

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-80467; File No. SR-CHX-2017-06)

April 17, 2017

Self-Regulatory Organizations; Chicago Stock Exchange, Inc.; Notice of Filing of Proposed Rule Change to Shorten the Standard Settlement Cycle from Three Business Days After the Trade Date to Two Business Days After the Trade Date

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 April 6, 2017, the Chicago Stock Exchange, Inc. (“CHX” or “Exchange”) filed with the Securities and Exchange Commission (the “Commission”) the proposed rule change as described in Items I, II and III 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

CHX proposes to amend Articles 1 and 9 of the Rules of the Exchange (“CHX Rules”) to conform to an amendment to Securities Exchange Act Rule 15c6-1(a)<sup>3</sup> to shorten the standard settlement cycle from three business days after the trade date (“T+3”) to two business days after the trade date (“T+2”). The text of this proposed rule change is available on the Exchange’s website at <http://www.chx.com/regulatory-operations/rule-filings/>, at the principal office of the Exchange, and at the Commission’s Public Reference Room.

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

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

<sup>3</sup> 17 CFR 240.15c6-1(a).

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 self-regulatory organization 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 those 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 the Statutory Basis for, the Proposed Rule Change

1. Purpose

The Exchange proposes to amend Article 1, Rule 2(e) and Article 9, Rule 7 to conform to an amendment to Securities Exchange Act Rule 15c6-1(a)<sup>4</sup> to shorten the standard settlement cycle from T+3 to T+2. The operative date of the proposed rule change is September 5, 2017.

Background

In 1993, the Commission adopted Securities Exchange Act Rule 15c6-1(a),<sup>5</sup> which established three business days after trade date instead of five business days ("T+5"), as the standard trade settlement cycle for most securities transactions. The rule became effective in June 1995.<sup>6</sup> In March 1995, the Exchange amended its rules to be consistent with the T+3

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<sup>4</sup> See id.; see also infra notes 8 and 9.

<sup>5</sup> 17 CFR 240.15c6-1(a).

<sup>6</sup> See Securities Exchange Act Release Nos. 33023 (October 6, 1993), 58 FR 52891 (order adopting Rule 15c6-1); see also Securities Exchange Act Release No. 34952 (November 9, 1994), 59 FR 59137 (order changing the effective date from June 1, 1995, to June 7, 1995).

settlement cycle for securities transactions.<sup>7</sup>

On September 28, 2016, the SEC proposed amendments to Rule 15c6-1(a) to shorten the standard settlement cycle from T+3 to T+2 on the basis that the shorter settlement cycle would reduce the risks that arise from the value and number of unsettled securities transactions prior to completion of settlement, including credit, market and liquidity risk faced by U.S. market participants.<sup>8</sup> The proposed rule amendment was published for comment in the Federal Register on October 5, 2016.<sup>9</sup> On March 22, 2017, the SEC adopted the proposed rule amendment and set a Rule 15c6-1(a) compliance date of September 5, 2017.<sup>10</sup>

In light of this action by the SEC, the Exchange proposes to amend CHX Rules to reflect “regular way” settlement as occurring on T+2.<sup>11</sup>

#### Proposed Rule Change

The Exchange proposes to amend Article 1, Rule 2(e) and Article 9, Rule 7 to reflect a T+2 settlement cycle. Except for changes reflecting the shortened settlement period, the Exchange does not propose any other amendments to the CHX Rules.

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<sup>7</sup> See Securities Exchange Act Release No. 35554 (March 31, 1995), 60 FR 17597 (April 6, 1995); see also Securities Exchange Act Release No. 35155 (December 27, 1994), 60 FR 517 (January 4, 1995) (SR-CHX-94-26).

<sup>8</sup> See SEC Press Release 2016-200: “SEC Proposes Rule Amendment to Expedite Process for Settling Securities Transactions” (September 28, 2016).

<sup>9</sup> See Securities Exchange Act Release No. 78962 (September 28, 2016), 81 FR 69240 (October 5, 2016) (File No. S7-22-16) (“SEC Proposing Release”).

<sup>10</sup> See Securities Exchange Act Release [sic] No. 80295 (March 22, 2017), 82 FR 15564 (March 29, 2017) (“SEC Adopting Release”).

<sup>11</sup> In December 2016, the New York Stock Exchange (“NYSE”) also filed a rule change to reflect “regular way” settlement as occurring on T+2. See Securities Exchange Act Release No. 80021 (February 10, 2017), 82 FR 10931 (February 16, 2017); see also Securities Exchange Act Release No. 79659 (December 22, 2016), 81 FR 96076 (December 29, 2016) (SR-NYSE-2016-87).

