

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-76311; File No. 4-618]

### Program for Allocation of Regulatory Responsibilities Pursuant to Rule 17d-2; Order Approving and Declaring Effective a Proposed Plan for the Allocation of Regulatory Responsibilities Between BATS Exchange, Inc., BATS Y-Exchange, Inc., BOX Options Exchange LLC, Chicago Board Options Exchange, Incorporated, C2 Options Exchange, Incorporated, Chicago Stock Exchange, Inc., EDGA Exchange, Inc., EDGX Exchange, Inc., Financial Industry Regulatory Authority, Inc., International Securities Exchange, LLC, ISE Gemini, LLC, Miami International Securities Exchange, LLC, The NASDAQ Stock Market LLC, NASDAQ OMX BX, Inc., NASDAQ OMX PHLX, Inc., National Stock Exchange, Inc., New York Stock Exchange LLC, NYSE MKT LLC, and NYSE Arca, Inc. Relating to Regulation NMS Rules

October 29, 2015.

On September 2, 2015, BATS Exchange, Inc. (“BATS”), BATS Y-Exchange, Inc. (“BATS Y”), BOX Options Exchange LLC (“BOX”), Chicago Board Options Exchange, Incorporated (“CBOE”), C2 Options Exchange, Incorporated (“C2”), Chicago Stock Exchange, Inc. (“CHX”), EDGA Exchange, Inc. (“EDGA”), EDGX Exchange, Inc. (“EDGX”), Financial Industry Regulatory Authority, Inc. (“FINRA”), International Securities Exchange, LLC (“ISE”), ISE Gemini, LLC (“ISE Gemini”), Miami International Securities Exchange, LLC (“MIAX”), The NASDAQ Stock Market LLC (“NASDAQ”), NASDAQ OMX BX, Inc. (“BX”), NASDAQ OMX PHLX, Inc. (“Phlx”), National Stock Exchange, Inc. (“NSX”), New York Stock Exchange LLC (“NYSE”), NYSE MKT LLC (“NYSE MKT”), and NYSE Arca, Inc. (“NYSE Arca”) (each, a “Participating Organization,” and, together, the “Participating Organizations” or the “Parties”), filed with the Securities and Exchange Commission (“Commission” or “SEC”) an amended plan for the allocation of regulatory responsibilities with respect to certain Regulation NMS Rules listed in Exhibit A to the Plan (“17d-2 Plan” or the “Plan”). The Commission received no comments on the Plan. This order approves and declares effective the Plan.

## I. Introduction

Section 19(g)(1) of the Securities Exchange Act of 1934 (“Act”),<sup>1</sup> among other things, requires every self-regulatory organization (“SRO”) registered as either a national securities exchange or national securities association to examine for, and enforce compliance by, its members and persons associated with its members with the Act, the rules and regulations thereunder, and the SRO’s own rules, unless the SRO is relieved of this responsibility pursuant to Section 17(d) or Section 19(g)(2) of the Act.<sup>2</sup> Without this relief, the statutory obligation of each individual SRO could result in a pattern of multiple examinations of broker-dealers that maintain memberships in more than one SRO (“Common Members”). Such regulatory duplication would add unnecessary expenses for common members and their SROs.

Section 17(d)(1) of the Act<sup>3</sup> was intended, in part, to eliminate unnecessary multiple examinations and regulatory duplication.<sup>4</sup> With respect to a common member, Section 17(d)(1) authorizes the Commission, by rule or order, to relieve an SRO of the responsibility to receive regulatory reports, to examine for and enforce compliance with applicable statutes, rules, and regulations, or to perform other specified regulatory functions.

To implement Section 17(d)(1), the Commission adopted two rules: Rule 17d-1 and Rule 17d-2 under the Act.<sup>5</sup> Rule 17d-1 authorizes the Commission to name a single SRO as the designated examining authority (“DEA”) to examine common members for compliance with the financial responsibility requirements imposed by the Act, or by Commission or SRO rules.<sup>6</sup> When an SRO has been named as a common member’s DEA, all other SROs to which the common member belongs are relieved of the responsibility to examine the firm for compliance with the applicable financial responsibility rules. On its face, Rule 17d-1 deals only with an SRO’s obligations to enforce member compliance with financial responsibility requirements. Rule 17d-1 does not relieve an SRO from its

obligation to examine a common member for compliance with its own rules and provisions of the federal securities laws governing matters other than financial responsibility, including sales practices and trading activities and practices.

