

### 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](mailto:rule-comments@sec.gov). Please include File Number SR-IEX-2017-10 on the subject line.

### Paper Comments

- Send paper comments in triplicate to Brent J. Fields, Secretary, Securities and Exchange Commission, 100 F Street NE., Washington, DC 20549-1090.

All submissions should refer to File Number SR-IEX-2017-10. This file number should be included on the subject line if email is used. To help the Commission process and review your 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-IEX-2017-10, and should be submitted on or before August 31, 2017.

### VI. Accelerated Approval of Proposed Rule Change, as Modified by Amendment No. 2

The Commission finds good cause to approve the proposed rule change, as modified by Amendment No. 2, prior to the thirtieth day after the date of publication of the notice of Amendment No. 2 in the **Federal Register**. The Commission believes that the proposed changes to the description of the process for determining the Auction Clearing Price that were included in Amendment No. 2 add clarity to the price determination process without

materially changing the proposal from what the Exchange originally filed. Additionally, the Commission believes that the proposed addition of a rounding process to prevent certain Tick Size Pilot securities from trading in an impermissible increment eliminates a potential conflict between the Tick Size Pilot and IEX Auctions. Further, the Commission believes that the proposed modification of the process for affecting incremental extensions of the period for accepting orders after an LULD trading pause will clarify the process and ensure consistency with the standardized approach agreed to by the LULD Plan participants. The Commission does not believe that any of the changes proposed in Amendment No. 2 introduce novel concepts, but rather add detail to better reflect in the proposed rule text how the proposed IEX Auctions would work for IEX-listed securities, and also reconciles the proposed IEX Auctions with the tick-size requirements of the Tick Size Pilot.

Accordingly, for the reasons noted above, the Commission finds good cause for approving the proposed rule change, as modified by Amendment No. 2, on an accelerated basis, pursuant to Section 19(b)(2) of the Act.<sup>90</sup>

### VII. Conclusion

*It is therefore ordered*, pursuant to Section 19(b)(2) of the Act,<sup>91</sup> that the proposed rule change (SR-IEX-2017-10), as modified by Amendment No. 2, is approved on an accelerated basis.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>92</sup>

**Eduardo A. Aleman,**  
*Assistant Secretary.*

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-81315; File No. SR-CHX-2017-12]

### Self-Regulatory Organizations; Chicago Stock Exchange, Inc.; Notice of Filing of Proposed Rule Change Regarding Qualified Contingent Trades and Related Information Recording Obligations by Certain Participants

August 4, 2017.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934

<sup>90</sup> 15 U.S.C. 78s(b)(2).

<sup>91</sup> *Id.*

<sup>92</sup> 17 CFR 200.30-3(a)(12).

(“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on July 26, 2017, the Chicago Stock Exchange, Inc. (“CHX” or “Exchange”) filed with the Securities and Exchange Commission (the “Commission”) the proposed rule change as described in Items I and II below, which Items have been prepared by the self-regulatory organization. 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

CHX proposes to amend the Rules of the Exchange (“CHX Rules”) regarding Qualified Contingent Trades (“QCTs”)<sup>3</sup> and related information recording obligations by certain Participants.<sup>4</sup> The text of this proposed rule change is available on the Exchange's Web site at <http://www.chx.com/regulatory-operations/rule-filings/>, at the principal office of the Exchange, and at the Commission's Public Reference Room.

### II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the self-regulatory organization 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 those statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B and C below, of the most significant parts of such statements.

#### A. Self-Regulatory Organization's Statement of the Purpose of, and the Statutory Basis for, the Proposed Rule Change

##### 1. Purpose

The Exchange proposes to amend CHX Rules to effect the following changes:

- Clarify the operation of cross orders<sup>5</sup> and Cross With Size handling.<sup>6</sup>
- Only permit Participants that are registered with the Exchange as Institutional Brokers (“IBs”)<sup>7</sup> to submit an NMS stock component order of a

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

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

<sup>3</sup> See *infra* Section A.1(1).

<sup>4</sup> A Participant is a “member” of the Exchange for purposes of the Act. See CHX Article 1, Rule 1(s).

<sup>5</sup> See CHX Article 1, Rule 2(a)(2).

<sup>6</sup> See CHX Article 1, Rule 2(g)(1).

<sup>7</sup> See CHX Article 1, Rule 1(n); see also generally CHX Article 17.

QCT (“QCT Cross”) to the Matching System.<sup>8</sup>

- Clarify the scope of information recording obligations under current Article 11, Rule 3.
- Adopt rules describing the CHX Broker Back Office System (“BBOS”), a trade management system developed and maintained by the Exchange.
- Require IBs to record certain information in the BBOS regarding component orders and trades related to QCT Crosses executed within the Matching System.
- Clarify the agency, principal and error accounts requirements for IBs.

