

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 Number SR-NYSEArca-2019-96, and should be submitted on or before July 28, 2020.

#### V. Accelerated Approval of Proposed Rule Change, as Modified by Amendment No. 5

The Commission finds good cause to approve the proposed rule change, as modified by Amendment No. 5, prior to the thirtieth day after the date of publication of notice of the filing of Amendment No. 5 in the **Federal Register**. In Amendment No. 5, the Exchange modified the description of each Fund and conformed the description of NYSE Arca Rule 8.601-E to the final rule approved in the Active Proxy Portfolio Shares Order.<sup>52</sup> Amendment No. 5 also provides other clarifications and additional information related to the Funds.<sup>53</sup> The changes and additional information in Amendment No. 5 assist the Commission in finding that the proposal is consistent with the Exchange Act.

<sup>52</sup> See *supra* note 3.

<sup>53</sup> See Amendment No. 5, *supra* note 12.

Accordingly, the Commission finds good cause, pursuant to Section 19(b)(2) of the Exchange Act,<sup>54</sup> to approve the proposed rule change, as modified by Amendment No. 5, on an accelerated basis.

#### VI. Conclusion

*It is therefore ordered*, pursuant to Section 19(b)(2) of the Act<sup>55</sup> that the proposed rule change (SR-NYSEArca-2019-96), as modified by Amendment No. 5, be, and it hereby is, approved on an accelerated basis.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>56</sup>

**J. Matthew DeLesDernier**,

*Assistant Secretary*.

[FR Doc. 2020-14490 Filed 7-6-20; 8:45 am]

**BILLING CODE 8011-01-P**

### SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-89194; File No. SR-BOX-2020-22]

#### Self-Regulatory Organizations; BOX Exchange LLC; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change To Amend the Fee Schedule on the BOX Options Market LLC Facility To Establish Section I.C.2 (Strategy Order Facilitation and Solicitation Transactions)

June 30, 2020.

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 June 15, 2020, BOX Exchange LLC ("Exchange")

<sup>54</sup> 15 U.S.C. 78s(b)(2).

<sup>55</sup> *Id.*

<sup>56</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.

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 Exchange. The Exchange filed the proposed rule change pursuant to Section 19(b)(3)(A)(ii) of the Act,<sup>3</sup> and Rule 19b-4(f)(2) thereunder,<sup>4</sup> which renders the proposal effective upon filing with the Commission. 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 the Substance of the Proposed Rule Change

The Exchange is filing with the Securities and Exchange Commission ("Commission") a proposed rule change to amend the Fee Schedule on the BOX Options Market LLC ("BOX") facility. The text of the proposed rule change is available from the principal office of the Exchange, at the Commission's Public Reference Room and also on the Exchange's internet website at <http://boxexchange.com>.

#### 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 aspects of such statements.

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

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

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

1. Purpose

The Exchange proposes to amend the Fee Schedule for trading on BOX to

establish Section I.C.2 (Strategy Order Facilitation and Solicitation Transactions). Specifically, the Exchange proposes to establish fees and rebates for Strategy Order Facilitation and Solicitation transactions which include the following strategies: Short

stock interest strategies, merger strategies, reversal strategies, conversion strategies, jelly roll strategies, and box spread strategies.<sup>5</sup> The Strategy Order Facilitation and Solicitation transactions will be subject to the following fees:

Account type	Agency order		Facilitation order or solicitation order		Responses in the solicitation or facilitation auction mechanisms	
	Penny pilot classes	Non-penny pilot classes	Penny pilot classes	Non-penny pilot classes	Penny pilot classes	Non-penny pilot classes
Public Customer .....	\$0.00	\$0.00	\$0.00	\$0.00	\$0.25	\$0.40
Professional Customer .....	\$0.10	\$0.10	\$0.10	\$0.10	\$0.25	\$0.40
Broker Dealer .....	\$0.25	\$0.25	\$0.25	\$0.25	\$0.25	\$0.40
Market Maker .....	\$0.25	\$0.25	\$0.25	\$0.25	\$0.25	\$0.40

Further, the Exchange proposes that the fees for these transactions will be capped at \$1,000 per day per customer. The Exchange proposes that on each trading day, Participants are eligible to receive a \$500 rebate per customer for executing the Strategy Orders listed above through the Facilitation or Solicitation mechanisms. The rebate will be applied once the \$1,000 fee cap per customer is met. Further, the rebate will be paid to the Participant that entered the order into the BOX system.<sup>6</sup> Additionally, the Exchange is proposing to add clarifying text to Section II.D. of the Fee Schedule (Strategy QOO Order Fee Cap and Rebate) to make clear that the daily cap and rebate is applied on a per customer basis. The proposed text does not substantively alter the manner in which fees are assessed or rebates are applied, the proposed text merely updates the Fee Schedule language to make clear how fees and rebates are calculated.

