

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-84229; File No. SR-CboeBYX-2018-019]

### Self-Regulatory Organizations; Cboe BYX Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change To Amend Its Rules Relating to Categories of Registration and Respective Qualification Examinations Required for Members That Engage in Trading Activities on the Exchange

September 20, 2018.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on September 18, 2018, Cboe BYX Exchange, Inc. (“Exchange” or “BYX”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I and II below, which Items have been prepared by 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 filed a proposal to amend its rules relating to categories of registration and respective qualification examinations required for Members that engage in trading activities on the Exchange.

The text of the proposed rule change is available at the Exchange’s website at [www.markets.cboe.com](http://www.markets.cboe.com), 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 Exchange 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 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 Statutory Basis for, the Proposed Rule Change

##### 1. Purpose

The SEC recently approved a proposed rule change to restructure the FINRA representative-level qualification examination program.<sup>3</sup> The rule change, which will become effective on October 1, 2018, restructures the examination program into a more efficient format whereby all new representative-level applicants will be required to take a general knowledge examination (the Securities Industry Essentials Examination (“SIE”)) and a tailored, specialized knowledge examination (a revised representative-level qualification examination) for their particular registered role. Individuals are not required to be associated with an Exchange or any other self-regulatory organization (“SRO”) member to be eligible to take the SIE. However, passing the SIE alone will not qualify an individual for registration with the Exchange. To be eligible for registration, an individual must also be associated with a firm, pass an appropriate qualification examination for a representative or principal and satisfy the other requirements relating to the registration process.

The SIE would assess basic product knowledge; the structure and function of the securities industry markets, regulatory agencies and their functions; and regulated and prohibited practices. In particular, the SIE will cover four major areas. The first, “Knowledge of Capital Markets,” focuses on topics such as types of markets and offerings, broker-dealers and depositories, and economic cycles. The second, “Understanding Products and Their Risks,” covers securities products at a high level as well as associated investment risks. The third, “Understanding Trading, Customer Accounts and Prohibited Activities,” focuses on accounts, orders, settlement and prohibited activities. The final area, “Overview of the Regulatory Framework,” encompasses topics such as SROs, registration requirements and specified conduct rules. It’s anticipated that the SIE would include 75 scored questions plus an additional 10 unscored pretest questions. The passing score would be determined through methodologies compliant with testing industry standards used to develop examinations and set passing standards.

The restructured program eliminates duplicative testing of general securities knowledge on the current representative-level qualification examinations by moving such content into the SIE. The SIE will test fundamental securities related knowledge, including knowledge of basic products, the structure and function of the securities industry, the regulatory agencies and their functions and regulated and prohibited practices, whereas the revised representative-level qualification examinations will test knowledge relevant to day-to-day activities, responsibilities and job functions of representatives. The SIE was developed in consultation with a committee of industry representatives and representatives of several other SROs. Each of the current representative-level examinations covers general securities knowledge, with the exception of the Research Analyst (Series 86 and 87) examinations.

The Exchange proposes to require that effective October 1, 2018, new applicants seeking to register in a representative capacity with the Exchange must pass the SIE before their registrations can become effective. The Exchange proposes to make the requirement operative on October 1, 2018 to coincide with the effective date of FINRA’s requirement.

The Exchange notes that individuals who are registered as of October 1, 2018 are eligible to maintain their registrations without being subject to any additional requirements. Individuals who had been registered within the past two years prior to October 1, 2018, would also be eligible to maintain those registrations without being subject to any additional requirements, provided they register within two years from the date of their last registration. However, with respect to an individual who is not registered on the effective date of the proposed rule change but was registered within the past two years prior to the effective date of the proposed rule change, the individual’s SIE status in the CRD system would be administratively terminated if such individual does not register with the Exchange within four years from the date of the individual’s last registration. The Exchange also notes that consistent with Interpretation and Policy .01(b) of Rule 2.5, the Exchange will consider waivers of the SIE alone or the SIE and the representative or principal-level examination(s) for Members who are

<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. 81098 (July 7, 2017), 82 FR 32419 (July 13, 2017) (Order Approving File No. SR-FINRA-2017-007).

seeking registration in a representative- or principal-level registration category.<sup>4</sup>

