

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-88394; File No. SR-LTSE-2020-05)

March 16, 2020

Self-Regulatory Organizations; Long-Term Stock Exchange; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to Fingerprint-Based Background Checks

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² notice is hereby given that on March 6, 2020, Long-Term Stock Exchange (“LTSE” or “Exchange”) 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 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

LTSE proposes a rule change to amend its rule relating to fingerprint-based background checks of directors, officers, employees, and others, and to utilize the services of an Federal Bureau of Investigation (“FBI”) approved Channel Partner to conduct fingerprinting.

The text of the proposed rule change is available at the Exchange’s website at <https://longtermstockexchange.com/>, at the principal office of the Exchange, and at the Commission’s Public Reference Room.

II. Self-Regulatory Organization’s Statement on 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

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The self-regulatory organization has prepared summaries, set forth in Sections A, B, and C below, of the most significant aspects of such statements.

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

1. Purpose

The Exchange proposes to amend Rule 1.180 (Fingerprint-Based Background Checks of Employees and Independent Contractors), which was based on the corresponding rule of the Investors Exchange ("IEX"),³ to adopt with only minor differences as discussed below, the provisions of the New York Stock Exchange ("NYSE") fingerprinting rule.⁴ In addition, the proposed rule change would allow the Exchange to utilize the services of an FBI-approved Channel Partner, as is common with other national securities exchanges, including the NYSE.

Background and Proposed Rule Change

Section 17(f)(2) of the Act, as amended by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 ("Dodd-Frank Act"),⁵ provides that every member of a national securities exchange, broker, dealer, registered transfer agent, registered clearing agency, registered securities information processors, national securities exchanges and national securities associations shall require each of its partners, directors, officers, and employees to be fingerprinted and submit those fingerprints (or cause the fingerprints to be submitted) to the Attorney General of the United States ("Attorney General") for identification. Section 17(f)(2)

³ See IEX Rule 1.180.

⁴ See NYSE Rule 28.

⁵ See 15 U.S.C. 78q(f)(2); Dodd-Frank Act, Pub. L. No. 111-203, § 929S, 124 Stat. 1376, 1867 (2010).

explicitly directs the Attorney General to provide self-regulatory organizations (“SROs”) designated by the Commission with access to criminal history record information. Further, SEC Rule 17f-2 authorizes SROs to store criminal record information received from the FBI, which maintains on behalf of the Attorney General a database of fingerprint-based criminal history records.⁶

While existing LTSE Rule 1.180 meets the requirements of section 17(f)(2) of the Act, it contemplates only the use of fingerprint “cards,” is not tailored to the Exchange’s organizational structure, and has a substantive error.⁷ Accordingly, the Exchange proposes to adopt the fingerprinting rule of the NYSE, with minor differences described below.

Proposed LTSE Rule 1.180(a) would be identical to NYSE Rule 28(a) with the exception of the phrase “and its principal subsidiaries.” This phrase is proposed to be omitted because the Exchange does not have any subsidiaries; the Exchange is a wholly-owned subsidiary of LTSE Group. The phrase “each of” also would be omitted to make the first sentence of the proposed rule grammatically correct.

Proposed LTSE Rule 1.180(b) would be identical to NYSE Rule 28(b) with the exception of the sentence that states “The Exchange, however, may provide a subsidiary with access to information from background checks based on fingerprints obtained from that subsidiary.”

Again, the Exchange proposes to omit that sentence because it does not have subsidiaries.

Proposed LTSE Rule 1.180(c) and Supplementary Material .01 would be identical to NYSE Rule 28(c) and Supplementary Material .10. Finally, the Exchange proposes to amend the

⁶ See 17 CFR 240.17f-2(d).

⁷ The rule was copied verbatim from IEX Rule 1.180, with changes only to reflect the different names of the exchanges. LTSE Rule 1.180(c) also erroneously references FINRA as the source of background information from the fingerprints, instead of the Attorney General of the United States or his or her designee.

title of Rule 1.180 to be identical to the title of NYSE Rule 28, which is a more accurate description of the rule.

In addition, consistent with the practice at NYSE and other national securities exchanges, the Exchange intends to utilize a Live-Scan⁸ electronic system to capture and transmit fingerprints directly to the FBI. The capture and transmittal function, and corresponding receipt of criminal history information from the FBI, would be handled directly by Exchange personnel and/or an FBI-approved “Channel Partner”⁹ who would maintain and operate, on behalf of the Exchange, a LiveScan and/or other electronic system(s) for the submission of fingerprints to the FBI; receive and maintain criminal history record information from the FBI; and disseminate such information, through secure systems, to a limited set of approved reviewing officials within the Exchange. The Exchange believes that Rule 1.180 allows for the retention of a Channel Partner for these purposes.

The Exchange believes that the foregoing interpretation is consistent with the Exchange’s authority under Section 17(f)(2) of the Act, as amended by the Dodd-Frank Act,¹⁰ which requires, *inter alia*, that employees of exchanges be fingerprinted and that exchanges “shall

⁸ Live-Scan refers to the process of capturing fingerprints directly into a digitized format as opposed to traditional ink and paper methods. Live-Scan technology captures and transfers images to a central location and/or interface for identification processing.