The Exchange notes that the proposed fee structure is similar to what is currently assessed for these Strategy

Orders executed on the BOX Trading Floor. Under Section II (Manual Transactions) of the BOX Fee Schedule, Broker Dealers and Market Makers Strategy QOO Orders’ are charged \$0.25 for the Strategy QOO Orders and Professional Customers are charged \$0.10 for their Strategy QOO Orders. These orders are capped at \$1,000 on a daily basis and Floor Brokers are eligible for a \$500 rebate for presenting these Strategy QOO Orders on the Trading Floor once the \$1000 fee cap is met.<sup>7</sup>

The Exchange is now proposing a similar fee and rebate structure for Strategy Orders executed electronically through the Facilitation or Solicitation Auction Mechanisms.<sup>8</sup> With regard to the rebate, the Exchange notes that on the Trading Floor, Floor Brokers who present such transactions to the Trading Floor receive the \$500 rebate once the \$1,000 fee cap is hit. Here, the Exchange proposes that when Strategy Orders are executed electronically through the Facilitation and Solicitation mechanisms, the Participant who enters

the order into the BOX system will receive the \$500 rebate (once the \$1,000 fee cap is hit).

The Exchange also proposes to amend Section III (Liquidity Fees and Credits). Specifically, the Exchange proposes to amend Section III.B to state that the transactions in proposed Section I.C.2 (Strategy Order Facilitation and Solicitation Transactions) are exempt from the fees and credits detailed in Section III.B.

Lastly, the Exchange proposes to renumber footnotes through the fee schedule in conjunction to the changes discussed herein.

2. Statutory Basis

The Exchange believes that the proposal is consistent with the requirements of Section 6(b) of the Act, in general, and Section 6(b)(4) and 6(b)(5) of the Act,<sup>9</sup> in particular, in that it provides for the equitable allocation of reasonable dues, fees, and other charges among BOX Participants and other persons using its facilities and does not unfairly discriminate between

<sup>5</sup> The Exchange notes that the following definitions for these strategies already exist in the BOX Fee Schedule. The Exchange is simply moving the definitions to the proposed section discussed above. A “short stock interest strategy” is defined as a transaction done to achieve a short stock interest arbitrage involving the purchase, sale, and exercise of in-the-money options of the same class. A “merger strategy” is defined as transactions done to achieve a merger arbitrage involving the purchase, sale and exercise of options of the same class and expiration date, each executed prior to the date on which shareholders of record are required to elect their respective form of consideration, *i.e.*, cash or stock. A “reversal strategy” is established by combining a short security position with a short put and a long call position that shares the same strike and expiration. A “conversion strategy” is established by combining a long position in the underlying security with a long put and a short call position that shares the same strike and expiration. A “jelly roll strategy” is created by entering into two separate positions simultaneously. One position involves buying a put and selling a call with the same strike price and expiration. The

second position involves selling a put and buying a call, with the same strike price, but with a different expiration from the first position. A “box spread strategy” is a strategy that synthesizes long and short stock positions to create a profit. Specifically, a long call and short put at one strike is combined with a short call and long put at a different strike to create synthetic long and synthetic short stock positions, respectively. The Exchange notes that “dividend strategies” are not eligible for the proposed fees, fee cap and rebate in the Strategy Facilitation and Solicitation auction mechanism. Dividend strategies executed through the Facilitation or Solicitation auction mechanism will continue to be subject to the fees in Section I.C. of the BOX Fee Schedule and the rebate in Section I.C.1.

