SECURITIES AND EXCHANGE COMMISSION


Self-Regulatory Organizations; The Depository Trust Company; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change To Modify the DTC Settlement Service Guide in Order To Enhance the Memo Segregation Function in Connection With Deliveries Processed at DTC Related to the Direct Registration System


Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act") and Rule 19b–4 thereunder,2 notice is hereby given that on June 30, 2017, The Depository Trust Company ("DTC") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I, II and III below, which Items have been prepared by the clearing agency. DTC filed the proposed rule change pursuant to Section 19(b)(3)(A) of the Act3 and Rule 19b–4(f)(4)4 thereunder. The proposed rule change was effective upon filing with the Commission. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The proposed rule change would revise the DTC Settlement Service Guide ("Service Guide")5 to enhance the Memo Segregation function ("Memo Seg") with respect to its use by a Participant6 in connection with Deliveries processed at DTC for transactions related to DRS,7 as discussed below.

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

In its filing with the Commission, the clearing agency 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. The clearing agency has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

(A) Clearing Agency’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

Background

Memo Seg allows a Participant to elect to protect a designated quantity of Securities in a given CUSIP ("Designated Quantity") from unintended intraday Delivery at DTC.8 When a Participant uses Memo Seg, if the total quantity of Securities in its account in a given CUSIP as a result of processing the Delivery would be equal to, or less than, the Designated Quantity, the Securities will not be Delivered, unless (a) the Participant elects to reduce the Designated Quantity or (b) the Designated Quantity is automatically reduced as a result of the Participant executing certain transactions (e.g., withdrawals-by-transfer, certificate-on-demand withdrawals, and free Deliveries that are not identified as stock loan or stock loan returns).9 This allows for automated processing of Securities, reducing manual entries of a Participant to maintain a certain quantity of Securities in an Account.

Proposed Rule Change

1. Proposal That Standing Instructions Concerning the Use of Memo Seg

The clearing agency proposes to add language to the DTC Settlement Service Guide ("Service Guide") to enhance the Memo Segregation Function ("Memo Seg") with respect to its use by a Participant in connection with Deliveries processed at DTC for transactions related to DRS, as discussed below.

The clearing agency proposes to add a new section to the DTC Settlement Service Guide to enhance the Memo Segregation Function ("Memo Seg") with respect to its use by a Participant in connection with Deliveries processed at DTC for transactions related to DRS, as discussed below.

16 The term "Participant" shall include the term "Limited Participant" unless the (i) context otherwise requires or (ii) the Procedures otherwise provide. See Rule 2, supra note 5.
17 Participants that are registered broker-dealers use Memo Seg as a tool to maintain compliance with their obligations under Rule 15c3–3 ("Customer Protection Rule"). 17 CFR 240.15c3–3. The Customer Protection Rule requires, among other things, that broker-dealers maintain control of all fully-paid or excess margin Securities they hold for the accounts of customers. Compliance with these obligations by such broker-dealers is external to DTC. See Rule 2, supra note 5.
19 Transaction types are designated by the Delivering Participant using a reason code provided on a Delivery instruction ("Code") (e.g., stock loan transactions, DRS-related, etc.). The Receiving Participant may provide standing instructions regarding its Designated Quantity using an indicator ("Indicator"), as discussed in the Service Guide. By selecting Indicators numbered 1, 2, 3 and 6, the Receiving Participant may provide standing instructions regarding its Designated Quantity using an indicator ("Indicator"), as discussed in the Service Guide. By selecting Indicators numbered 1, 2, 3 and 6, the Participant provides a standing instruction for its Designated Quantity to automatically increase when it is the Receiving Participant of a transaction designated with an applicable Code. See Service Guide, supra note 5 at 43–45.

Appendix A

Purpose of, and Statutory Basis for, the Proposed Rule Change

The purpose of this proposed rule change is to enhance the Memo Segregation Function ("Memo Seg") with respect to its use by a Participant in connection with Deliveries processed at DTC for transactions related to DRS, as discussed below.

1. Proposal That Standing Instructions Concerning the Use of Memo Seg

The clearing agency proposes to add language to the DTC Settlement Service Guide ("Service Guide") to enhance the Memo Segregation Function ("Memo Seg") with respect to its use by a Participant in connection with Deliveries processed at DTC for transactions related to DRS, as discussed below.

The clearing agency proposes to add a new section to the DTC Settlement Service Guide to enhance the Memo Segregation Function ("Memo Seg") with respect to its use by a Participant in connection with Deliveries processed at DTC for transactions related to DRS, as discussed below.

The clearing agency proposes to add a new section to the DTC Settlement Service Guide to enhance the Memo Segregation Function ("Memo Seg") with respect to its use by a Participant in connection with Deliveries processed at DTC for transactions related to DRS, as discussed below.

