

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-76982; File No. SR-NYSEMKT-2015-80)

January 28, 2016

Self-Regulatory Organizations; NYSE MKT LLC; Order Approving a Proposed Rule Change Deleting Rule 410B – Equities Governing Reporting Requirements for Off-Exchange Transactions

I. Introduction

On October 16, 2015, NYSE MKT LLC (the “Exchange” or “NYSE MKT”) filed with the Securities and Exchange Commission (“Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² a proposed rule change to delete Rule 410B – Equities governing reporting requirements for off-Exchange transactions. The proposed rule change was published for comment in the Federal Register on November 2, 2015.³ The Commission received no comment letters on the proposed rule change. On December 16, 2015, the Commission designated a longer period within which to approve the proposed rule change, disapprove the proposed rule change, or institute proceedings to determine whether to approve or disapprove the proposed rule change.⁴ The Commission is approving the proposed rule change.

II. Description of the Proposed Rule Change

The Exchange proposes to delete Rule 410B – Equities (“Rule 410B”), which sets forth certain regulatory reporting requirements for member or member organizations effecting off-Exchange transactions in Exchange listed securities that are not reported to the

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Securities Exchange Act Release No. 76276 (October 27, 2015), 80 FR 67454.

⁴ See Securities Exchange Act Release No. 76669, 80 FR 79640 (December 22, 2015).

Consolidated Tape, and to make conforming amendments to Rule 476A to delete a reference to Rule 410B. The Exchange represents that Rule 410B is no longer necessary in light of changes in trade reporting and regulatory requirements that have been put in place since the Exchange adopted Rule 410B.

Changes to Regulatory Landscape

On July 30, 2007, the National Association of Securities Dealers, Inc. (“NASD”), New York Stock Exchange LLC (“NYSE”), and NYSE Regulation, Inc. (“NYSE Regulation”) consolidated their member-firm regulation operations to create the Financial Industry Regulatory Authority, Inc. (“FINRA”) and entered into a plan to allocate to FINRA regulatory responsibility for common rules and common members (“17d-2 Agreement”).⁵ The Exchange was added as a party to the 17d-2 Agreement in 2009.⁶

In 2008, the Exchange, NASD, NYSE, and NYSE Regulation also entered into a plan to allocate to FINRA regulatory responsibility, over exchange members that are also FINRA members, for surveillance, investigation, and enforcement of insider trading with respect to NYSE- and MKT-listed stocks, among others, irrespective of where the relevant trading occurred (the “Insider Trading Plan”).⁷ On June 14, 2010, FINRA was retained to perform

⁵ See Securities Exchange Act Release No. 56148 (July 26, 2007), 72 FR 42146 (August 1, 2007) (File No. 4-544) (Notice of Filing and Order Approving and Declaring Effective a Plan for the Allocation of Regulatory Responsibilities). In 2007, the NASD, NYSE, the Exchange and NYSE Regulation also entered into a Regulatory Services Agreement (“RSA”), whereby FINRA was retained to perform certain regulatory services for non-common rules.

⁶ See Securities Exchange Act Release No. 60409 (July 30, 2009), 74 FR 39353 (August 6, 2009) (File No. 4-587).

⁷ See Securities Exchange Act Release No. 54646 (September 12, 2008), 73 FR 54646 (September 22, 2008) (File No. 4-566). See also Securities Exchange Act Release No. 58806 (October 17, 2008), 73 FR 63216 (October 23, 2008) (File No. 4-566).

the residual market surveillance and enforcement functions that had, up to that point, been performed by NYSE Regulation.⁸ In January 2011, the SEC approved an amendment to the Insider Trading Plan whereby FINRA also assumed responsibility for performing the insider-trading-related market surveillance and enforcement functions previously conducted by NYSE Regulation for its U.S. equities and options markets.⁹

Changes in Trade Reporting and Regulatory Reporting

In 1998, FINRA (then the NASD) established the Order Audit Trail System (OATS), as an integrated audit trail of order, quote, and trade information for OTC equity securities and equity securities listed and traded on The Nasdaq Stock Market, Inc. (“Nasdaq”).¹⁰ In 2010, FINRA Rules 7410 through 7470 (the “OATS Rules”) were amended to extend the recording and reporting requirements to all NMS stocks, as that term is defined in Rule 600(b)(47) of Regulation NMS,¹¹ including NYSE- and MKT-listed securities. The Exchange adopted the OATS Rules in 2011.¹² The Exchange states that FINRA may use the information it collects pursuant to the OATS Rules to perform its regulatory functions.

⁸ See Securities Exchange Act Release No. 62355 (June 22, 2010), 75 FR 36729 (June 28, 2010) (SR-NYSE-2010-46); Securities Exchange Act Release No. 62354 (June 22, 2010), 75 FR 36730 (June 28, 2010) (SR-NYSEAmex-2010-57). NYSE Regulation performed the regulatory functions of NYSE MKT pursuant to an intercompany RSA.

⁹ See Securities Exchange Act Release No. 63750 (January 21, 2011), 76 FR 4948 (January 27, 2011) (File No. 4-566).

¹⁰ See Securities Exchange Act Release No. 39729 (March 6, 1998), 63 FR 12559 (March 13, 1998) (SR-NASD-97-56).

¹¹ See Securities Exchange Act Release No. 63311 (November 12, 2010), 75 FR 70757 (November 18, 2010) (SR-FINRA-2010-044). See also 17 CFR 242.600(b)(47).

