

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-100783; File No. SR-LTSE-2024-03)

August 20, 2024

Self-Regulatory Organizations; Long-Term Stock Exchange, Inc.; Order Approving a Proposed Rule Change to Transition to a New Trading Platform and Amend its Trading Rules

I. Introduction

On May 9, 2024, the Long-Term Stock Exchange, Inc. (“LTSE” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Exchange Act”)¹ and Rule 19b-4 thereunder,² a proposed rule change to transition to a new trading platform and amend its trading rules in connection thereto. The proposed rule change was published for comment in the Federal Register on May 28, 2024.³ On July 11, 2024, pursuant to Section 19(b)(2) of the Exchange Act,⁴ the Commission designated a longer period within which to approve the proposal, disapprove the proposal, or institute proceedings to determine whether to disapprove the proposal.⁵ The Commission has received no comment letters on the proposal. This order approves the proposed rule change.

II. Description of the Proposed Rule Change

As described in detail in the Notice,⁶ the Exchange proposes to: (i) transition the technology supporting the Exchange’s trading system (“System”) from its current trading platform to a new trading platform that uses technology provided by MEMX Technologies LLC (“MEMX

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Securities Exchange Act Release No. 100205 (May 21, 2024), 89 FR 46225 (“Notice”).

⁴ 15 U.S.C. 78s(b)(2).

⁵ See Securities Exchange Act Release No. 100499, 89 FR 58224 (July 17, 2024).

⁶ See Notice, supra note 3.

Technologies”),⁷ an affiliate of MEMX LLC (“MEMX Exchange”), and (ii) modify its trading rules in connection with this transition. Specifically, the Exchange proposes to replace its current trading platform with a trading platform licensed from MEMX Technologies, on an outsourced basis, that is substantially similar to the trading platform used by the MEMX Exchange but with certain differences in functionality to address LTSE’s unique market model.⁸

LTSE’s Operation of Its New Trading Platform as a Registered National Securities Exchange

The Exchange proposes that MEMX Technologies will provide LTSE with MEMX Technologies’ market-as-a-service trading system to operate LTSE’s trading platform.⁹ While LTSE and MEMX Exchange will share a technology provider, LTSE will continue to operate as it does now, as a standalone national securities exchange within the national market system, and the fact that it is licensing a technology platform from MEMX Technologies will not provide any special treatment or advantage to MEMX Exchange.¹⁰ LTSE will operate on its own servers, separate and apart from the MEMX Exchange, with no joint or shared connections to participants.¹¹ LTSE members will be required to utilize LTSE-specific member gateways to

⁷ MEMX Technologies is in the business of developing technology systems for use in the financial industry. See id. at 46226.

⁸ See id. For example, the Exchange will not offer routing functionality and is not proposing to adopt certain MEMX Exchange order types. See id. at 46226.

⁹ The Exchange states that the Exchange and MEMX Technologies executed a Development, License and Services Agreement on January 23, 2024, with accompanying schedules (collectively, the “DLSA”). Among other things, the DLSA sets forth a multi-year arrangement that requires MEMX Technologies to provide the system and services to allow the Exchange to operate fair and orderly markets and provides for transition services to the extent either party decides to terminate the arrangement. See id. at 46226-46228, for additional background and information regarding the DLSA.

¹⁰ See id. at 46226.

¹¹ See id.

connect to the System, and these will be distinct from those of the MEMX Exchange.¹² Neither LTSE nor MEMX Exchange will gain any advantage over other market participants in terms of access, speed or otherwise.¹³ LTSE believes that the use of a common, but not functionally identical, trading platform by LTSE and MEMX Exchange will not in any way alter the competitive position of the two exchanges or establish any type of connection or opportunity for interaction that would be different than LTSE currently has with every other exchange participant in the national market system.¹⁴

Furthermore, LTSE will retain responsibility for overseeing the daily market operations of its trading system and will maintain operational control over the features of such system and any changes thereto.¹⁵ If MEMX Exchange proposes a rule for its own market, it does not mean that LTSE will automatically adopt the same rule.¹⁶ LTSE will continue to independently evaluate other exchange rule filings, including MEMX Exchange's, to determine whether such changes should be proposed by LTSE. LTSE will not be obligated to accept any change to LTSE's technology platform that may be proposed by MEMX Exchange for its own market, but is not desired by LTSE; there is no incentive, monetary or otherwise, for LTSE to accept any changes proposed by the MEMX Exchange. Moreover, if LTSE seeks to implement an enhancement to its trading platform that is not applicable to the MEMX Exchange, MEMX Technologies will be obligated to develop and implement that enhancement (at a cost to be borne by LTSE).¹⁷ MEMX

¹² See id.

