

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-66156; File No. SR-FINRA-2012-004)

January 13, 2012

Self-Regulatory Organizations; Financial Industry Regulatory Authority, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to extend to January 17, 2013 the implementation of FINRA Rule 0180 (Application of Rules to Security-Based Swaps)

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Exchange Act” or “Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on January 13, 2012, Financial Industry Regulatory Authority, Inc. (“FINRA”) 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 substantially prepared by FINRA. FINRA has designated the proposed rule change as constituting a “non-controversial” rule change under paragraph (f)(6) of Rule 19b-4 under the Act,<sup>3</sup> which renders the proposal effective upon receipt of this filing by the Commission. 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

FINRA is proposing to extend to January 17, 2013 the implementation of FINRA Rule 0180 (Application of Rules to Security-Based Swaps). FINRA Rule 0180, filed for immediate effectiveness by FINRA on July 8, 2011, will expire on January 17, 2012. FINRA Rule 0180 temporarily limits, with certain exceptions, the application of FINRA rules with respect to security-based swaps.

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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 240.19b-4(f)(6).

The text of the proposed rule change is available on FINRA's website at <http://www.finra.org>, at the principal office of FINRA 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, FINRA included statements concerning the purpose of and basis for the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. FINRA 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 of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"),<sup>4</sup> Title VII of which established a comprehensive new regulatory framework for swaps and security-based swaps. The new legislation was intended among other things to enhance the authority of regulators to implement new rules designed to reduce risk, increase transparency, and promote market integrity with respect to such products. Generally, the Dodd-Frank Act provides that the Commodity Futures Trading Commission ("CFTC") will regulate "swaps" and the SEC will regulate "security-based swaps."<sup>5</sup> The Dodd-Frank Act contemplates certain self-regulatory organization responsibilities in this area as well.<sup>6</sup>

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<sup>4</sup> Pub. L. No. 111-203, 124 Stat. 1376 (2010).

<sup>5</sup> The terms "swap" and "security-based swap" are defined in Sections 721 and 761 of the Dodd-Frank Act. The Commission and the CFTC jointly have proposed to further define these terms. See Securities Exchange Act Release No. 64372 (Apr. 29, 2011), 76 FR

Title VII of the Dodd-Frank Act generally became effective on July 16, 2011 (360 days after the enactment of the Dodd-Frank Act, *i.e.* the “Effective Date”), unless a provision requires a rulemaking.<sup>7</sup> The Commission has taken a number of actions in furtherance of Title VII, including the issuance of a release to provide guidance in connection with the effectiveness of Exchange Act provisions related to security-based swaps added by subtitle B of Title VII (which generally creates, and relates to, the regulatory regime for security-based swaps), and to provide temporary exemptions in connection with certain of those provisions.<sup>8</sup> Among these actions, the Commission has provided certain temporary exemptions<sup>9</sup> to address the expansion, pursuant to Title VII, of the Act’s definition of “security” to expressly encompass security-based swaps.<sup>10</sup> FINRA noted that in this Exemptive Release, the Commission stated that the expansion of the Act’s definition of “security” raises certain complex issues of interpretation, including issues as

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29818 (May 23, 2011) (Further Definition of “Swap,” “Security-Based Swap,” and “Security-Based Swap Agreement”; Mixed Swaps; Security-Based Swap Agreement Recordkeeping); Securities Exchange Act Release No. 63452 (Dec. 7, 2010), 75 FR 80174 (Dec. 21, 2010) (Further Definition of “Swap Dealer,” “Security-Based Swap Dealer,” “Major Swap Participant,” “Major Security-Based Swap Participant” and “Eligible Contract Participant”).

<sup>6</sup> See, e.g., Sections 712 and 763 of the Dodd-Frank Act.

<sup>7</sup> The Dodd-Frank Act provides that if a Title VII provision requires a rulemaking, the provision will go into effect “not less than” 60 days after the publication of the related final rule or on July 16, 2011, whichever is later. See Sections 754 and 774 of the Dodd-Frank Act.

<sup>8</sup> See, e.g., Securities Exchange Act Release No. 64678 (June 15, 2011), 76 FR 36287 (June 22, 2011).

<sup>9</sup> See Securities Exchange Act Release No. 64795 (July 1, 2011) (Order Granting Temporary Exemptions) (the “Exemptive Release”).

<sup>10</sup> See Exchange Act Section 3(a)(10) (15 U.S.C. 78c(a)(10)), as revised by Section 761 of the Dodd-Frank Act.

to the application of those provisions to registered broker-dealers. The Commission further stated that, absent additional time to analyze those issues, and to consider whether to provide interpretive or operational guidance, these changes may lead to unnecessary market uncertainty. The Commission also determined that it is appropriate to provide market participants with additional time to consider the potential impact on their businesses and the interpretive questions raised, and to provide the Commission with any related requests for guidance or relief, along with the underlying analysis.