Lastly, the Exchange proposes to eliminate references in its rules to alternative foreign examination modules, along with specific references to the Series 17, 37 and 38 examinations. Particularly, the Exchange notes that FINRA recently announced it was eliminating the United Kingdom Securities Representative and the Canadian Securities Representative registration categories, along with the respective associated exams (*i.e.*, Series 17, Series 37 and Series 38).<sup>5</sup> FINRA also stated that it intended to provide individuals who are associated persons of firms and who hold foreign registrations an alternative, more flexible, process to obtain an Exchange representative-level registration.<sup>6</sup> The Exchange believes that there is sufficient overlap between the SIE and foreign qualification requirements to permit them to act as exemptions to the SIE. As such, the Exchange proposes to provide that individuals who are in good standing as representatives with the Financial Conduct Authority in the United Kingdom or with a Canadian stock exchange or securities regulator would be exempt from the requirement to pass the SIE, and thus would be required only to pass a specialized knowledge examination to register with the Exchange as a representative. The proposed approach would provide individuals with a United Kingdom or Canadian qualification more flexibility to obtain an Exchange representative-level registration. The Exchange notes that FINRA has adopted a similar rule.<sup>7</sup>

## 2. Statutory Basis

The Exchange believes the proposed rule change is consistent with the Securities Exchange Act of 1934 (the “Act”) and the rules and regulations thereunder applicable to the Exchange and, in particular, the requirements of Section 6(b) of the Act.<sup>8</sup> Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)<sup>9</sup> requirements that the rules of an exchange be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable

principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating 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. Additionally, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)<sup>10</sup> requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

The Exchange believes that the proposed rule change will improve the efficiency of the Exchange’s examination requirements, without compromising the qualification standards, by eliminating duplicative testing of general securities knowledge on examinations. FINRA has indicated that the SIE was developed in an effort to adopt an examination that would assess basic product knowledge; the structure and function of the securities industry markets, regulatory agencies and their functions; and regulated and prohibited practices. The Exchange also notes that the introduction of the SIE and expansion of the pool of individuals who are eligible to take the SIE, has the potential of enhancing the pool of prospective securities industry professionals by introducing them to securities laws, rules and regulations and appropriate conduct before they join the industry in a registered capacity. Lastly, the Exchange notes adopting the SIE requirement is consistent with the requirement recently adopted by FINRA.<sup>11</sup>

## 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 Exchange believes that the proposed rule change, which harmonizes its rules with recent rule changes adopted by FINRA and which is being filed in conjunction with similar filings by the other national securities exchanges, will reduce the regulatory burden placed on market participants engaged in trading activities across different markets. The Exchange believes that the harmonization of these registration requirements across the various markets

will reduce burdens on competition by removing impediments to participation in the national market system and promoting competition among participants across the multiple national securities exchanges.

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

The Exchange has neither solicited nor received written comments on the proposed rule change.

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

Because the foregoing proposed rule change does not: (i) Significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>12</sup> and Rule 19b-4(f)(6) thereunder.

A proposed rule change filed under Rule 19b-4(f)(6) normally does not become operative for 30 days from the date of filing. However, Rule 19b-4(f)(6)(iii)<sup>13</sup> permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange has asked the Commission to waive the 30-day operative delay so that the proposal may become operative on October 1, 2018 to coincide with the effective date of FINRA’s proposed rule change on which the proposal is based.<sup>14</sup> The waiver of the operative delay would make the Exchange’s qualification requirements consistent with those of FINRA, as of October 1, 2018. Therefore, the Commission believes that the waiver of the 30-day operative delay is consistent with the protection of investors and the public interest and hereby waives the 30-day operative delay and designates the proposal operative on October 1, 2018.<sup>15</sup>

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

<sup>4</sup> Pursuant to a Regulatory Services Agreement between FINRA and the Exchange, FINRA provides the Exchange certain exam waiver services in responding to exam waiver requests from Exchange Members.

<sup>5</sup> See Securities Exchange Act Release No. 81098 (July 7, 2017), 82 FR 32419 (July 13, 2017) (Order Approving File No. SR-FINRA-2017-007).

<sup>6</sup> *Id.*

<sup>7</sup> *Id.*

<sup>8</sup> 15 U.S.C. 78f(b).

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

<sup>10</sup> *Id.*

<sup>11</sup> See Securities Exchange Act Release No. 81098 (July 7, 2017), 82 FR 32419 (July 13, 2017) (Order Approving File No. SR-FINRA-2017-007).

<sup>12</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>13</sup> 17 CFR 240.19b-4(f)(6)(iii).

<sup>14</sup> See *supra* note 3.