<sup>6</sup> The Exchange notes that with regard to the daily cap, fees assessed for Strategy QOO Orders executed on the BOX Trading Floor will be combined with the fees assessed electronically. For example, when Customer A sends certain Strategy QOO Orders to Floor Broker 1 on the Trading Floor, Customer A’s fees for these orders will be capped at \$1,000 per day. If Customer A reaches the \$1,000

Fee Cap, Floor Broker 1, who entered these orders on behalf of Customer A into the BOX system, will receive the \$500 rebate. Under this proposal, Floor Broker 1 may execute some or all of these orders electronically through the Facilitation and Solicitation mechanisms. If so, Customer A’s fees for any orders executed through the Facilitation or Solicitation Mechanisms will be combined with any orders executed on the BOX Trading Floor with regard to the daily fee cap.

<sup>7</sup> The Exchange notes, as previously mentioned above, the daily cap and rebate are applied on a per customer basis.

<sup>8</sup> The Exchange notes that Participants are currently able to send these orders through the Facilitation and Solicitation mechanisms, however they are not eligible for the fee cap or rebate that is provided Strategy QOO Orders on the BOX Trading Floor. The Exchange believes that providing the daily fee cap and rebate to electronic market participants will result in increased order flow through the Facilitation and Solicitation mechanisms benefiting all market participants.

<sup>9</sup> 15 U.S.C. 78f(b)(4) and (5).

customers, issuers, brokers or dealers. The Exchange notes that it operates in a highly competitive market in which the Exchange must continually reassess its fees in order to maintain its competitiveness within the options exchange industry. The proposed changes reflect a competitive pricing structure designed to incentivize market participants to direct their order flow to the Exchange.

The Exchange believes establishing the fee structure for Strategy Order Facilitation and Solicitation Transactions is reasonable, equitable and not unfairly discriminatory. The Exchange believes that the proposed fees are reasonable as they are in line with the fees currently assessed for Strategy QOO Orders on the BOX Trading Floor. As discussed herein, the Exchange is establishing similar fees to the fees assessed on the Trading Floor and making the daily fee cap and rebate for these orders available to market participants who wish to execute Strategy Orders electronically, or both electronically and on the BOX Trading Floor. The Exchange believes that the proposed fee structure will incentivize market participants to submit Strategy Orders through the Facilitation or Solicitation mechanisms resulting in increased liquidity on the Exchange benefitting all market participants.<sup>10</sup> The Exchange believes that the proposed fees for Strategy Orders executed through the Facilitation and Solicitation Mechanisms are reasonable and appropriate. As discussed above, the proposed fees are similar to the fees assessed for Strategy QOO Orders on the BOX Trading Floor. The Exchange is simply creating a similar fee structure for Participants who wish to submit Strategy Orders electronically through the Facilitation or Solicitation Auction Mechanism.

The Exchange believes that excluding dividend strategies from the proposed fees, fee cap and rebate is reasonable and appropriate. The Exchange notes that this type of order is best suited for execution on the BOX Trading Floor and the Exchange does not believe incentivizing electronic dividend strategies is necessary.

<sup>10</sup> The Exchange notes that there is a larger responding community electronically versus on the BOX Trading Floor. The Exchange believes that establishing fees that are similar to the current floor fees (including the daily fee cap and rebate) will result in increased order flow to these mechanisms resulting in more responses and ultimately more executions on the Exchange. As discussed herein, the proposed rebate will be paid to the Participant who enters the Strategy Orders into the BOX system where the rebate on the BOX Trading Floor is paid to the Floor Broker who presented the Strategy QOO Orders on the Trading Floor.

The Exchange believes the proposed \$0.25 fees for Agency Orders and Facilitation or Solicitation Orders for Broker Dealers and Market Makers and the proposed \$0.10 fee for Agency Order and Facilitation or Solicitation Orders for Professional Customers are reasonable and appropriate as these fees are currently assessed to Participants on the BOX Trading Floor for Strategy QOO Orders.<sup>11</sup> Further, the Exchange believes that charging Professional Customers and Broker Dealers and Market Makers more than Public Customers for Agency Orders and Facilitation and Solicitation Orders is reasonable, equitable and not unfairly discriminatory. The securities markets generally, and BOX in particular, have historically aimed to improve markets for investors and develop various features within the market structure for Public Customer benefit. The Exchange believes that charging no fees to Public Customers for Strategy Orders in the Facilitation and Solicitation auction mechanisms is reasonable and, ultimately, will benefit all Participants trading on the Exchange by attracting Public Customer order flow. Further, the Exchange believes it is reasonable and appropriate to assess Professional Customers a lower fee than Broker Dealers and Market Makers because it is intended to attract a greater number of Professional Customer Strategy Orders to the Exchange. The Exchange believes the potential increased volume would create better trading opportunities that benefit all market participants. Specifically, greater volume and liquidity from increased order flow could create more trading opportunities and tighter spreads. Lastly, the Exchange believes the proposed fees for Professional Customers is appropriate as the Exchange is mirroring the fees currently assessed for Strategy QOO transactions on the BOX Trading Floor.<sup>12</sup>