#### (1) Background

In 2006,<sup>9</sup> the Commission granted an exemption from Rule 611(a) of Regulation NMS<sup>10</sup> (“QCT Exemption”) for any trade-throughs caused by the execution of an order involving one or more NMS stocks (each an “Exempted NMS Stock Transaction”) that are components of a QCT, which was modified in 2008 to eliminate the Size Condition.<sup>11</sup> Consistent with the QCT Exemption, the Exchange permits Participants to submit cross orders marked with the QCT modifier (*i.e.*, QCT Crosses) to the Matching System to effect transactions that comprise the NMS stock components of QCTs.<sup>12</sup>

<sup>8</sup> The Matching System is an automated order execution system, which is a part of the Exchange’s “Trading Facilities,” as defined under CHX Article 1, Rule 1(z).

<sup>9</sup> See Securities Exchange Act Release No. 54389 (August 31, 2006), 71 FR 52829 (September 7, 2006) (“QCT Exemptive Order”).

<sup>10</sup> 17 CFR 242.611(a).

<sup>11</sup> “Qualified contingent trade” is defined as “a transaction consisting of two or more component orders, executed as agent or principal where: (1) At least one component order is in an NMS stock; (2) All components are effected with a product or price contingency that either has been agreed to by the respective counterparties or arranged for by a broker-dealer as principal or agent; (3) The execution of one component is contingent upon the execution of all other components at or near the same time; (4) The specific relationship between the component orders (*e.g.*, the spread between the prices of the component orders) is determined at the time the contingent order is placed; (5) The component orders bear a derivative relationship to one another, represent different classes of shares of the same issuer, or involve the securities of participants in mergers or with intentions to merge that have been announced or since cancelled; and (6) The Exempted NMS Stock Transaction is fully hedged (without regard to any prior existing position) as a result of the other components of the contingent trade. See Securities Exchange Act Release No. 57620 (April 4, 2008), 73 FR 19271 (April 9, 2008) (“Modified QCT Exemptive Order”). In 2008, the Commission modified the QCT Exemptive Order to eliminate a seventh requirement (“Size Condition”) that the Exempted NMS Stock Transaction that is part of a contingent trade involves at least 10,000 shares or has a market value of at least \$200,000. See *id.* at 19274.

<sup>12</sup> While CHX Rules currently permit any Participant to submit a QCT Cross, in practice, only

Mechanically, upon receipt of a QCT Cross, the Exchange will immediately execute the QCT Cross without regard to the protected quotations of away markets if the state of the CHX limit order book (“CHX book”) in the relevant security would permit the QCT Cross to execute within the Matching System.<sup>13</sup> If the QCT Cross is blocked by an order resting on the CHX book, the QCT Cross will be immediately cancelled. The Exchange does not conduct a pre-execution verification of each QCT Cross for compliance with the terms of the QCT Exemption due to the practical difficulties of conducting such verification within the constraints of the “at or near the same time” requirement for the execution of the component orders that comprise the QCT.<sup>14</sup> Instead, the Exchange maintains and operates a comprehensive Surveillance and Examination program that, among other things, reviews executed QCT Crosses for compliance with CHX Rules and the QCT Exemption.

The Exchange believes that the operation of the Matching System and the Surveillance and Examination program, in general, and as applied to the execution and review of QCT Crosses, in particular, are “reasonably designed” in compliance with the requirements of Rule 611(a)(1) of the Regulation NMS.<sup>15</sup> The Exchange also regularly surveils to ascertain the effectiveness of its policies and procedures required by Rule 611(a)(1) and has taken prompt action to remedy deficiencies in such policies and procedures, consistent with the requirements of Rule 611(a)(2) of Regulation NMS.<sup>16</sup> As part of its ongoing effort to update and optimize the Surveillance and Examination program, the Exchange has developed and deployed BBOS, a trade management system that, among other things, permits the Exchange to review additional information to identify the specific component transactions<sup>17</sup> that

IBs have submitted QCT Crosses, in large part due to the complexities of coordinating the execution of the various components of a QCT and allocating positions to the various parties to the QCT.

<sup>13</sup> See CHX Article 1, Rule 2(a)(2).

<sup>14</sup> See CHX Article 1, Rule 2(b)(2)(E)(iii); see also *supra* note 11.

<sup>15</sup> 17 CFR 242.611(a)(1).

<sup>16</sup> 17 CFR 242.611(a)(2).