The clearing agency proposes to add a new section to the DTC Settlement Service Guide to enhance the Memo Segregation Function ("Memo Seg") with respect to its use by a Participant in connection with Deliveries processed at DTC for transactions related to DRS, as discussed below.

The clearing agency proposes to add a new section to the DTC Settlement Service Guide to enhance the Memo Segregation Function ("Memo Seg") with respect to its use by a Participant in connection with Deliveries processed at DTC for transactions related to DRS, as discussed below.
Committee of the Securities Operations Section of the Securities Industry and Financial Markets Association ("SIMFA") has requested that DTC modify Memo Seg so that Deliveries of Securities processed through DRS would automatically increase the Receiving Participant's Designated Quantity. 11

In this regard, pursuant to the proposed rule change, DTC would revise the Service Guide to allow a Receiving Participant in a DRS-related transaction to elect to have its Designated Quantity automatically increased when the Delivering Participant uses Codes 390 or 391.12 A Receiving Participant would make this election by selecting Indicator 1.

2. Proposal To Update Memo Seg To Prevent Automatic Decrease of a Participant’s Designated Quantity for DRS Reclaims

Pursuant to the Service Guide, a Free Delivery made by a Participant always reduces its Designated Quantity unless an exception for a given transaction type is expressly provided for. Pursuant to the proposed rule change, the text of the Service Guide would be revised so that a "Reclaim" of a DRS-related Free Delivery, where the related transaction is one that the Receiving Participant does not know ("DK") (performed with Code 396), would not automatically reduce the Receiving Participant's Designated Quantity. This change would allow a Participant to exercise greater control in managing its Designated Quantity.

3. Proposal To Make Technical Changes to the Memo Seg Section of the Service Guide

The proposed rule change would also make technical changes to the Memo Seg section of the Service Guide to:

a. (i) Change references to "you" and "your" to "a Participant," "the Participant," "Participants" or "its," as applicable and (ii) make grammatical and spacing changes to the text to provide enhanced clarity and readability with respect to provisions related to Memo Seg and

b. Add an annex to the Service Guide containing the descriptions of the Codes listed in the "Non-Optional Memo Segregation Transactions" and the "Optional Memo Segregation Indicators" subsections.

Effective Date of Proposed Rule Change

The proposed rule change would be effective upon filing with the Commission.

2. Statutory Basis

Section 17A(b)(3)(F) 13 of the Securities Exchange Act of 1934 ("Act") requires that the rules of the clearing agency be designed, inter alia, to protect investors and the public interest. DTC believes the proposed rule change is consistent with this provision because it would (i) reduce the risk of unintended Delivery of Securities that are the subject of a DRS-related transaction by a Participant that (A) elects to use applicable Indicators 14 or (B) enters a DK-related Reclaim in connection with a DRS-related Free Delivery and (ii) make more technical and grammatical changes to the text of the Service Guide that would provide enhanced clarity and readability with respect to provisions related to Memo Seg, DTC believes that the proposed rule change would help protect investors and the public interest, consistent with Section 17(b)(3)(F) of the Act, cited above.

The proposed rule change is designated to be consistent with Rule 17Ad–22(e)(23) of the Act, 15 which was recently adopted by the Commission. 16 Rule 17Ad–22(e)(23) requires DTC, inter alia, to establish, implement, maintain and enforce written policies and procedures reasonably designed to publicly disclose all relevant rules and material procedures. The proposed rule change, as described above, would update the Service Guide to add descriptions of the Codes referenced in the Memo Seg section of the Service Guide, as discussed above. As such, DTC believes that the proposed rule change would promote disclosure of relevant rules and material procedures relating to Participants' use of Memo Seg, in accordance with the requirements of Rule 17Ad–22(e)(23), promulgated under the Act, cited above.

(B) Clearing Agency's Statement on Burden on Competition

DTC does not believe that the proposed rule change would have any impact on competition because the proposed rule change would merely enhance the ability of any Receiving Participant to control Securities in its Account.

(C) Clearing Agency's Statement on Comments on the Proposed Rule Change Received From Members, Participants, or Others

Written comments relating to the proposed rule change have not been solicited or received. DTC will notify the Commission of any written comments received by DTC. DTC management has discussed its intent to implement the proposed change with SIMFA and Participants.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A) 17 of the Act and paragraph (f) of Rule 19b–4 thereunder. At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic Comments

- Use the Commission's Internet comment form (http://www.sec.gov/rules/sro.shtml); or
- Send an email to rule-comments@sec.gov. Please include File Number SR–DTC–2017–012 on the subject line.

---

11 SIFMA has indicated that making this update to Memo Seg would strengthen the ability of Participants to control and protect customer fully-paid Securities transferred through DRS.