¹³ See id. at 46228.

¹⁴ See id.

¹⁵ See id. at 46225.

¹⁶ See id. at 46228.

¹⁷ See id.

Technologies has no authority to make any changes to the System without LTSE’s direct instruction to do so.¹⁸

Finally, LTSE will continue to have regulatory responsibility for its trading system and will continue to fully discharge its obligations as a national securities exchange.¹⁹ LTSE will also continue to provide for its market and cross-market surveillance through its Regulatory Services Agreement (“RSA”) with the Financial Industry Regulatory Authority, Inc. (“FINRA”) and maintain its independent regulatory function to oversee the RSA and will not rely on or utilize MEMX Exchange or its personnel to fulfill any aspect of those obligations on LTSE’s behalf.²⁰

Regulation SCI

As a registered national securities exchange, LTSE is an “SCI entity” responsible for compliance with the requirements of Regulation Systems Compliance and Integrity (“Regulation SCI”).²¹ Regulation SCI requires SCI entities to establish written policies and procedures reasonably designed to ensure that their applicable systems have levels of capacity, integrity, resiliency, availability, and security adequate to maintain their operational capability and promote the maintenance of fair and orderly markets, and that they operate in a manner that complies with the Exchange Act.²² In addition, Regulation SCI requires SCI entities to take corrective action with respect to SCI events (defined to include systems disruptions, systems compliance issues, and systems intrusions), notify the Commission of such events, and disseminate information about

¹⁸ See id.

¹⁹ See id. at 46225.

²⁰ See id. at 46228.

²¹ See Securities Exchange Act Release No.73639 (November 19, 2014), 79 FR 72252 (December 5, 2014).

²² See 17 CFR 242.1001.

certain SCI events to affected members or participants (and, for certain major SCI events, to all members or participants of the SCI entity).²³ Moreover, Regulation SCI requires SCI entities to conduct a review of their systems by objective, qualified personnel at least annually, submit quarterly reports regarding completed, ongoing, and planned material changes to their SCI systems to the Commission,²⁴ and maintain certain books and records.²⁵ It also requires SCI entities to mandate participation by designated members or participants in scheduled testing of the operation of their business continuity and disaster recovery plans, including backup systems, and to coordinate such testing on an industry- or sector-wide basis with other SCI entities.²⁶

Regulation SCI applies to an SCI entity's "SCI systems," which are systems that directly support any one of six key securities market functions – trading, clearance and settlement, order routing, market data, market regulation, and market surveillance ("SCI systems"). Regulation SCI also applies to "indirect SCI systems," which are any systems that, if breached, are likely to pose a security threat to SCI systems. Further, certain SCI systems that are "critical SCI systems" are held to certain heightened requirements under Regulation SCI.²⁷ The Exchange classifies several of its systems, including the System, as "SCI systems" based on the definitions under Regulation SCI. The Exchange has obtained commitments from MEMX Technologies in connection with its engagement of MEMX Technologies to develop, license, and operate the System on behalf of the

²³ See 17 CFR 242.1002. See also 17 CFR 242.1000 and 17 CFR 242.1006.

²⁴ See 17 CFR 242.1003.

²⁵ See 17 CFR 242.1005. See also 17 CFR 242.1007.

²⁶ See 17 CFR 242.1004.

²⁷ See 17 CFR 242.1000 (definitions of "SCI systems," "indirect SCI systems," and "critical SCI systems").

Exchange²⁸ to, among other things, address how this arrangement is consistent with the requirements of Regulation SCI.²⁹ The Exchange acknowledges that the System is the responsibility of the Exchange, and that the contractual arrangements, including the DLSA, between the Exchange and MEMX Technologies do not relieve the Exchange of any responsibilities it may have for its SCI systems and, as applicable, indirect SCI systems under Regulation SCI.³⁰ In addition, and as more fully summarized in the Notice, the DLSA includes commitments from MEMX Technologies as developer, licensor, and operator of the System to cooperate with the Exchange and provide the Exchange with the information and access that will allow the Exchange to satisfy its obligations under Regulation SCI.³¹

The Proposed Rule Changes to Effect the Transition to the New Trading Platform

The proposed rule changes to the LTSE trading rules to effect the transition to the new trading platform are based on rules already approved by or filed for immediate effectiveness with the Commission for use by MEMX Exchange.³² In particular, the Exchange is proposing to delete the following LTSE Rules and replace them with an identical or substantially similar version of the corresponding MEMX Exchange rule, as summarized below and discussed fully in the Notice:³³

- LTSE Rule 11.151 (Market Maker Obligations) is being amended to delete the definitions of “Crossing Quotation” and “Locking Quotation” and relocate them to

²⁸ The System has been developed and licensed to meet the Exchange’s requirements and operate in accordance with the rules of the Exchange, including those approved herein. See Notice, supra note 3, at 46226-46228.

