

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-94388; File No. SR-NYSE-2022-11)

March 9, 2022

Self-Regulatory Organizations; New York Stock Exchange LLC; Notice of Filing of Proposed Rule Change, as Modified by Amendment No. 1, to Amend the NYSE Listed Company Manual to Provide a Limited Exemption from the Shareholder Approval Requirements for Closed-End Management Investment Companies with Equity Securities Listed Under Section 102.04 of the Listed Company Manual

Pursuant to Section 19(b)(1)¹ of the Securities Exchange Act of 1934 (the “Act”)² and Rule 19b-4 thereunder,³ notice is hereby given that on February 23, 2022, New York Stock Exchange LLC (“NYSE” or the “Exchange”) filed with the Securities and Exchange Commission (the “Commission”) the proposed rule change. On March 8, 2022, the Exchange filed Amendment No. 1 to the proposed rule change, which amended and replaced the proposed rule change in its entirety. The proposed rule change, as modified by Amendment No. 1, is described in Items I, II, and III below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change, as modified by Amendment No. 1, from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

The Exchange proposes to amend Section 312.03 of the NYSE Listed Company Manual (“Manual”) to provide a limited exemption from the shareholder approval requirements of that rule for listed closed-end funds. The proposed rule change is available on the Exchange’s

¹ 15 U.S.C. 78s(b)(1).

² 15 U.S.C. 78a.

³ 17 CFR 240.19b-4.

website at www.nyse.com, at the principal office of the Exchange, and at the Commission's Public Reference Room.

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

Amendment No. 1

The Exchange has previously submitted to the SEC a proposal to amend Section 312.03 of the Manual to provide a limited exemption from the shareholder approval requirements of that rule for listed closed-end funds.⁴ This Amendment No. 1 replaces and supersedes the original filing in its entirety.⁵ This Amendment No. 1 is being filed to:

- make clarifications with respect to the description of the text of Section 312.03(b) of the Manual and Section 102.04 of the Manual;
- correct some typographical errors;

⁴ See SR-NYSE-2022-11 (February 23, 2022).

⁵ Amendment No. 1 does not make any changes to the rule text as presented in Exhibit 5 of the original filing.

- clarify in the Statutory Basis section that there is a reduced risk of disenfranchisement of existing shareholders as a result of a Rule 17a-8-compliant transaction that involves a director, officer, or substantial shareholder of the listed company that has a significant interest in the company or assets to be acquired or the consideration to be paid, rather than stating that there is no risk of disenfranchisement at all; and
- replace a sentence in the Statutory Basis section of the Form 19b-4 that states that the interests of shareholders of the acquiring fund will not be diluted where the shares issued by the surviving fund are issued at a price equal to the surviving fund's net asset value.

The deleted sentence is replaced with the following:

To the Exchange's knowledge, the shares of the surviving Fund in a merger of affiliated Funds are generally issued at a price equal to the surviving Fund's net asset value, thereby ensuring that the transaction is not dilutive to the surviving Fund's shareholders.

As described above, if the shares in such a merger are issued at any price other than net asset value, in order to rely on Rule 17a-8, the board of directors of the surviving Fund would have to make an affirmative determination that such price was not dilutive to the interests of its existing shareholders. Consequently, the Exchange believes that the proposed exemption would not result in issuances that are economically dilutive to the shareholders of the surviving Fund.

Section 312.03(b)(i) of the Manual requires listed issuers to obtain shareholder approval prior to the issuance of common stock, or of securities convertible into or exercisable for common stock, in any transaction or series of related transactions, to a director, officer or substantial security holder of the company (each a "Related Party") if the number of shares of common stock to be issued, or if the number of shares of common stock into which the securities

may be convertible or exercisable, exceeds either one percent of the number of shares of common stock or one percent of the voting power outstanding before the issuance. Section 312.03(b) affords an exception for cash sales that meet a market price test.