<sup>15</sup> For purposes only of waiving the 30-day operative delay, the Commission has also considered the proposed rule’s impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

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 proposal 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 No. SR-CboeBYX-2018-019 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 No. SR-CboeBYX-2018-019. 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 website (<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 website 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 office of the Exchange. All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File No. SR-CboeBYX-2018-019 and should be submitted on or before October 17, 2018.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>16</sup>

**Brent J. Fields,**  
*Secretary.*

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#### SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-84236; File No. SR-FICC-2018-006]

#### **Self-Regulatory Organizations; Fixed Income Clearing Corporation; Order Granting Approval of Proposed Rule Change To Codify the Processing of Conditional Prepayment Rate Claims in the MBSD Rules and Make Other Changes**

September 20, 2018.

On July 26, 2018, Fixed Income Clearing Corporation ("FICC") filed with the U.S. Securities and Exchange Commission ("Commission") proposed rule change SR-FICC-2018-006 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 August 8, 2018.<sup>3</sup> The Commission did not receive any comment letters on the proposed rule change. For the reasons discussed below, the Commission approves the proposed rule change.

#### **I. Description of the Proposed Rule Change**

The proposed rule change would make amendments to FICC's Mortgage-Backed Securities Division ("MBSD") Clearing Rules ("MBSD Rules")<sup>4</sup> in order to (i) add terms governing MBSD's current processing of conditional prepayment rate ("CPR") claims to the MBSD Rules, and (ii) make certain clarifications and corrections in the MBSD Rules, as described below.<sup>5</sup>

##### *A. CPR Claims*

Mortgage pools<sup>6</sup> are often traded in To-Be-Announced ("TBA") trades, which are trades for which the actual

identities of and/or the number of pools underlying each trade are unknown at the time of trade execution.<sup>7</sup> MBSD guidelines provide that two business days prior to the established settlement date of the TBA settlement obligations, the FICC MBSD clearing member ("Clearing Member") that has an obligation to deliver pools for the TBA transaction (*i.e.*, the "seller") must allocate the pools to be delivered.<sup>8</sup> FICC states that pursuant to the MBSD Rules, Clearing Members may substitute an underlying pool after it has been allocated with respect to a pool deliver obligation by providing instructions to FICC.<sup>9</sup>

CPR is the percentage of the outstanding loan balance for a pool that is expected to be repaid over a one-year period.<sup>10</sup> A CPR claim arises when an underlying TBA pool is allocated or substituted with a pool that pays down at a faster rate (*i.e.*, has a higher CPR) than the average pay down rate for pools of the same type as the underlying pool being replaced.<sup>11</sup> The result is that the buyer is receiving a pool with less value than anticipated based on the TBA terms.

As provided in the SIFMA Guidelines,<sup>12</sup> the industry currently has a process pursuant to which a buyer may make a CPR claim against the seller. The CPR claim process is intended to compensate the buyer for the excess amount that it is paying for the pool being delivered.<sup>13</sup> Pursuant to SIFMA Guidelines, an entity is entitled to make a CPR claim if (i) the allocation or substitution giving rise to the CPR claim occurred after the factor release date<sup>14</sup> following the scheduled contractual settlement date relating to the trade; (ii) the pools involved in the claim meet the criteria for fast paying pools in accordance with SIFMA Guidelines; (iii) the amount of the CPR claim is \$10,000 or greater, or, in the

<sup>7</sup> Notice, 83 FR, at 39144.

<sup>8</sup> *Id.*

<sup>9</sup> *Id.*

<sup>10</sup> *Id.*

<sup>11</sup> Notice, 83 FR, at 39144.

<sup>12</sup> Available at <https://www.sifma.org/resources/general/tba-market-governance/> under "Uniform Practices Manual." The SIFMA Guidelines are trading, clearing and settlement guidelines prepared by SIFMA intended to reflect common industry practices relating to confirming, comparing and settling mortgage-backed securities.

<sup>13</sup> Notice, 83 FR, at 39144.

<sup>14</sup> The term "factor release date" means, with respect to a pool, the date on which the Federal National Mortgage Association ("Fannie Mae"), the Federal Home Loan Mortgage Corporation ("Freddie Mac") or the Government National Mortgage Association ("Ginnie Mae"), as applicable, release the "factor" that represents the percentage of the agency's original balance of the pool that remains outstanding as of such date. *Id.*

<sup>16</sup> 17 CFR 200.30-3(a)(12).

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

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

<sup>3</sup> Securities Exchange Act Release No. 83767 (August 2, 2018), 83 FR 39143 (August 8, 2018) (SR-FICC-2018-006) ("Notice").

<sup>4</sup> Available at <http://www.dtcc.com/legal/rules-and-procedures>.

<sup>5</sup> Notice, 83 FR, at 39144.

<sup>6</sup> A mortgage pool is a collection of mortgage loans or other collateral assembled by an originator or master services as collateral for a mortgaged-back security. *Id.*