<sup>17</sup> Currently, the vast majority of component transactions used to hedge QCT Crosses involve exchange traded options. As such, BBOS permits users to automatically link QCT Crosses with specific exchange-traded options transactions via the use of unique sequence numbers. While the BBOS permits the entry of other types of component transactions, such as futures transactions, the full details of such component transactions must be entered manually. See *infra* note 18.

are being used to hedge executed QCT Crosses. Currently, the Exchange encourages its IBs to include certain information for away executions related to QCT Crosses submitted to the Matching System into the BBOS,<sup>18</sup> which the Exchange uses to verify that the components to the QCT satisfy the derivative relationship and fully-hedged requirements of the QCT Exemption.<sup>19</sup> In addition, CHX Rules require IBs to input all orders and related information<sup>20</sup> it receives for execution into an automated system (*e.g.*, Brokerplex<sup>21</sup>), which includes QCT Crosses.

The Exchange now proposes various amendments to the CHX Rules in order to clarify the operation of cross orders, to clarify the scope of certain Participant obligations and to codify current practices related to the enhancement of the Exchange’s oversight of QCTs.

#### (2) Amendments Related to Cross Orders

The Exchange proposes to adopt various non-substantive amendments to CHX Rules to clarify the operation of cross orders and Cross With Size handling.<sup>22</sup> Current Article 1, Rule 2(a)(2) defines cross order as an order to buy and sell the same security at a specific price better than the Working Price, as defined under Article 1, Rule 1(pp), of all resting orders on the CHX Book and which would not constitute a trade-through under Regulation NMS (including all applicable exceptions and exemptions). The rule also provides that a cross order may represent interest of one or more Participants of the Exchange, but may only be executed in an increment permitted by Article 20, Rule 4(a)(7)(b). The rule then provides that a cross order may be subject to special handling, pursuant to Article 20, Rule 2(g).

While the current definition is technically accurate, the Exchange believes that it can be amended to clarify that the pricing requirement for cross orders is prerequisite for execution within the Matching System, but not a prerequisite for submission into the Matching System. That is, a cross order that does not meet the pricing requirement, and is thus cancelled by

<sup>18</sup> Current data fields include: QCT Type; Related Exchange; Print Time; Expiration Year; Expiration Month; Price; Contracts; Strike Price; Call/Put; Volume; and Short Sale Indicator. The alternatives under “QCT Type” include exchange traded options, over-the-counter traded options, FLEX Options, equities, futures and “other.” See *id.*

<sup>19</sup> See *supra* note 11.

<sup>20</sup> See CHX Article 11, Rule 3(a) and (b).

<sup>21</sup> See CHX Article 17, Rule 5.

<sup>22</sup> See CHX Article 1, Rule 2(g)(1).

the Matching System, is still a cross order by definition, albeit not an executable one. As such, the Exchange proposes to amend the first paragraph of current Article 1, Rule 2(a)(2) to provide as follows:

“Cross order”: An order to buy and sell the same security at a specific price. A cross order may only execute within the Matching System if it is priced better than the Working Price, as defined under Article 1, Rule 1(pp), of all resting orders on the CHX Book. A cross order may represent interest of one or more Participants of the Exchange, but may only be executed in an increment permitted by Article 20, Rule 4(a)(7)(b). A cross order may be subject to special handling, pursuant to paragraph (g) below.

Similarly, the Exchange proposes to amend Article 1, Rule 2(g)(1)(A) to clarify the requirements for Cross With Size handling and to remove redundant references to compliance various CHX Rules and federal securities laws and regulations:

“Cross With Size”: A cross order (except any cross order subject to Non-Regular Way Settlement) to buy and sell at least 5,000 shares of the same security with a total value of at least \$100,000 will execute, notwithstanding resting orders in the CHX Book at the same price, where: (A) There are no resting orders on the CHX Book with a Working Price, as defined under Article 1, Rule 1(pp), better than the cross order; and

In addition, the Exchange proposes to amend Article 20, Rule 8(e) to replace a redundant summary of the operation of cross orders and Cross With Size handling with specific references to the relevant rules. Also, since Cross With Size is a special handling for cross orders and not a separate order type or order modifier, the Exchange proposes to eliminate reference to “Cross With Size,” but to maintain the citation to the relevant CHX Rules. Thus, amended Article 20, Rule 8(e) provides that “Cross orders shall be handled pursuant to Article 1, Rule 2(a)(2) and Rule 2(g)(1) above.”

