange pursuant to a license more specifically tailored to that member organization's trading. The Commission believes that this aspect of the proposal could increase efficiency, without compromising regulatory oversight, for member organization applicants and the Exchange. The Commission also notes that the proposed BLPs would be required to have adequate trading infrastructure and technology to support trading in the debt securities and to meet quoting requirements. Furthermore, BLPs would have to be approved by the Exchange and, upon meeting quoting requirements and providing liquidity to NYSE's bond market, would receive a rebate based on an incentive and quoting structure.<sup>10</sup> BLPs that fail to meet the quoting requirements set forth in the proposed rule would no longer be eligible for the rebate and could, in the Exchange's discretion, be disqualified as a BLP or have one or more issues revoked. The Commission believes that it is consistent with the requirements of the Act for the Exchange to provide an incentive to member organizations to provide liquidity to the bond marketplace and to remove the incentive if a BLP does not meet its obligations.

As proposed, only one BLP could represent the bonds of a given issuer. With respect to issuers having at least one issue with an outstanding principal of at least \$500 million, BLPs would, in an order determined by lottery, select the issuers they would represent. Issuers

<sup>8</sup>In approving the proposed rule change, the Commission has considered the proposed rule change's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

<sup>9</sup>15 U.S.C. 78f(b)(5).

<sup>10</sup>The Exchange has not submitted a filing to set forth the rebate with respect to the proposed program.

<sup>6</sup> See proposed NYSE Rule 88(f)(1).

<sup>7</sup> See proposed NYSE Rule 88(f)(2).

not having at least one issue with an outstanding principal of at least \$500 million would be matched to BLPs willing to represent the most bonds for that given issuer, and any tie with respect to BLPs wishing to represent these issuers would be resolved by allowing BLPs to choose in the order determined by lottery. The Commission believes that the proposed allocation of issuers to BLPs is an objective way to initiate the BLP.

NYSE would allow BLPs and BLP applicants the opportunity to appeal disapproval or disqualification decisions, as applicable, to a BLP panel, and NYSE would provide a disqualified BLP with a month's prior written notice of the disqualification. The Commission believes that this should provide transparency to the process and an additional opportunity for BLPs and BLP applicants to be heard by the Exchange.

The Commission notes that debt securities typically trade in a decentralized over-the-counter dealer market that is less liquid and transparent than the equities markets. The proposal to reward market participants for actively quoting and providing liquidity could enhance market quality for bonds traded on the Exchange.

For the reasons discussed above, the Commission finds that the proposed rule change is consistent with the requirements of the Act.

#### IV. Conclusion

*It is therefore ordered*, pursuant to Section 19(b)(2) of the Act,<sup>11</sup> that the proposed rule change (SR-NYSE-2014-08), be, and it hereby is, approved.

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. 34-72029; File No. SR-NSCC-2014-03]

### Self-Regulatory Organizations; National Securities Clearing Corporation; Order Approving Proposed Rule Change To Enhance the System That Processes Corporate Actions Within NSCC's Continuous Net Settlement System

April 25, 2014.

#### I. Introduction

On March 6, 2014, National Securities Clearing Corporation ("NSCC") filed with the Securities and Exchange Commission ("Commission") proposed rule change SR-NSCC-2014-03 ("Proposed Rule Change") 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> The Proposed Rule Change was published for comment in the **Federal Register** on March 21, 2014.<sup>3</sup> The Commission did not receive comments on the Proposed Rule Change. This Order approves the Proposed Rule Change.

#### II. Description

With this Proposed Rule Change, NSCC will amend its Rules and Procedures ("Rules")<sup>4</sup> to enhance the system that processes corporate actions within NSCC's Continuous Net Settlement ("CNS") system. NSCC plans to implement the enhancements contained the Proposed Rule Change in multiple phases during 2014, which NSCC will announce by Important Notice.

One of NSCC's core services as a central counterparty is to clear and settle trades through CNS. In CNS, compared and recorded transactions in CNS-eligible securities<sup>5</sup> that are scheduled to settle on a common settlement date are netted by issue into one net long (i.e., buy) or net short (i.e., sell) position. CNS then nets those positions further with positions of the same issue that remain open after their originally scheduled settlement date

("Fail Positions"). The result is a single deliver or receive obligation for each NSCC member ("Member") for each issue in which the Member has activity on a given day.

As part of the services offered to Members, certain corporate actions, including cash dividends, stock dividends, bond interest, and other mandatory corporate actions (which include redemptions, stock and cash mergers, and name changes) are automatically debited or credited to Members' CNS accounts with open Fail Positions in CNS. Members are also permitted to take part in certain voluntary corporate actions, which include tender or exchange offers, with respect to open Fail Positions in CNS.

Upon implementation of the Proposed Rule Change, NSCC will make enhancements to its processing of corporate actions within the CNS system, as described below.

#### A. Optional Dividends

When a Fail Position in CNS is subject to a dividend payment, the issuer specifies the form in which that dividend will be paid (e.g., securities or cash) ("Default Option"). NSCC Members that have failed to receive securities from CNS ("Long Members") may elect a form of payment that differs from the Default Option by submitting an instruction to NSCC no later than a pre-set date and cut-off time. NSCC currently sets a cut-off time for the submission of such election instructions based on the cut-off time set by DTC. Under the Proposed Rule Change, NSCC will set the date and cut-off time that is earlier than the DTC cut-off time in order to provide Members that have failed to deliver securities to CNS ("Short Members") with additional time to communicate elections to their customers. Additionally, such elections are currently submitted to NSCC manually; however, upon implementation of the Proposed Rule Change, the elections will be submitted to NSCC electronically.

#### B. Support "Offer to Consent" Tender/Exchange Offers

Today, if an open Fail Position in CNS is subject to a tender or exchange offer that includes an "offer to consent," in order to participate in that tender or exchange offer the Fail Position would be closed, exited out of CNS, and would then settle directly between the counterparties outside of CNS. With this Proposed Rule Change, Members with open Fail Positions in CNS will be able to participate in tender or exchange offers that include an "offer to consent" within CNS.

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

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> Release No. 34-71725 (Mar. 14, 2014), 79 FR 15780 (Mar. 21, 2014) (SR-NSCC-2014-03).

<sup>4</sup> Defined terms not defined herein have the meaning set forth in the Rules.

<sup>5</sup> To be CNS-eligible, a security must be eligible for book-entry transfer on the books of The Depository Trust Company ("DTC"), an NSCC affiliate, and must be capable of being processed in the CNS system. For example, securities may be ineligible for CNS processing due to certain transfer restrictions (e.g., 144A securities) or due to the pendency of certain corporate actions.

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

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