¹² See Securities Exchange Act Release No. 65524 (October 7, 2011), 76 FR 64151 (October 17, 2011) (SR-NYSEAmex-2011-74).

According to the Exchange, Rule 410B also predates the establishment of a FINRA Trade Reporting Facility (“TRF”). FINRA Rule 6110 requires FINRA members to report transactions in NMS stocks¹³ effected “otherwise than on or through a national securities exchange.”¹⁴ Pursuant to FINRA Rules 6310A and 6310B, FINRA members may use either the FINRA/NYSE TRF or FINRA/Nasdaq TRF to report such off-Exchange transactions.¹⁵ FINRA members using these TRFs to report off-Exchange transactions are in turn subject to FINRA Rule 7230B, which, the Exchange states, imposes transaction-information reporting requirements similar to Rule 410B.¹⁶ As a result, the Exchange represents that dual members of both the Exchange and FINRA must report off-Exchange transactions to a TRF and submit substantially similar reports to the Exchange and FINRA.

Proposed Rule Change

The Exchange proposes to delete Rule 410B in its entirety. The Exchange represents that, since 2010, surveillance and enforcement responsibilities across markets have been consolidated at FINRA, which conducts cross-market surveillances on the Exchange’s behalf utilizing various data sources, including extensive trade and other information that FINRA collects pursuant to its rules. This trade information includes reports of off-exchange transactions.

The Exchange represents that all of its member organizations, with only nine exceptions, are members of FINRA and, as such, must report all off-exchange transactions to

¹³ As defined in Rule 600(b)(47) of Regulation NMS, 17 CFR 242.600(b)(47).

¹⁴ See FINRA Rule 6110. See generally FINRA Rule 6300A and 7200A Series (FINRA/Nasdaq TRF) and 6300B and 7200B Series (FINRA/NYSE TRF).

¹⁵ See FINRA Rules 6300A & 6300B.

¹⁶ See Rule 7230B.

FINRA, including transactions away from the Exchange that are not reported to the Consolidated Tape. The Exchange further represents that this information is essentially duplicative of the Rule 410B reports the Exchange currently supplies to FINRA. The Exchange notes that one exception would be transactions in dually listed securities executed on and reported to a foreign securities exchange, which are not required to be reported because such trades are executed “on or through an exchange.”¹⁷ The Exchange represents that it believes such trades pose little regulatory risk and, given that no other exchange has a rule comparable to Rule 410B, notes that such trades are also not being reported to other equities exchanges. Finally, the Exchange represents that only a handful of firms currently account for all of the Rule 410B activity, all of whom are also FINRA members.¹⁸ The Exchange believes that Rule 410B is thus no longer necessary, and deleting it would eliminate essentially duplicative reporting of off-Exchange transactions by dual members.

The Exchange does not believe that eliminating the Rule 410B reporting requirement for the small number of NYSE MKT-only members¹⁹ would pose any significant regulatory risk. The Exchange represents that none of these firms has ever submitted a Rule 410B

¹⁷ See Trade Reporting Frequently Asked Questions, Section 701, Q/A701.1, available at <http://www.finra.org/industry/trade-reporting-faq>.

¹⁸ According to the Exchange, Rule 410B Weekly Reports submitted to the SEC in July and August 2015 reveal that only five firms, all also FINRA members, accounted for all of the Rule 410B trading activity. The Exchange further represents that the list of firms that have in the past submitted Rule 410B reports does not include any non-FINRA members.

¹⁹ The Exchange represents that these nine non-FINRA member firms do not have any public customers and are also members of Nasdaq as well as NYSE.

report. The Exchange also notes that NYSE MKT-only members would remain subject to federal and Exchange books and records requirements.²⁰

III. Discussion and Commission Findings

After careful review, the Commission finds that the proposed rule change is consistent with the requirements of the Act²¹ and the rules and regulations thereunder applicable to a national securities exchange.²² In particular, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act,²³ 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 foster cooperation and coordination with persons engaged in 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 and that the rules are not designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

Based on the Exchange's representations, the Commission believes that eliminating the Rule 410B reporting requirement will not reduce the amount of publicly available information about securities transactions and that it is not likely to hamper the ability of the Exchange to conduct regulatory oversight of its members. The Commission notes that Rule 410B does not currently provide for real-time, publicly disseminated reporting of

²⁰ See 17 CFR 240.17a-3, 17 CFR 240.17a-4 & Rule 440 – Equities.

²¹ 15 U.S.C. 78f.

²² 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).

²³ 15 U.S.C. 78f(b)(5).

transactions, but instead requires non-public, electronic reporting of trade data to the Exchange on a next-day basis for regulatory purposes only. The Commission further notes that the Exchange represents that its members would remain subject to federal and Exchange books-and-records requirements²⁴ and that Exchange members would still be required to provide such trade data to the Exchange upon the Exchange's request. For these reasons, the Commission believes that the proposal should help 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, and, in general, protect investors and the public interest.

IV. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,²⁵ that the proposed rule change (SR-NYSEMKT-2015-80) be, and hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.²⁶

Robert W. Errett
Deputy Secretary

²⁴ See 17 CFR 240.17a-3, 17 CFR 240.17a-4 & Rule 440 – Equities.

²⁵ 15 U.S.C. 78s(b)(2).

²⁶ 17 CFR 200.30-3(a)(12).