### (3) Amendments Related to QCT Modifier

As noted above,<sup>23</sup> while CHX Rules permit any Participant to submit QCT Crosses, in practice, non-IB Participants do not currently submit QCT Crosses. Moreover, CHX Rules require only IBs to input additional information into Brokerplex,<sup>24</sup> which facilitates the ability of the Exchange to gather crucial information related to its review of QCT Crosses executed on the Exchange. Given that non-IBs do not currently submit QCTs and the Surveillance and Examination program is optimized to

review QCT Crosses submitted by IBs, the Exchange proposes to amend Article 1, Rule 2(b)(2)(E) to provide that QCT Crosses may only be submitted by IBs.<sup>25</sup> The Exchange believes that the proposed restriction will ensure consistent recordkeeping requirements related to QCTs for those Participants that submit QCT Crosses. Also, given that any Participant may apply to register as an IB,<sup>26</sup> the Exchange submits that the proposal is not unfairly discriminatory to non-IB Participants.<sup>27</sup>

### (4) Clarifying Amendments to Recordkeeping Requirement for Certain Participants

The Exchange also proposes various non-substantive clarifying amendments to Article 11, Rule 3 (Records of Orders and Executions).<sup>28</sup> Specifically, the Exchange proposes to amend Article 11, Rule 3(a) to clarify that the provisions of Article 11, Rule 3 only apply to certain Participants described under Rule 3(e), which limits the applicability of Article 11, Rule 3 to IBs, CHX-registered Market Makers,<sup>29</sup> Participants for whom the Exchange is the Designated Examining Authority (“DEA”) and any other Participant to the extent that the information under Article 11, Rule 3 is required by the rules of the other self-regulatory organizations of which they are members.<sup>30</sup> Similarly, the Exchange proposes to amend the title of Article 11, Rule 3 to provide “Records of Orders and Executions by Certain Participants,” which better describes the scope of the rule and distinguishes it from Article 11, Rule 2 (Maintenance of Books and Records), which requires all Participants

<sup>25</sup> The Exchange also proposes to add the acronym “QCT” to CHX Article 1, Rule 2(b)(2)(E) to clarify that the term “QCT” refers to “Qualified Contingent Trade.”

<sup>26</sup> See CHX Article 17, Rule 1.

<sup>27</sup> See *infra* Section A.2.

<sup>28</sup> The provisions under current CHX Article 11, Rule 3 that the Exchange is proposing to clarify were originally adopted in 2006 as part of the Exchange’s transition to its current electronic trading model. See Exchange Act Release No. 54550 (September 29, 2006), 71 FR 59563 (October 10, 2006) (SR-CHX-2006-05).

<sup>29</sup> See CHX Article 16, Rule 1.

<sup>30</sup> The Exchange proposes to amend Article 11, Rule 3(e) to clarify that the provisions of Article 11, Rule 3 would apply to IBs, Market Makers, Participants for which the Exchange is its DEA and any other Participant to the extent that the information under Article 11, Rule 3 is required by the Exchange Act and the rules thereunder, as well as the rules of the other self-regulatory organizations of which they are members. The Exchange believes that this amendment is appropriate given that Participants are “members” of the Exchange, as defined under the Exchange Act, and any provisions under the Exchange Act and the rules thereunder that apply to a “member” of an exchange would apply to Participants. See CHX Article 1, Rule 1(s).

to comply with the requirements of Rules 17a-3<sup>31</sup> and 17a-4 under the Exchange Act.<sup>32</sup>

The Exchange further proposes to amend paragraph .01 under the Interpretations and Policies of Article 11, Rule 3 to clarify that proprietary orders, such as those submitted by Market Makers, fall under the purview of Article 11, Rule 3. Specifically, while the second sentence under paragraph .01 excludes from the scope of orders described under Article 11, Rule 3(a) the actual decision to purchase or sell a security by a Participant on a proprietary basis and not the proprietary order itself, the Exchange believes that the sentence could be misconstrued to exclude all proprietary orders from the scope of Article 11, Rule 3. The Exchange also believes that current Article 11, Rule 3(a)(1)–(3) adequately describes the types of orders subject to current Article 11, Rule 3. Accordingly, the Exchange proposes to delete the second sentence of paragraph .01 in its entirety.