²⁹ See section entitled “Compliance with Regulation SCI” in the Notice, supra note 3, at 46228-46229.

³⁰ See Notice, supra note 3, at 46225 and 46228.

³¹ See id. at 46228-46229.

³² See id. at 46226.

³³ See id. at 46230-46241.

newly proposed Rule 11.180 (Definitions), where those terms will conform to MEMX's definitions of the same terms.

- LTSE Rule 11.180 (Units of Trading) is being renamed to (Definitions), deleted in its entirety and replaced with MEMX Exchange Rule 11.6 (Definitions).
- LTSE Rule 11.190 (Orders and Modifiers) is being amended to conform with MEMX Exchange Rule 11.8 (Order Types and Modifiers).
- LTSE Rule 11.210 (Minimum Price Variant) is being deleted and the definition is being relocated to newly proposed LTSE Rule 11.180 (Definitions) and is identical to MEMX Exchange Rule 11.6(g) (Minimum Price Variation).
- LTSE Rule 11.220 (Priority of Orders) is being deleted in its entirety and replaced with MEMX Exchange Rule 11.9 (Priority of Orders).
- LTSE Rule 11.230 (Order Execution) is being amended to conform with MEMX Exchange Rule 11.10 (Order Execution).³⁴
- LTSE Rule 11.271 (Trading Halts) is being deleted in its entirety because the substance of the rule will be adopted in newly proposed LTSE Rule 11.281 (Limit Up-Limit Down Plan and Trading Halts on the Exchange).
- LTSE Rules 11.281 (Limit Up-Limit Down Mechanism) and 11.282 (Regulatory Trading Halts) are being amended to conform with MEMX Exchange Rule 11.22 (Limit Up-Limit Down Plan and Trading Halts) and the Nasdaq UTP Plan, as amended.³⁵

³⁴ MEMX Exchange rules related to the routing of orders are not being adopted, as the Exchange is not offering that functionality.

³⁵ See Securities Exchange Act Release No. 92071 (May 28, 2021), 86 FR 29846 (June 3, 2021) (Order Approving the Fiftieth Amendment to the Joint Self-Regulatory Organization

- LTSE Rule 11.310 (Locking or Crossing Quotations in NMS Stocks) is being amended to conform with MEMX Exchange Rule 11.10(f) (Locking Quotation or Crossing Quotation in NMS Stocks).
- LTSE Rule 11.320 (Input of Accurate Information) is being amended to conform with MEMX Exchange Rule 11.5 (Input of Accurate Information).
- LTSE Rule 11.330 (Data Products) is being amended to conform with MEMX Exchange Rule 13.8 (Data Products).
- LTSE Rule 11.380 (Risk Management) is being deleted in its entirety and replaced with Interpretation and Policies .01 and .02 of MEMX Exchange Rule 11.10 (Order Execution).
- LTSE Rule 11.410 (Use of Market Data Feeds and Calculations of Necessary Price Reference Points) is being amended to conform with MEMX Exchange Rule 13.4 (Usage of Data Feeds).³⁶

In addition to the above rule changes, the Exchange is also deleting certain rules that relate to functionality not provided by the new System and relocating certain rules to other places in the rulebook.³⁷

Plan Governing the Collection, Consolidation and Dissemination of Quotation and Transaction Information for Nasdaq-Listed Securities Traded on Exchanges on an Unlisted Trading Privileges Basis, as Modified by Amendments Nos. 1 and 2).

³⁶ LTSE is not adopting the language in MEMX Exchange Rule 13.4 (Usage of Data Feeds) related to the routing of orders.

³⁷ LTSE Rule 11.231 (Regular Market Session Opening Process for Non-LTSE Primary Listed Securities) is being deleted in its entirety as this functionality is not supported in the new System. LTSE Rule 11.240(c) (Trade Execution, Reporting, and Dissemination of Quotations) is being deleted because it appears in newly proposed LTSE Rule 11.230. See Notice, supra note 3, at 46226.