The Exchange also believes the proposed fees of \$0.25 for Penny Pilot Classes and \$0.40 for Non-Penny Pilot Classes for Responses in the Facilitation or Solicitation Auction Mechanisms are reasonable and equitable. The proposed fees are the same rates currently charged for each account type for Responses in BOX's Facilitation and Solicitation

<sup>11</sup> The Exchange notes that Public Customers will not be assessed a fee for Agency Orders or Facilitation Orders or Solicitation Orders in the proposed fee structure. The Exchange believes this is reasonable as Public Customers are not assessed fees for these types of transactions on the BOX Trading Floor and are not assessed fees in the current Facilitation and Solicitation auction mechanisms. Further, BOX notes that it recently filed a fee change to reduce the Professional Customer QOO Order fee. See SR-BOX-2020-18.

<sup>12</sup> *Id.*

auction mechanisms for all other transactions. The Exchange believes it is reasonable to establish different fees for Strategy Order Facilitation and Solicitation transactions in Penny Pilot Classes compared to transactions in Non-Penny Pilot Classes. The Exchange makes this distinction throughout the BOX Fee Schedule, including the Exchange fees for PIP and COPIP Transactions. The Exchange believes it is reasonable to establish higher fees for Non-Penny Pilot Classes because these Classes are typically less actively traded and have wider spreads.

The Exchange believes the proposed \$1000 fee cap is reasonable as it is in line with the fee cap that is currently applied to Strategy QOO Orders on the BOX Trading Floor. The proposed fee cap is designed to incentivize order flow in Strategy Orders, and the Exchange believes that the proposed fee cap, coupled with the other changes discussed herein, will result in increased participation in Strategy Orders on BOX. As such, the Exchange believes the increased order flow in Strategy Orders will result in increased liquidity on BOX to the benefit of all market participants. Further, the Exchange believes that the proposed fee cap is equitable and not unfairly discriminatory because all Participants are subject to the cap, regardless of account type.

The Exchange believes the proposed rebate is reasonable as it is similar in nature to the rebate that is currently applied to these types of orders on the BOX Trading Floor. As discussed herein, Floor Brokers receive the \$500 (once the \$1,000 fee cap is hit) for presenting Strategy QOO Orders on the Trading Floor. Here, the Exchange proposes that the Participant who enters Strategy Orders into the BOX system will receive the \$500 rebate (once the \$1,000 fee cap is hit). Further, the Exchange believes that offering the proposed rebate will result in increased order flow to these auction mechanisms which, in turn, will benefit all market participants. The Exchange also believes the proposed rebate is equitable and not unfairly discriminatory as the rebate is available to all Participants who submit such orders to BOX.

The Exchange believes that aggregating electronic Strategy Order fees and Strategy QOO Order fees on the BOX Trading Floor for purposes of calculating the proposed fee cap and rebate is reasonable, equitable and not unfairly discriminatory. With regard to the proposed daily fee cap and rebate, the Exchange believes combining the electronic transaction fees and manual transaction fees is not a novel concept.

On Nasdaq Phlx LLC (“Phlx”), a volume based rebate is paid for all qualifying executed Qualified Contingent Cross (“QCC”) Orders including both electronic and manual transactions.<sup>13</sup> Specifically, Phlx applies a tiered rebate structure ranging from \$0.05 to \$0.11 per contract for all QCC transaction volume—electronic and manual. Further, Phlx applies a Monthly Firm Fee Cap of \$75,000 for all floor option transaction charges and QCC Transaction Fees (both electronic and manual).