Current paragraph .03 under the Interpretations and Policies of Article 11, Rule 3 provides, in pertinent part, that Article 11, Rule 3 shall not apply to orders sent or received through the Matching System or through any other electronic system that the Exchange expressly recognizes as providing the required information in a format acceptable to the Exchange. The purpose of current paragraph .03 is to clarify that Participants that submit or receive orders through Exchange-approved electronic systems are not required to maintain a separate record of the information required under Article 11, Rule 3. However, the Exchange believes that paragraph .03 could be misconstrued as to exclude orders sent or received through an Exchange-approved electronic system from the scope of Article 11, Rule 3 entirely, which is incorrect. Accordingly, the Exchange proposes to amend paragraph .03 to provide that a Participant that sends or receives orders, cancellations and executions, as applicable, through the Matching System or through any other electronic systems that the Exchange expressly recognizes as providing the required information in a format acceptable to the Exchange is not required to maintain a separate record of such orders, cancellations and executions.<sup>33</sup> Moreover, the Exchange

<sup>31</sup> 17 CFR 240.17a-3.

<sup>32</sup> 17 CFR 240.17a-4.

<sup>33</sup> The Exchange notes that the proposed amendment to paragraph .03 would have no impact on a Participant’s recordkeeping obligations under Article 11, Rule 2, which requires, among other

<sup>23</sup> See *supra* Section A.1(1).

<sup>24</sup> See CHX Article 17, Rule 3.

proposes to add the term “expressly” before the term “recognize” under the second sentence of current paragraph .03 to be stylistically consistent with the amended first sentence and to make other grammatical amendments.

(5) Proposed Recordkeeping Requirements for Away Component Trades for QCT Crosses Executed Within the Matching System

The Exchange proposes to require IBs to record certain information<sup>34</sup> for away QCT component orders and trades related to QCT Crosses executed within the Matching System into the BBOS. While the Exchange currently encourages IBs to enter such information into the BBOS,<sup>35</sup> the CHX Rules do not currently require IBs to do so. Given that current Article 11, Rule 3(a)(1)–(3) does not contemplate such component orders and trades, as some component orders may not originate or otherwise be handled by the Participant, the Exchange proposes to adopt Article 11, Rule 3(a)(4), which would bring within the scope of Article 11, Rule 3 every component order and trade, whether handled by the Participant or not, related to a QCT Cross that is submitted by the Participant and executed within the Matching System. Correspondingly, the Exchange proposes to amend the citation under Article 11, Rule 3(b) to include proposed Article 11, Rule 3(a)(4).

Moreover, the Exchange proposes to amend Article 11, Rule 3(b)(27)<sup>36</sup> to provide that subject to certain enumerated exceptions, each Participant must accurately record, with respect to any cross orders marked Qualified Contingent Trade executed within the Matching System, (A) the date and time of receipt by the Participant of the corresponding order from its customer and (B) all information specified by the Exchange regarding any related component orders and trades executed within the Matching System or away, which shall be entered into the BBOS

things, that Participants comply with the recordkeeping requirements of Rule 17a–3 under the Act. For example, the proposed amendment to paragraph .03 would not impinge on a Participant’s obligation pursuant to Article 11, Rule 2 and Rule 17a–3(a)(6)(i) under the Act to maintain a memorandum of each brokerage order, and of any other instruction, given or received for the purchase or sale of securities, whether executed or unexecuted.

<sup>34</sup> See *supra* Section A.1(1).

<sup>35</sup> See *id.*

<sup>36</sup> The Exchange proposes to move the current language under current CHX Article 11, Rule 3(b)(27) to proposed CHX Article 11, Rule 3(b)(28). Correspondingly, the Exchange proposes to amend paragraph .06 of the Interpretations and Policies of CHX Article 11, Rule 3 to contemplate the addition of Rule 3(b)(28).

(as applicable), in a manner prescribed by the Exchange.<sup>37</sup>

The Exchange also proposes to adopt Article 17, Rule 7 (Broker Back Office System) to describe the BBOS. Proposed Rule 7(a) provides that BBOS is a trade management system developed and maintained by the Exchange that permits IBs to input certain information and to generate reports therefrom. The rule also states that BBOS is an automated system approved by the Exchange for the purposes of amended Rule 3(a) above.

Proposed Rule 7(b) provides that users of the BBOS are responsible for entering all transaction, order and other information into the system as required by CHX Rules. The rule further states that as operator of BBOS, the Exchange retains information entered into BBOS on behalf of the user in conformity with applicable rules and regulations. The rule then provides that the Exchange provides such information to IBs in a format designated by the Exchange to assist IBs: In conducting research regarding their own trading activities; in responding to requests for information from customers, regulatory authorities or by process of law; and for other legitimate business purposes. The rule also states that the Exchange charges IBs the fees specified in its published Schedule of Fees and Assessments for the collection and retrieval of such information.<sup>38</sup>

Proposed Rule 7(c) lists the specific information regarding component orders and trades related to QCT Crosses that IBs are required to enter into the BBOS. Specifically, proposed Rule 7(c) provides that for all orders and trades described under amended Article 11, Rule 3(b)(27), IBs must record the following information into the BBOS, as applicable: (1) QCT Type; (2) Related Exchange; (3) Print Time; (4) Expiration Year; (5) Expiration Month; (6) Price; (7) Contracts; (8) Strike Price; (9) Call/Put; (10) Volume; and (11) Short Sale Indicator.