Section 312.03(b)(ii) of the Manual provides that shareholder approval is also required prior to the issuance of common stock, or of securities convertible into or exercisable for common stock, where such securities are issued as consideration in a transaction or series of related transactions in which a Related Party has a five percent or greater interest (or such persons collectively have a ten percent or greater interest), directly or indirectly, in the company or assets to be acquired or in the consideration to be paid in the transaction or series of related transactions and the present or potential issuance of common stock, or securities convertible into common stock, could result in an issuance that exceeds either five percent of the number of shares of common stock or five percent of the voting power outstanding before the issuance.

Section 312.03(b)(iii) of the Manual provides that any sale of stock to an employee, director or service provider is also subject to the equity compensation rules in Section 303A.08 of the Manual. For example, a sale of stock to any of such parties at a discount to the then market price would be treated as equity compensation under Section 303A.08 notwithstanding that shareholder approval may not be required under Sections 312.03(b) or 312.03(c).

Similarly, Section 312.03(c) of the Manual requires listed issuers to obtain shareholder approval prior to the issuance of common stock, or of securities convertible into or exercisable for common stock, in any transaction or series of related transactions if:

- (1) the common stock has, or will have upon issuance, voting power equal to or in excess of 20 percent of the voting power outstanding before the issuance of such stock or of securities convertible into or exercisable for common stock; or

(2) the number of shares of common stock to be issued is, or will be upon issuance, equal to or in excess of 20 percent of the number of shares of common stock outstanding before the issuance of the common stock or of securities convertible into or exercisable for common stock.

The Exchange proposes to exempt closed end management companies that are registered under the Investment Company Act of 1940 (“1940 Act”)⁶ (consisting of closed-end funds listed under Section 102.04.A. and business development companies listed under Section 102.04.B) (collectively, “Funds”), from having to comply with the shareholder approval requirement in Sections 312.03(b) and (c) in connection with the acquisition of the stock or assets of an affiliated registered investment company in a transaction that complies with Rule 17a-8 under the 1940 Act (Mergers of affiliated companies) (“Rule 17a-8”)⁷ and does not otherwise require shareholder approval under the 1940 Act or the rules thereunder or any other Exchange rule. As described below, the Exchange believes Rule 17a-8 provides protections that obviate the need for a shareholder approval requirement in these circumstances.

Sections 17(a)(1) and (2) of the 1940 Act prohibit, among other things, certain transactions between registered investment companies and affiliated persons. Rule 17a-8 provides an exemption from Sections 17(a)(1)-(2) of the 1940 Act for certain mergers of affiliated companies, provided, among other things, that the board of directors of each investment company, including a majority of the directors that are not interested persons of the respective investment company or of any other company or series participating in the transaction,

⁶ 15 U.S.C. 80a-1.

⁷ 17 CFR 270.17a-8.

must determine that (i) participation in the merger is in the best interests of its respective investment company, and (ii) the interests of the company's existing shareholders will not be diluted as a result of the transaction.⁸ In addition, under Rule 17a-8, an affiliated merger must be approved by a majority of the outstanding voting securities of the merging company that is not the surviving company unless certain conditions are met.⁹ Rule 17a-8 does not require the surviving company to obtain shareholder approval in connection with the merger of an affiliated company.

Because the board of each merging company must make an affirmative decision that the transaction is in the best interest of its respective company and that the transaction will not result in dilution for existing shareholders, the Exchange believes the provisions of Rule 17a-8 protect against dilution and also provide safeguards for existing shareholders when the transaction involves a director, officer, or substantial shareholder of the listed company that has a significant interest in the company or assets to be acquired or the consideration to be paid and therefore may benefit from the transaction. The Exchange therefore believes that it is appropriate to exempt issuers of Funds from having to comply with the shareholder approval requirement in Section 312.03(c) in connection with the acquisition of the stock or assets of an affiliated registered investment company in a transaction that complies with Rule 17a-8, which can be both time consuming and expensive.

Notwithstanding the proposed exemption, if other provisions of Exchange rules and the 1940 Act and the rules thereunder require shareholder approval, those would still apply. The

⁸ See 15 U.S.C. 80a-17(a)(1)-(2). See also the definition of "affiliated person" in the 1940 Act, 15 U.S.C 80a-2(a)(3).