12 Code 390 indicates a DRS-related Delivery and Code 391 indicates a DRS-related return of a Delivery.


14 DTC makes Memo Seg available as a tool for Participants, but does not monitor, and is not responsible for, any Participant's compliance with its obligation to protect customer fully-paid Securities. With respect to any Securities processed through DTC, DTC does not recognize (and is not required by its Rules and Procedures or applicable law to recognize) a distinction between proprietary and customer Securities.


16 The Commission adopted amendments to Rule 17ad–22, including the addition of new subsection 17ad–22(e), on September 28, 2016. See Securities Exchange Act Release No. 78961 (September 28, 2016), 81 FR 70786 (October 13, 2016) (S7–03–14). DTC is a “covered clearing agency” as defined by new Rule 17ad–22(a)(5) and must comply with subsection (e) of Rule 17ad–22. Id.


SECURITIES AND EXCHANGE COMMISSION


Self-Regulatory Organizations; Financial Industry Regulatory Authority, Inc.; Order Approving Proposed Rule Change To Adopt Consolidated Registration Rules, Restructure the Representative-Level Qualification Examination Program, Allow Permissive Registration, Establish Exam Waiver Process for Persons Working for Financial Services Affiliate of Member, and Amend the Continuing Education Requirements


I. Introduction

On March 28, 2017, Financial Industry Regulatory Authority, Inc. (“FINRA”) filed with the Commission a proposed rule change ("Proposal") pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Exchange Act")1 and Rule 19b–4 under the Exchange Act.2 The proposed rule change was filed with the Commission and published for notice and comment in the Federal Register on April 10, 2017.3 The Commission received 18 comment letters.4 The Commission received comments from a variety of parties including FINRA, regulated entities, and public interest organizations.5

II. Description of the Proposal

FINRA proposes to adopt with amendments the NASD and Incorporated NYSE rules relating to qualification and registration as FINRA members and to restructure the current representative-level qualification examinations, create a general knowledge examination and specialized knowledge examinations, and amend the CE requirements, among other changes.6

A. Registration Requirements

Proposed Rule 1210 provides that each person engaged in the investment business, as defined in the Proposed Rule, shall qualify and register as a FINRA member and satisfy the continuing education requirements prescribed by FINRA. Under the Proposed Rule, a person would be required to have completed a general knowledge examination and any one of several specialized knowledge examinations, depending on the person's role. If a person were unable to pass a specific examination, the Commission would have discretion to allow the person to receive an exam waiver. The CE requirements would be reduced for persons working for financial services affiliates of regulated members.

B. Rule 8230

Rule 8230 would be amended to allow FINRA to charge fees for services provided to a person who is a FINRA member or an affiliate of a FINRA member. The Proposed Rule would also amend Rule 8230 to provide that a person would be allowed to work for a financial services affiliate of a regulated member prior to meeting the Registration Requirements.

C. Rule 8232

Rule 8232 would be amended to require FINRA to adopt certain definitions and permit FINRA to adopt additional definitions.

D. Rule 8233

Rule 8233 would be amended to define the term “financial services affiliate.” The Proposed Rule would also amend Rule 8233 to allow FINRA to charge fees for services provided to a person who is a FINRA member or an affiliate of a FINRA member.

E. Rule 8234

Rule 8234 would be amended to require FINRA to adopt certain definitions and permit FINRA to adopt additional definitions.

F. Rule 8238

Rule 8238 would be amended to allow FINRA to charge fees for services provided to a person who is a FINRA member or an affiliate of a FINRA member.

G. Rule 8239

Rule 8239 would be amended to require FINRA to adopt certain definitions and permit FINRA to adopt additional definitions.

H. Rule 8240

Rule 8240 would be amended to permit FINRA to charge fees for services provided to a person who is a FINRA member or an affiliate of a FINRA member.

I. Rule 8250

Rule 8250 would be amended to require FINRA to adopt certain definitions and permit FINRA to adopt additional definitions.

J. Rule 8251

Rule 8251 would be amended to permit FINRA to charge fees for services provided to a person who is a FINRA member or an affiliate of a FINRA member.

K. Rule 8252

Rule 8252 would be amended to require FINRA to adopt certain definitions and permit FINRA to adopt additional definitions.

L. Rule 8253

Rule 8253 would be amended to permit FINRA to charge fees for services provided to a person who is a FINRA member or an affiliate of a FINRA member.

III. Conclusion

FINRA proposes the adoption of rules to allow for the registration of persons working for financial services affiliates of regulated members. The Proposed Rule would also amend existing CE requirements to reduce the CE requirements for persons working for financial services affiliates of regulated members. The Commission requests comments on the Proposed Rule.