In addition, in order to contemplate the proposed IB responsibilities related to the QCT Crosses, the Exchange proposes to amend Article 17, Rule 3(a) to broaden its scope so as to provide that each IB must enter all orders it receives for execution and any other

<sup>37</sup> The required information would be identical to the current data fields available in the BBOS. See *supra* note 18. As described below, the Exchange proposes to codify the required information under proposed Article 17, Rule 7(c).

<sup>38</sup> The Exchange does not propose to assess a fee for use of the BBOS in addition to the current fees related to costs incurred by the Exchange in creating any requested reports, which shall be rebilled to Participants at cost. See Section K of the Fee Schedule of CHX.

information as required under Article 11 into an automated system approved by the Exchange. Correspondingly, the Exchange proposes to amend the header to Article 17, Rule 3(a) to state “Entry of orders and related information into an automated system.” Given that amended Article 11, Rule 3(b)(27) may require the recording of information related to orders that the IB did not actually receive or otherwise handle, the Exchange believes that broadening the scope of Article 17, Rule 3(a) is necessary, as it currently only applies to orders received by the IB.

(6) Clarifying Amendments Related to IB Trading Accounts

Current Article 17, Rule 3(c) provides that each IB must maintain separate accounts for handling (1) agency transactions; (2) principal transactions; and (3) transactions involving errors, and must enter transactions into the appropriate accounts. The Exchange proposes to amend the rule to clarify that the required accounts relate to special recordkeeping accounts that must be maintained at CHX, which is necessary for the Exchange to adequately surveil and examine the relevant IB trading activity, as well as to provide additional detail as to the types of transactions that must be recorded in the respective accounts. Accordingly, amended Article 17, Rule 3(c) provides that each IB must establish and maintain separate CHX recordkeeping accounts at the Exchange for the sole purpose of recording the following activity: (1) An agency recordkeeping account for agency transactions; (2) a principal recordkeeping account for principal and riskless principal<sup>39</sup> transactions; and (3) an error recordkeeping account for transactions involving only Bona Fide Errors.<sup>40</sup> The rule also provides that an IB must record each above-mentioned transaction into the appropriate CHX recordkeeping account.

(7) Operative Date

In the event the proposed rule change is approved by the Commission, the proposed rule change shall be operative pursuant to notice by the Exchange to Participants.

2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Act in general,<sup>41</sup> and furthers the objectives of Section 6(b)(5)

<sup>39</sup> See CHX Article 9, Rule 14.

<sup>40</sup> See CHX Article 1, Rule 1(ii).

<sup>41</sup> 15 U.S.C. 78f(b).

in particular,<sup>42</sup> in that it is designed to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, to remove impediments and perfect the mechanisms of a free and open market, and, in general, to protect investors and the public interest; and is not designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

Specifically, the Exchange believes that permitting only IBs to submit QCT Crosses to the Matching System would protect investors and the public interest, as IBs have historically been the only Participants that have submitted QCT Crosses and, thus, have the necessary experience in ensuring that QCT Crosses are submitted to the Matching System in a manner consistent with CHX Rules and the QCT Exemption. Moreover, given that the Surveillance and Examination program as applied to QCTs is optimized with respect to the submission of QCT Crosses by IBs, the Exchange believes that the proposal would permit the Exchange to more effectively monitor the use of QCT Crosses by ensuring that all QCT activity on the Exchange is monitored via the same surveillance and examination protocols, which further the protection of investors and the public interest.

The Exchange also believes that permitting only IBs to submit QCT Crosses to the Matching System would not result in unfair discrimination among Participants. Initially, the Exchange notes that any Participant that has satisfied all Exchange requirements to operate as an IB may register as an IB,<sup>43</sup> which would, in effect, permit any Participant that meets Exchange requirements to submit QCT Crosses. Moreover, even if the proposal discriminates between IB and non-IB Participants, given the complexity of facilitating QCTs, the Exchange believes that the heightened recordkeeping requirements for QCTs are necessary and appropriate to ensure that QCTs are executed in a manner consistent with CHX Rules and the QCT Exemption. Since the Surveillance and Examination program as applied to QCTs is optimized with respect to the submission of QCT Crosses by IBs, the Exchange believes that the most effective way to surveil for compliance with CHX Rules and the QCT Exemption is to limit the submission of QCTs to IBs. The Exchange also believes that the proposal would eliminate the possibility of regulatory disparities that

may result from the transmission of QCT-related information to the Exchange through different means and ensure consistent recordkeeping obligations among Participants that submit QCT Crosses. Thus, the Exchange submits that any discrimination between IB and non-IB Participants is justified.