The Exchange believes that combining the electronic and manual transaction fees as discussed herein will incentivize market participants to send these types of Complex Orders to the Exchange, either electronically and/or manually, to take advantage of the proposed fee cap and rebate. The Exchange believes the proposed cap and rebate will result in increased order flow which could result in more executions on the Exchange, benefitting all market participants. The Exchange believes this proposed change is equitable and not unfairly discriminatory as all Participants are subject to the proposed daily fee cap and rebate.<sup>14</sup>

The Exchange believes that the proposed non-substantive clarifying language in Section II.D. of the Fee Schedule is reasonable and equitable because the added text is intended to provide greater clarity to Participants with regard to how the Exchange assesses fees and provides rebates. The Exchange notes that the proposed non-substantive clarifying text does not amend any fee or rebate, nor alter the manner in which it assesses fees or calculates rebates.

Lastly, the Exchange believes that the proposed change to exempt the proposed Strategy Order Facilitation and Solicitation transactions from the liquidity fees and credits detailed in Section III.B of the BOX Fee Schedule is reasonable and appropriate as the proposed fees are intended to mirror the fees assessed to Strategy QOO Orders on the BOX Trading Floor. Further, Liquidity Fees and Credits are meant to promote order flow to BOX, which the Exchange believes is no longer

necessary with the proposed changes above. Further, the Exchange believes that this proposed change is equitable and not unfairly discriminatory because all Strategy Orders executed through the Facilitation or Solicitation mechanism will be exempt from Liquidity Fees and Credits, regardless of account type.

#### *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 not necessary or appropriate in furtherance of the purposes of the Act. The Exchange believes the proposed Complex Order Facilitation and Solicitation Transaction fees will not impose a burden on competition among various Exchange Participants. Rather, BOX believes that the changes will result in the Participants being charged appropriately for Strategy Order Facilitation and Solicitation Transactions and are designed to enhance competition in these auction mechanisms. Submitting an order is entirely voluntary and Participants can determine which type of order they wish to submit, if any, to the Exchange. Further, the Exchange does not believe that capping the fees for Strategy Orders will impose an undue burden on competition because all Participants are eligible for the fee cap. Lastly, the Exchange does not believe that offering a rebate to Participants will impose an undue burden on competition because all Participants are eligible to transact Strategy Orders on BOX and receive a rebate.

In terms of inter-market competition, the Exchange notes that it operates in a highly competitive market in which market participants can readily favor competing venues if they deem fee levels at a particular venue to be excessive, or rebate opportunities available at other venues to be more favorable. In such an environment, the Exchange must continually adjust its fees and rebates to remain competitive with other exchanges. Because competitors are free to modify their own fees in response, and because market participants may readily send their order flow to competing venues, the degree to which fee changes in this market may impose any burden on competition is extremely limited.

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

No written comments were either solicited or received.

### **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)(ii) of the Exchange Act<sup>15</sup> and Rule 19b-4(f)(2) thereunder,<sup>16</sup> because it establishes or changes a due, or fee.

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend the rule change if it appears to the Commission that the action is necessary or appropriate in the public interest, for the protection of investors, or would otherwise further the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or 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-BOX-2020-22 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-BOX-2020-22. 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

<sup>13</sup> See Phlx Fee Schedule Options 7, Section 4.

<sup>14</sup> Under this proposal, Participants will have the ability to execute Strategy QOO Orders on the Trading Floor (if they are an approved Floor Broker) or execute the same types of orders through the Complex Order Facilitation or Solicitation Orders electronically. The Exchange does not believe a Participant with a presence on the Trading Floor and on the electronic market has an unfair advantage as all market participants have the ability to become a Floor Participant and extend their presence on the electronic Exchange and the physical Trading Floor.

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

<sup>16</sup> 17 CFR 240.19b-4(f)(2).

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 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. 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 Number SR-BOX-2020-22, and should be submitted on or before July 28, 2020.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>17</sup>

**J. Matthew DeLesDernier,**  
Assistant Secretary.

[FR Doc. 2020-14492 Filed 7-6-20; 8:45 am]

BILLING CODE 8011-01-P

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-89188; File No. SR-FINRA-2020-019]

### Self-Regulatory Organizations; Financial Industry Regulatory Authority, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change To Temporarily Extend the Time To Complete Office Inspections Under FINRA Rule 3110 (Supervision)

June 30, 2020.