Current Article 1, Rule 2(e)(1) provides, in pertinent part, that “Regular Way Settlement” means a transaction for delivery on the third full business day following the day of the contract. The Exchange proposes an amendment to change “third full business day” to “second full business day.”

Current Article 1, Rule 2(e)(2)(C) provides that “Seller’s Option” means transaction for delivery within the time specified in the option, which time shall not be less than four (4) full business days nor more than 60 days following the day of the contract; except that the Exchange may provide otherwise in specific issues of stocks or classes of stocks. The Exchange proposes an amendment to change “four (4) full business days” to “three (3) full business days.”

Current Article 9, Rule 7(a) provides, in pertinent part, that transactions in stocks, except as provided below, shall be ex-dividend or ex-rights two full business days immediately preceding the date of record fixed by the corporation for the determination of stockholders entitled to receive such dividends or rights, except: (1) when such record date occurs upon a holiday or half-holiday, transactions in the stock shall be ex-dividend or ex-rights three full business days immediately preceding the record date. The Exchange proposes amendments to change “two full business days” to “business day” under Rule 7(a) and “three full business days” to “two full business days” under Rule 7(a)(1).

Current Article 9, Rule 7(b) provides, in pertinent part, that transactions in securities which have subscription warrants attached (except those made for “cash”) shall be ex-warrants on the second full business day preceding the date of expiration of the warrants, except: (1) when the day of expiration occurs on a holiday or Sunday, said transactions shall be ex-warrants on the third full business day preceding said day of expiration. The Exchange proposes amendments to

change “second full business day” to “business day” under Rule 7(b) and “third full business day” to “second full business day” under Rule 7(b)(1).

As noted above, the Exchange proposes to make the proposed rule change operative on September 5, 2017, which is the compliance date for the amendment to Rule 15c6-1(a) set by the SEC.<sup>12</sup>

## 2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Act,<sup>13</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act,<sup>14</sup> in particular, because 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 regulating, clearing, settling, processing information with respect to, and 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.

In particular, the Exchange believes that the proposed rule change supports the industry-led initiative to shorten the settlement cycle to two business days. Moreover, the proposed rule change is consistent with the SEC’s amendment to Securities Exchange Act Rule 15c6-1(a) to require standard settlement no later than T+2. The Exchange believes that the proposed rule change will provide the regulatory certainty to facilitate the industry-led move to a T+2 settlement cycle. Further, the Exchange believes that, by shortening the time period for settlement of most securities transactions, the proposed rule change would protect investors and the public interest by reducing the number of unsettled trades in the clearance and settlement

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<sup>12</sup> See supra note 10.

<sup>13</sup> 15 U.S.C. 78f(b).

<sup>14</sup> 15 U.S.C. 78f(b)(5).

system at any given time, thereby reducing the risk inherent in settling securities transactions to clearing corporations, their members and public investors. The Exchange also believes that the proposed operative date for the proposed rule change of September 5, 2017 would remove impediments to and perfect the mechanisms of a free and open market and a national market system as it is identical to the compliance date for the amendment to Rule 15c6-1(a) set by the SEC.<sup>15</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 proposed change is not designed to address any competitive issue, but rather facilitate the industry's transition to a T+2 regular way settlement cycle. The Exchange also believes that the proposed rule change will serve to promote clarity and consistency, thereby reducing burdens on the marketplace and facilitating investor protection. Moreover, the proposed rule change is consistent with the SEC's amendment to Securities Exchange Act Rule 15c6-1(a) to require standard settlement no later than T+2. Accordingly, the Exchange believes that the proposed changes do not impose any burdens on the industry in addition to those necessary to implement amendments to Securities Exchange Act Rule 15c6-1(a) as described and enumerated in the SEC Proposing Release.<sup>16</sup>

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

No written comments were solicited or received with respect to the proposed rule change.

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

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<sup>15</sup> See supra note 10.

<sup>16</sup> See supra note 9.

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

- A. by order approve or disapprove the proposed rule change, or
- B. Institute proceedings to determine whether the proposed rule change should be 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 e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-CHX-2017-06 on the subject line.

##### Paper Comments:

- Send paper comments in triplicate to Brent J. Fields, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-CHX-2017-06. This file number should be included on the subject line if e-mail 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; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-CHX-2017-06, 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.<sup>17</sup>

Brent J. Fields  
Secretary

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