In addition, the Exchange believes that the proposed IB recordkeeping requirements for component orders related to QCT Crosses executed within the Matching System and the requirement that such information be entered into the BBOS would protect investors and the public interest by requiring the entry of more detailed information, which will enhance the ability of the Exchange to monitor compliance by the IBs with CHX Rules and the QCT Exemption.

Also, the Exchange believes that the non-substantive amendments to the operation of the cross order type and Cross With Size handling under Article 1, Rule 2(a)(2), Article 1, Rule 2(g)(1) and Article 20, Rule 8(e); the recordkeeping requirements under Article 11, Rule 3; and the IB recordkeeping account requirements under Article 17, Rule 3(c), clarifies the scope and meaning of those rules, which furthers the objectives of Section 6(b)(1)<sup>44</sup> in that it further enables the Exchange to be so organized as to have the capacity to be able to carry out the purposes of the Act and to comply, and to enforce compliance by its Participants and persons associated with its Participants, with the provisions of the Act, the rules and regulations thereunder, and the rules of the Exchange.

#### *B. Self-Regulatory Organization's Statement on Burden on Competition*

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The proposed rule change enhances the Exchange's Surveillance and Examination program as applied to QCTs and otherwise clarifies existing CHX Rules. Thus, the Exchange does not believe that the proposed rule change raises any competitive issues.

#### *C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received From Members, Participants, or Others*

No written comments were solicited or received with respect to the proposed rule change.

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

Within 45 days of the date of publication of this notice in the **Federal Register** or within such longer period up to 90 days (i) as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the Exchange consents, the Commission will: (a) By order approve or disapprove such proposed rule change, or (b) institute proceedings to determine whether the proposed rule change should be disapproved.

### **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](mailto:rule-comments@sec.gov). Please include File Number SR-CHX-2017-12 on the subject line.

#### *Paper Comments*

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street NE., Washington, DC 20549-1090.
- All submissions should refer to File Number SR-CHX-2017-12. This file number should be included on the subject line if email is used. To help the Commission process and review your 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 the filing also will be available for inspection and copying at the principal

<sup>42</sup> 15 U.S.C. 78f(b)(5).

<sup>43</sup> See CHX Article 17, Rule 1.

<sup>44</sup> 15 U.S.C. 78f(b)(1).

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-CHX-2017-12, and should be submitted on or before August 31, 2017.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>45</sup>

**Eduardo A. Aleman,**  
Assistant Secretary.

[FR Doc. 2017-16829 Filed 8-9-17; 8:45 am]

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-81318; File No. SR-FINRA-2017-021]

### Self-Regulatory Organizations; Financial Industry Regulatory Authority, Inc.; Order Approving Proposed Rule Change To Make Available a New TRACE Security Activity Report

August 4, 2017.

#### I. Introduction

On June 19, 2017, the Financial Industry Regulatory Authority, Inc. (“FINRA”) 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 to amend FINRA Rule 7730 (Trade Reporting and Compliance Engine (“TRACE”)) to make available a new “Security Activity Report.” The proposed rule change was published for comment in the **Federal Register** on June 29, 2017.<sup>3</sup> The Commission received two comments on the proposal.<sup>4</sup> On August 3, 2017, FINRA submitted a letter responding to comments.<sup>5</sup> As discussed below, the

Commission is approving the proposed rule change.

#### II. Description of the Proposal

FINRA Rule 7730, among other things, sets forth the TRACE data products offered by FINRA. FINRA proposed to amend Rule 7730 to make available a new Security Activity Report, which will provide aggregated statistics by security for TRACE-Eligible Securities that are corporate or agency bonds (collectively “CA Bonds”). FINRA stated that the Security Activity Report will include basic descriptive elements for each CA Bond, such as the issuer’s name and the security’s coupon and maturity date, as well as aggregate transaction statistics. These statistics will include par value volume and number of customer buy transactions, par value volume and number of customer sell transactions, and par value volume and number of inter-dealer transactions.<sup>6</sup> FINRA noted that, currently, transactions whose volume is over the dissemination cap<sup>7</sup> becomes available only after 18 months as part of the Historic TRACE Data product.<sup>8</sup> FINRA will provide the Security Activity Report on a 90-day delay to address potential confidentiality concerns.