To address regulatory duplication in these and other areas, the Commission adopted Rule 17d-2 under the Act.<sup>7</sup> Rule 17d-2 permits SROs to propose joint plans for the allocation of regulatory responsibilities with respect to their common members. Under paragraph (c) of Rule 17d-2, the Commission may declare such a plan effective if, after providing for appropriate notice and comment, it determines that the plan is necessary or appropriate in the public interest and for the protection of investors; to foster cooperation and coordination among the SROs; to remove impediments to, and foster the development of, a national market system and a national clearance and settlement system; and is in conformity with the factors set forth in Section 17(d) of the Act. Commission approval of a plan filed pursuant to Rule 17d-2 relieves an SRO of those regulatory responsibilities allocated by the plan to another SRO.

## II. Proposed Plan

On September 2, 2015, the parties submitted a proposed amendment to the Plan. The primary purpose of the amendment is to add Regulation NMS Rules 606, 607, and 611(c) and (d). In addition, because Regulation NMS Rule 606 applies to “NMS Securities,” and thus includes responsibility for options, the Amended Plan adds additional Participating Organizations that are options markets.

The proposed 17d-2 Plan is intended to reduce regulatory duplication for firms that are members of more than one Participating Organization.<sup>8</sup> The proposed amendments to the Plan provide for the allocation of regulatory responsibility according to whether the covered rule pertains to NMS stocks or NMS securities. For covered rules that pertain to NMS stocks (*i.e.*, Rules 607, 611, and 612), FINRA would serve as the “Designated Regulation NMS Examining Authority” (“DREA”) for common members that are members of FINRA, and therein would assume certain examination and enforcement responsibilities for those members with respect to specified Regulation NMS rules. For common members that are not

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

<sup>2</sup> 15 U.S.C. 78q(d) and 15 U.S.C. 78s(g)(2), respectively.

<sup>3</sup> 15 U.S.C. 78q(d)(1).

<sup>4</sup> See Securities Act Amendments of 1975, Report of the Senate Committee on Banking, Housing, and Urban Affairs to Accompany S. 249, S. Rep. No. 94-75, 94th Cong., 1st Session 32 (1975).

<sup>5</sup> 17 CFR 240.17d-1 and 17 CFR 240.17d-2, respectively.

<sup>6</sup> See Securities Exchange Act Release No. 12352 (April 20, 1976), 41 FR 18808 (May 7, 1976).

<sup>7</sup> See Securities Exchange Act Release No. 12935 (October 28, 1976), 41 FR 49091 (November 8, 1976).

<sup>8</sup> The proposed 17d-2 Plan refers to these members as “Common Members.”

members of FINRA, the amended Plan provides that the member's DEA would serve as the DREA, provided that the DEA exchange operates a national securities exchange or facility that trades NMS stocks and the common member is a member of such exchange or facility. Section 1(c) of the amended Plan contains a list of proposed principles that would be applicable to the allocation of common members in cases not specifically addressed in the Plan. An exchange that does not trade NMS stocks would have no regulatory authority for covered Regulation NMS rules pertaining to NMS stocks. For covered rules that pertain to NMS securities, and thus include options (*i.e.*, Rule 606), the proposed amended Plan provides that the DREA will be the same as the DREA for the rules pertaining to NMS stocks. For common members that are not members of an exchange that trades NMS stocks, the common member would be allocated according to the principles set forth in Section 1(c) of the Plan.

The text of the Plan delineates the proposed regulatory responsibilities with respect to the Parties. Included in the proposed Plan is an exhibit (the "Covered Regulation NMS Rules") that lists the federal securities laws, rules, and regulations, for which the applicable DREA would bear examination and enforcement responsibility under the proposed amended Plan for Common Members of the Participating Organization and their associated persons.

Specifically, under the 17d-2 Plan, the applicable DREA would assume examination and enforcement responsibility relating to compliance by Common Members with the Covered Regulation NMS Rules. Covered Regulation NMS Rules would not include the application of any rule of a Participating Organization, or any rule or regulation under the Act, to the extent that it pertains to violations of insider trading activities, because such matters are covered by a separate multiparty agreement under Rule 17d-2.<sup>9</sup> Under the Plan, Participating Organizations would retain full responsibility for surveillance and enforcement with respect to trading activities or practices involving their own marketplace.<sup>10</sup>

<sup>9</sup> See Securities Exchange Act Release No. 58350 (August 13, 2008), 73 FR 48247 (August 18, 2008) (File No. 4-566) (notice of filing of proposed plan). See also Securities Exchange Act Release No. 58536 (September 12, 2008) (File No. 4-566) (order approving and declaring effective the plan).