⁹ 17 CFR 270.17a-8(a)(3).

Exchange also notes that the adopting release for Rule 17a-8 specifically noted that nothing in Rule 17a-8 relieves a fund of its obligation to obtain shareholder approval as may be required by state law or a fund's organizational documents.¹⁰

2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b)(5) of the Act,¹¹ in that it is designed to 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 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 is not designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

The Exchange believes that the proposed amendment is consistent with the protection of investors, as protections afforded by Rule 17a-8 mean that (i) there is no risk of dilution to existing shareholders as a result of an issuance of shares by a Fund in connection with the acquisition of the stock or assets of an affiliated company, and (ii) there is a reduced risk of disenfranchisement of existing shareholders as a result of a Rule 17a-8-compliant transaction that involves a director, officer, or substantial shareholder of the listed company that has a significant interest in the company or assets to be acquired or the consideration to be paid. Because the board of each merging company must make an affirmative determination that the transaction is in the best interest of its investment company and that the transaction will not result in dilution

¹⁰ See Investment Company Act Release No. 25666, 67 FR 48511 (July 24, 2002) at n. 18.

¹¹ 15 U.S.C. 78f(b)(5).

for existing shareholders, there is reduced concern the existing shareholders will be disenfranchised as a result of the Exchange's proposed exemption.

The Exchange further believes its proposal is consistent with the protection of investors because its proposal is limited to registered investment companies that are organized under the 1940 Act. In the case of a merger of affiliated investment companies, the board of directors of each investment company, including a majority of the directors that are not interested persons of the respective investment company, must affirmatively determine that (i) participation in the merger is in the best interest of their respective investment company, and (ii) the interests of their shareholders will not be diluted as a result of the transaction. To the Exchange's knowledge, the shares of the surviving Fund in a merger of affiliated Funds are generally issued at a price equal to the surviving Fund's net asset value, thereby ensuring that the transaction is not dilutive to the surviving Fund's shareholders. The Exchange understands that this exchange ratio is publicly disclosed in the proxy statement soliciting proxies from the acquired Fund's shareholders, as well as in other disclosure documents. As described above, if the shares in such a merger are issued at any price other than net asset value, in order to rely on Rule 17a-8, the board of directors of the surviving Fund would nonetheless be required to make an affirmative determination that such price was not dilutive to the interests of its existing shareholders. Consequently, the Exchange believes that the proposed exemption would not result in issuances that are dilutive to the shareholders of the surviving Fund.

The Exchange notes that while shareholders of the non-surviving company must approve the merger under certain circumstances, Rule 17a-8 does not require the shareholders of the surviving company to approve the transaction. Accordingly, the Exchange believes it is

appropriate to exempt Funds from the requirements of Sections 312.03(b) and (c) in this same limited circumstance.

Notwithstanding the proposed exemption described above, the Exchange notes that other provisions of Exchange rules or the 1940 Act and the rules thereunder may require shareholder approval and will still apply. In particular, the Exchange notes that the adopting release for Rule 17a-8 specifically noted that nothing in Rule 17a-8 relieves a fund of its obligation to obtain shareholder approval as may be required by state law or a Fund's organizational documents.

The Exchange believes it is not unfairly discriminatory to offer the exemption only to Funds completing a merger with an affiliated registered investment company, as opposed to all issuers, because the protections against dilution and self-dealing described herein are embedded in the 1940 Act and do not apply to those other issuers.¹²

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 amendment would offer Funds a limited exemption for the Exchange's shareholder approval rule in a specific circumstance where the Exchange believes there is a low risk of dilution to existing shareholders.

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

¹² The Exchange does not currently have any listed companies that are registered under the Investment Company Act other than closed-end funds and business development companies listed under Section 102.04.

Within 45 days of the date of publication of this notice in the Federal Register or up to 90 days (i) as the Commission may designate 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, as modified by Amendment No. 1, 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- NYSE-2022-11 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-NYSE-2022-11. 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. 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-NYSE-2022-11 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.¹³

J. Matthew DeLesDernier
Assistant Secretary

¹³ 17 CFR 200.30-3(a)(12).