The Security Activity Report also will provide information regarding the number of unique MPIDs that report transactions in a particular security. The report will provide the aggregate activity of the five most active MPIDs in each CA Bond and the number of unique MPIDs for disseminated uncapped and

<sup>6</sup> The Security Activity Report will reflect differing levels of par value volume detail depending on whether the transaction size is larger than the dissemination cap and whether there are more than six transactions occurring in a calendar month. Additionally, if a CA Bond has more than six transactions in a month, the par value volume traded would appear on the report within specified size categories along with a range of the number of transactions that occur within the specified volume size categories. These size categories will be announced in the *Regulatory Notice* which announces the effective date of the Security Activity Report.

<sup>7</sup> Currently, the actual par value traded is publicly disseminated only if it is below the size cap in that asset class. For transactions in investment grade CA bonds over a \$5 million par value, TRACE disseminates the size as “5MM+.” For transactions in non-investment grade corporate bonds over a \$1 million par value, TRACE disseminates the size as “1MM+.”

<sup>8</sup> The Commission notes that on June 23, 2017 it approved a proposed rule change to reduce the minimum delay from 18 months to six months for transactions included in the Historic TRACE Data Sets relating to CA Bonds. This approval occurred after the current proposed rule change was filed with the Commission. See Securities Exchange Act Release No. 81011 (June 23, 2017), 82 FR 29597 (June 29, 2017). The effective date of this change is October 2, 2017. See also, FINRA *Regulatory Notice* 17-23.

capped transactions.<sup>9</sup> In addition, the report will include the percentage, in aggregate, of the total number of transactions and the total par value volume traded by the top five MPIDs for each particular security.

FINRA believes that the Security Activity Report might be useful for both business and regulatory purposes. For example, FINRA noted that members might use the information provided in the Security Activity Report to better ascertain their relative trading activity in particular CA Bonds. Interested parties also could use the information in the Security Activity Report in connection with regulatory obligations, such as assessing, classifying, and reviewing the liquidity risk of individual securities pursuant to Rule 22e-4 under the Investment Company Act.<sup>10</sup>

FINRA has stated that it will announce in a *Regulatory Notice* the effective date of the proposed rule change, which will be no later than 365 days following Commission approval.<sup>11</sup> FINRA intends to establish a fee for the TRACE Security Activity Report in the future. The fee will be established pursuant to a separate rule filing.

#### III. Summary of Comments and FINRA’s Response

As previously noted, the Commission received two comment letters<sup>12</sup> and a FINRA Response Letter<sup>13</sup> on the proposed rule change. Both commenters expressed general support for the proposal and noted that the additional data provided by the Security Activity Report would assist in regulatory compliance with Rule 22e-4.<sup>14</sup> One commenter raised concerns about the implementation, calculation, and the format of the Security Activity Report.<sup>15</sup> This commenter noted that the delay period reduction for the Historic TRACE Data product from 18 months to six months had the potential to impact market participant behavior, and recommended delaying the implementation of the Security Activity

<sup>9</sup> FINRA stated that the number of unique reporting MPIDs will be provided by displaying either the actual number of unique MPIDs where there are six or more unique MPIDs or as “1 to 5” where there are five or fewer reporting MPIDs. Specific market participants that engaged in the transactions will not be identified in the Security Activity Report.

<sup>10</sup> 17 CFR 270.22e-4.

<sup>11</sup> In its Response Letter FINRA stated that it intends for the effective date for the Security Activity Report to be no sooner than February 1, 2018. See Response Letter at 2.

<sup>12</sup> See *supra* note 4.

<sup>13</sup> See *supra* note 5.

<sup>14</sup> See SIFMA Letter at 1; BlackRock Letter at 1.

<sup>15</sup> See SIFMA Letter at 2-3.

<sup>45</sup> 17 CFR 200.30-3(a)(12).

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

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

<sup>3</sup> See Securities Exchange Act Release No. 81007 (June 23, 2017), 82 FR 29602 (June 29, 2017) (“Notice”).

<sup>4</sup> See letters to Brent J. Fields, Secretary, Commission, from Bennett Golub, Chief Risk Officer, and Alexis Rosenblum, Director, BlackRock, Inc., dated July 20, 2017 (“BlackRock Letter”); and Sean Davy, Managing Director, Capital Markets Division, Securities Industry and Financial Markets Association (“SIFMA”), dated July 20, 2017 (“SIFMA Letter”).

<sup>5</sup> See letter to Brent J. Fields, Secretary, Commission, from Racquel L. Russell, Associate General Counsel, FINRA, dated August 3, 2017 (“Response Letter”).