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 June 19, 2020, Financial Industry Regulatory Authority, Inc. ("FINRA") filed with the Securities and Exchange Commission ("SEC" or "Commission") the proposed rule change as described in Items I and II below, which Items have been prepared by FINRA. FINRA has designated the proposed rule change as constituting a "non-controversial" rule change under paragraph (f)(6) of Rule 19b-4 under the Act,<sup>3</sup> which renders the proposal effective upon receipt of this filing by the Commission. 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

FINRA is proposing to adopt temporary Supplementary Material .16 (Temporary Extension of Time to Complete Office Inspections) under FINRA Rule 3110 (Supervision) that, in light of the operational challenges member firms are facing due to the outbreak of the coronavirus disease (COVID-19), would extend the time by which member firms must complete their calendar year 2020 inspection obligations under Rule 3110(c) (Internal Inspections) to March 31, 2021.<sup>4</sup>

Below is the text of the proposed rule change. Proposed new language is in italics; proposed deletions are in brackets.

\* \* \* \* \*

#### 3000. SUPERVISION AND RESPONSIBILITIES RELATING TO ASSOCIATED PERSONS

\* \* \* \* \*

#### 3100. Supervisory Responsibilities

\* \* \* \* \*

#### 3110. Supervision

\* \* \* \* \*

(a) through (f) No Change.

#### • • • Supplementary Material:—

.01 through .15 No Change.  
.16 *Temporary Extension of Time to Complete Office Inspections. Each member obligated to complete an inspection of an office of supervisory jurisdiction, branch office or non-branch location in calendar year 2020 pursuant to, as applicable, paragraphs (c)(1)(A), (B) and (C) under Rule 3110, shall be deemed to have satisfied such obligation if the applicable inspection is completed on or before March 31, 2021.*

\* \* \* \* \*

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

In its filing with the Commission, FINRA 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. FINRA has prepared

<sup>4</sup> The proposed rule change will automatically sunset on March 31, 2021. If FINRA seeks to provide additional temporary relief from the rule requirement identified in this proposal beyond March 31, 2021, FINRA will submit a separate rule filing to further extend the temporary extension of time.

summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

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

##### 1. Purpose

FINRA is closely monitoring the impact of the COVID-19 pandemic on member firms, investors, and other stakeholders. FINRA recognizes that firms are experiencing operational challenges with much of their personnel working from home due to shelter-in-place orders, restrictions on businesses and social activity imposed in various states, and adhering to other social distancing guidelines consistent with the recommendations of public health officials.<sup>5</sup> FINRA believes that these ongoing extenuating circumstances warrant sensible and tailored accommodations for member firms to meet their inspection obligations under Rule 3110(c) for calendar year 2020.

Rule 3110(c) requires on-site inspections of offices of supervisory jurisdiction ("OSJs") and supervisory branch offices at least annually (on a calendar-year basis), non-supervisory branch offices at least every three years, and non-branch locations on a regular periodic schedule, presumed to be every three years.<sup>6</sup> As a result of the compelling health and welfare concerns stemming from the COVID-19 pandemic, firms are facing potentially significant disruptions to their normal business operations that may include staff absenteeism, the increased use of remote offices or telework arrangements, travel or transportation limitations, and technology interruptions or slowdowns. These circumstances make it impracticable for firms in most cases to reach and conduct an on-site inspection of office locations. To provide firms an opportunity to better manage these operational challenges and the resources attendant to fulfilling these supervisory obligations during these pressing times, FINRA is proposing to adopt Rule 3110.16 that would extend the time by which inspections must be completed in accordance with Rule 3110(c) for calendar year 2020 to March 31, 2021.<sup>7</sup> FINRA emphasizes that this extension of time does not relieve firms from the

<sup>5</sup> See, e.g., Centers for Disease Control and Prevention, How to Protect Yourself & Others, <https://www.cdc.gov/coronavirus/2019-ncov/prevent-getting-sick/prevention.html> (last visited June 17, 2020).

<sup>6</sup> See Rule 3110(c)(1)(A), (B), and (C). See also Rule 3110.13 (General Presumption of Three-Year Limit for Periodic Inspection Schedules).

<sup>7</sup> See *supra* note 4.

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