Because the Act's expanded definition of "security" has similar implications for numerous provisions under FINRA rules,<sup>11</sup> on July 8, 2011, FINRA filed for immediate effectiveness FINRA Rule 0180,<sup>12</sup> which, with certain exceptions, is intended to temporarily limit the application of FINRA rules with respect to security-based swaps.<sup>13</sup>

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<sup>11</sup> The current FINRA rulebook consists of: (1) FINRA Rules; (2) NASD Rules; and (3) rules incorporated from NYSE ("Incorporated NYSE Rules") (together, the NASD Rules and Incorporated NYSE Rules are referred to as the "Transitional Rulebook"). While the NASD Rules generally apply to all FINRA members, the Incorporated NYSE Rules apply only to those members of FINRA that are also members of the NYSE ("Dual Members"). The FINRA Rules apply to all FINRA members, unless such rules have a more limited application by their terms. For more information about the rulebook consolidation process, see Information Notice, March 12, 2008 (Rulebook Consolidation Process).

<sup>12</sup> See Securities Exchange Act Release No. 64884 (July 14, 2011), 76 FR 42755 (July 19, 2011) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change; File No. SR-FINRA-2011-033).

<sup>13</sup> FINRA noted that in the Exemptive Release, the Commission stated that the relief it is granting is targeted and does not include, for instance, relief from the Act's antifraud and anti-manipulation provisions. FINRA also has noted that FINRA Rule 0180 is similarly targeted. For instance, paragraph (a) of FINRA Rule 0180 provides that FINRA rules shall not apply to members' activities and positions with respect to security-based swaps, except for FINRA Rules 2010, 2020, 3310 and 4240. See also paragraphs (b) and (c) of FINRA Rule 0180 (addressing the applicability of additional rules) and SR-FINRA-2011-033.

FINRA believes it is appropriate to extend FINRA Rule 0180 for a limited period, to January 17, 2013, pending the final implementation of new rules and guidance that would provide greater regulatory clarity in relation to security-based swap activities, so as to provide relief from certain FINRA requirements and thereby help avoid undue market disruptions resulting from the change to the definition of “security” under the Act.

As noted in Item 2 of this filing, FINRA has filed the proposed rule change for immediate effectiveness and has requested that the SEC waive both the requirement that the proposed rule be filed at least five (5) days in advance and the requirement that any change not become operative for 30 days after the date of the filing, such that FINRA can implement the proposed rule change immediately and prevent FINRA Rule 0180 from lapsing. The proposed rule change will expire on January 17, 2013. FINRA will amend the expiration date of FINRA Rule 0180 in subsequent filings as necessary such that the expiration date will be coterminous with the termination of relevant provisions of the SEC’s Exemptive Release.

## 2. Statutory Basis

FINRA believes that the proposed rule change is consistent with the provisions of Section 15A(b)(6) of the Act,<sup>14</sup> which requires, among other things, that FINRA rules must be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, and, in general, to protect investors and the public interest. FINRA believes that the proposed rule change would further the purposes of the Act because, consistent with the goals set forth by the Commission when it issued the Exemptive Release, the proposed rule change will help to avoid undue market disruption resulting from the change to the definition of “security” under the Act.

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<sup>14</sup> 15 U.S.C. 78o-3(b)(6).

B. Self-Regulatory Organization's Statement on Burden on Competition

FINRA does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

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 Act<sup>15</sup> and Rule 19b-4(f)(6) thereunder.

A proposed rule change filed under Rule 19b-4(f)(6)<sup>16</sup> normally does not become operative prior to 30 days after the date of the filing. However, pursuant to Rule 19b-4(f)(6)(iii),<sup>17</sup> the Commission may designate a shorter time if such action is consistent with the protection of investors and the public interest.

FINRA has requested that the Commission waive both the 5-day advance filing requirement<sup>18</sup> and the 30-day operative delay requirement so that the proposal may become

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<sup>15</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>16</sup> 17 CFR 240.19b-4(f)(6).

<sup>17</sup> 17 CFR 240.19b-4(f)(6)(iii).

<sup>18</sup> 17 CFR 240.19b-4(f)(6). Rule 19b-4(f)(6)(iii) requires a self-regulatory organization to provide the Commission with 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.

operative upon filing. The Commission hereby grants both of those requests. The proposed rule is consistent with the goals set forth by the Commission when it issued the Exemptive Release and will help avoid undue market interruption resulting from the change to the definition of “security” under the Act, and it is consistent with the protection of investors and the public interest. Therefore, the Commission believes it is consistent with the protection of investors and the public interest to waive both the requirement that the proposed rule be filed at least five (5) days in advance and the 30-day operative delay requirement and designates the proposal as operative upon filing.<sup>19</sup>

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. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or 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

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<sup>19</sup> For purposes only of waiving the operative delay for this proposal, the Commission has considered the proposed rule’s impact on efficiency, competition and capital formation. See 15 U.S.C. 78c(f).

- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-FINRA-2012-004 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-FINRA-2012-004. 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 a.m. and 3 p.m. Copies of such filing also will be available for inspection and copying at the principal office of FINRA. 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-FINRA-2012-004 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>20</sup>

Kevin M. O’Neill  
Deputy Secretary

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<sup>20</sup> 17 CFR 200.30-3(a)(12).