⁹ FBI-approved Channel Partners receive the fingerprint submission and relevant data, collect the associated fee(s), electronically forward the fingerprint submission with the necessary information to the FBI Criminal Justice Information Services Division (“CJIS”) for a national Criminal History Summary check, and receive the electronic summary check result for dissemination to the authorized employer entity. See Securities Exchange Act Release No. 71066 (December 12, 2013), 78 FR 76667 (December 18, 2013) (SR-ISE-2013-66). The Exchange would retain ultimate legal responsibility for the fulfillment of its statutory and self-regulatory obligations under the Act, including compliance with Section 17(f)(2) of the Act as amended by the Dodd-Frank Act.

¹⁰ See 15 U.S.C. 17(f)(2); Dodd-Frank Act, Pub. L. No. 111-203, § 929S, 124 Stat. 1376, 1867 (2010).

submit such fingerprints, or cause the same to be submitted, to the Attorney General of the United States for identification and appropriate processing.”

The Exchange accordingly believes that under LTSE Rule 1.180 (as adopted and as proposed) and applicable statutes, the Exchange has the authority to engage an FBI-approved Channel Partner for some or all of the fingerprinting processes described in the Rule. Finally, the Exchange believes that this proposed interpretation would ensure the Exchange’s continued compliance with its Rules and applicable state and federal law.¹¹

2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with the provisions of Section 6 of the Act,¹² in general, and furthers the objectives of Section 6(b)(5) of the Act,¹³ in particular, in that it is designed to prevent fraudulent and manipulative acts and practices, promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, to remove impediments to and perfect the mechanisms of a free and open market and a national market system and, in general, to protect investors and the public interest.

Continuing to run fingerprint-based background checks is imperative for the Exchange, as this process helps to identify persons with criminal history records who may pose a threat to

¹¹ Access to the FBI’s fingerprint-based database of criminal records is permitted only when authorized by law. Section 17(f)(2) of the Act explicitly directs the Attorney General to provide SROs designated by the Commission (e.g., the Exchange) with access to such criminal history record information. Further, as amended by the Dodd-Frank Act, Section 17(f)(2) specifically requires, *inter alia*, that employees of national securities exchanges be fingerprinted. New York’s General Business Law also requires SROs to fingerprint employees “as a condition of employment,” as well as certain non-employee service providers. N.Y. Gen. Bus. Law § 359-e (McKinney).

¹² 15 U.S.C. 78f.

¹³ 15 U.S.C. 78f(b)(5).

the safety of Exchange personnel and/or the security of Exchange facilities and records. This identification and screening process thus enhances business continuity, workplace safety, and the security of the Exchange’s operations. The use of an FBI-approved Channel Partner in some or all phases of this process is consistent with LTSE Rule 1.180 and applicable state and federal law, and in furtherance of the important objectives described herein. Additionally, the use of a Channel Partner is consistent with the fingerprinting method currently employed by other SROs.¹⁴ For all these reasons, the proposal is also designed to protect investors as well as the public interest.

Additionally, the proposed rule is nearly identical to NYSE Rule 28¹⁵ and corrects an erroneous reference to FINRA in LTSE Rule 1.180(c).¹⁶

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 is not intended to address competitive issues but rather update its existing fingerprint rule to match, with only minor differences, NYSE Rule 28, and to allow the use of an FBI-approved Channel Partner as described above.¹⁷

¹⁴ See e.g., NYSE Rule 28; Chicago Board Options Exchange (“CBOE”) Rule 15.10. See generally Securities Exchange Act Release No. 76422 (November 10, 2015), 80 FR 71868 (November 17, 2015) (SR-NYSE-2015-45) (citing Securities Exchange Act Release No. 71066 (December 12, 2013), 78 FR 76667, 76668 n. 12 (December 18, 2013) (SR-ISE-2013-66) (noting that “[a]n FBI-approved Channel Partner simply helps expedite the delivery of Criminal History Summary information on behalf of the FBI”, and that the “process for making a request through an FBI-approved Channel Partner is consistent with FBI submission procedures”).

¹⁵ See supra text accompanying note 4.

¹⁶ See supra note 7.

¹⁷ See supra text accompanying note 8 [sic].

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

Written comments were neither solicited nor received.

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 Act¹⁸ and Rule 19b-4(f)(6) thereunder.¹⁹

A proposed rule change filed pursuant to Rule 19b-4(f)(6) under the Act²⁰ normally does not become operative for 30 days after the date of its filing. However, Rule 19b-4(f)(6)(iii)²¹ 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 requested that the Commission waive the 30-day operative delay to permit the Exchange to amend its fingerprinting rule to be accurate, tailored to the Exchange, and substantially similar to NYSE Rule 28 and to begin utilizing the services of an FBI-approved Channel Partner as soon as practicable. The minor differences noted herein do not raise substantive or novel issues.²² Thus the Commission

¹⁸ 15 U.S.C. 78s(b)(3)(A).

¹⁹ 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6)(iii) requires a self-regulatory organization to give the Commission written notice of its intent to file the proposed rule change, along with a brief description and text of the proposed rule change, at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.

²⁰ 17 CFR 240.19b-4(f)(6).

²¹ 17 CFR 240.19b-4(f)(6)(iii).

²² See supra Background and Proposed Rule Change.

believes that waiver of the 30-day operative delay is consistent with the protection of investors and the public interest and hereby waives the operative delay and designates the proposed rule change operative upon filing.²³

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act.

Comments may be submitted by any of the following methods:

Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>);
- or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-LTSE-2020-05 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-LTSE-2020-05. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your

²³ For purposes only of waiving the 30-day operative delay, the Commission also has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

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 Number SR-LTSE-2020-05 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.²⁴

J. Matthew DeLesDernier
Assistant Secretary

²⁴ 17 CFR 200.30-3(a)(12).