<sup>10</sup> See paragraph 1 of the proposed 17d-2 Plan.

### III. Discussion

The Commission finds that the proposed Plan is consistent with the factors set forth in Section 17(d) of the Act<sup>11</sup> and Rule 17d-2(c) thereunder<sup>12</sup> in that the proposed Plan is necessary or appropriate in the public interest and for the protection of investors, fosters cooperation and coordination among SROs, and removes impediments to and fosters the development of the national market system. In particular, the Commission believes that the proposed Plan should reduce unnecessary regulatory duplication by allocating to the applicable DREA certain examination and enforcement responsibilities for Common Members that would otherwise be performed by multiple Parties. Accordingly, the proposed Plan promotes efficiency by reducing costs to Common Members. Furthermore, because the Parties will coordinate their regulatory functions in accordance with the proposed Plan, the Plan should promote investor protection.

The Commission is hereby declaring effective a plan that allocates regulatory responsibility for certain provisions of the federal securities laws, rules, and regulations as set forth in Exhibit A to the Plan. The Commission notes that any amendment to the Plan must be approved by the relevant Parties as set forth in Paragraph 22 of the Plan and must be filed with and approved by the Commission before it may become effective.<sup>13</sup>

### IV. Conclusion

This Order gives effect to the Plan filed with the Commission in File No. 4-618. The Parties shall notify all members affected by the Plan of their rights and obligations under the Plan.

It is therefore ordered, pursuant to Section 17(d) of the Act, that the Plan in File No. 4-618 is hereby approved and declared effective.

It is further ordered that the Parties who are not the DREA as to a particular Common Member are relieved of those regulatory responsibilities allocated to the Common Member's DREA under the Plan to the extent of such allocation.

<sup>11</sup> 15 U.S.C. 78q(d).

<sup>12</sup> 17 CFR 240.17d-2(c).

<sup>13</sup> See Paragraph 22 of the Plan. The Commission notes, however, that changes to Exhibit B to the Plan (the allocation of Common Members to DREAs) are not required to be filed with, and approved by, the Commission before they become effective.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>14</sup>

Jill M. Peterson,

Assistant Secretary.

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-76295; File No. SR-Phlx-2015-83]

### Self-Regulatory Organizations; NASDAQ OMX PHLX LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Risk Monitor Mechanism

October 29, 2015.

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 15, 2015, NASDAQ OMX PHLX LLC ("Phlx" or "Exchange") filed with the Securities and Exchange Commission ("SEC" or "Commission") the proposed rule change as described in Items I, II, and III, below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

#### I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

The Exchange proposes to amend Rule 1093 entitled "Phlx XL Risk Monitor Mechanism" by reserving this rule and relocating the rule governing the Risk Monitor Mechanism into Phlx Rule 1095, entitled "Automated Removal of Quotes" which contains similar market maker<sup>3</sup> risk monitor tools. The Exchange is also modifying

<sup>14</sup> 17 CFR 200.30-3(a)(34).

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

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

<sup>3</sup> A "Market Maker" includes Registered Options Traders ("ROTs") (Rule 1014(b)(i) and (ii)), which includes Streaming Quote Traders ("SQTs") (*see* Rule 1014(b)(ii)(A)) and Remote Streaming Quote Traders ("RSQTs") (*see* Rule 1014(b)(ii)(B)). An SQT is defined in Exchange Rule 1014(b)(ii)(A) as an ROT who has received permission from the Exchange to generate and submit option quotations electronically in options to which such SQT is assigned. An RSQT is defined in Exchange Rule 1014(b)(ii)(B) as an ROT that is a member or member organization with no physical trading floor presence who has received permission from the Exchange to generate and submit option quotations electronically in options to which such RSQT has been assigned. An RSQT may only submit such quotations electronically from off the floor of the Exchange. A Market Maker also includes a specialist, an Exchange member who is registered as an options specialist pursuant to Rule 1020(a).