III. Discussion and Commission Findings

After careful review, the Commission finds that the proposed rule change is consistent with the requirements of the Exchange Act and the rules and regulations thereunder applicable to a national securities exchange.³⁸ In particular, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Exchange Act,³⁹ which requires, among other things, that the rules of a national securities exchange be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, 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, and not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers. The Commission also finds that the proposed rule change is consistent with Section 6(b)(1) of the Exchange Act,⁴⁰ which requires an exchange to be so organized and have the capacity to carry out the purposes of the Exchange Act and to comply and enforce compliance by its members and persons associated with its members with the Exchange Act and the rules thereunder.

With respect to the transition of LTSE's System to the new trading platform licensed by MEMX Technologies, the arrangements between LTSE and MEMX Technologies are reasonably designed not to confer upon either LTSE or MEMX Exchange any advantage over other market participants in terms of access, speed or otherwise to the other market, and LTSE has represented the same.⁴¹ While LTSE will use the same technology provider as MEMX Exchange, LTSE will

³⁸ In approving this proposed rule change, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

³⁹ 15 U.S.C. 78f(b)(5).

⁴⁰ 15 U.S.C. 78f(b)(1).

⁴¹ See supra note 9.

operate its System on separate servers, under its control, and there will be no joint or shared connections between LTSE and MEMX Exchange; participants will have to access each market separately.⁴² LTSE will retain responsibility for overseeing the daily market operations of its trading system and will maintain operational control over the features of such system and any changes thereto; MEMX Technologies will not be allowed to change LTSE's System without LTSE's direct instruction and will also be obligated to modify the platform in response to changes LTSE wishes to make.

LTSE will retain regulatory responsibility for its System and it will maintain its independent function to oversee its RSA with FINRA. LTSE also acknowledges that it will remain fully responsible for discharging its obligations as a registered national securities exchange. Thus, the Commission believes that LTSE will not be altering any of its self-regulatory responsibilities as a result of the provision of technology services by MEMX Technologies and will continue to be so organized and have the capacity to carry out the purposes of the Exchange Act and to comply and enforce compliance by its members and persons associated with its members with the Exchange Act and the rules thereunder.

Based on the acknowledgements LTSE has made with respect to its obligations under Regulation SCI, as well as the legal agreements and contractual arrangements underlying the relationship between LTSE and MEMX Technologies as described above, the Commission

⁴² Furthermore, MEMX Technologies will be required, as part of the DLSA, to keep confidential all Confidential Information (as defined in the DLSA) of LTSE and, except as expressly authorized, not use such Confidential Information or make any such Confidential Information available to any third party, including MEMX Exchange. In other words, the conditions are reasonably designed to not allow either LTSE or MEMX Exchange to gain any special advantage, insight, or connection as a result of the technology services being provided by MEMX Technologies, as a third-party service provider. See Notice, supra note 3, at 46227.

believes that LTSE's proposal regarding the engagement of a third party to develop, license, and operate the System is designed to support the Exchange's ability to comply with its regulatory obligations under Regulation SCI.

For the reasons discussed above, the Commission believes that the aspect of LTSE's proposal to move to a new trading platform with technology provided by MEMX Technologies is designed to prevent fraudulent and manipulative acts and practices, promote just and equitable principles of trade, remove impediments to and perfect the mechanism of a free and open market and a national market system, protect investors and the public interest, and thus, is consistent with the Exchange Act. In addition, for the reasons discussed above, the Commission finds that LTSE will be capable of exercising sufficient control over the operation of its System, and will be sufficiently independent from MEMX Technologies, to enable LTSE to comply with the requirements under the Exchange Act and applicable rules.

Finally, LTSE proposes numerous changes to conform, as applicable, its trading rules to the trading rules on MEMX Exchange to effect the transition to the new trading platform. The Commission notes that the proposed changes to LTSE's rules to effect the transition of LTSE's trading platform are based on rules already approved by, or filed for immediate effectiveness with, the Commission by MEMX Exchange. Therefore, since this aspect of the proposal raises no new or novel legal or regulatory issues, the Commission believes it is reasonably designed to protect investors and the public interest and is consistent with the Exchange Act.

Accordingly, for the foregoing reasons, the Commission finds that this proposed rule change is consistent with the Exchange Act.

IV. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Exchange Act,⁴³ that the proposed rule change (SR-LTSE-2024-03) be, and hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.⁴⁴

Sherry R. Haywood,

Assistant Secretary.

⁴³ 15 U.S.C. 78s(b)(2).

⁴⁴ 17 CFR 200.30-3(a)(12).