

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-72484; File No. SR-FINRA-2014-027)

June 26, 2014

Self-Regulatory Organizations; Financial Industry Regulatory Authority, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating to Options Exercise Procedures

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 June 17, 2014, 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, II, and III below, which Items have been 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,³ 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 amend FINRA Rule 2360(b)(23) regarding procedures for expiring standardized equity options to harmonize its rules with the rules of The Options Clearing Corporation (“OCC”) and the options exchanges regarding the change to the expiration date for most standardized option contracts to the third Friday of the expiration month instead of the Saturday following the third Friday.

Below is the text of the proposed rule change. Proposed new language is underlined; proposed deletions are in brackets.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 17 CFR 240.19b-4(f)(6).

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2000. DUTIES AND CONFLICTS

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2300. SPECIAL PRODUCTS

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2360. Options

(a) No Change.

(b) Requirements

(1) through (22) No Change.

(23) Tendering Procedures for Exercise of Options

(A) Exercise of Options Contracts

(i) No Change.

(ii) Special procedures apply to the exercise of standardized equity options on the business day of their expiration, or, in the case of standardized equity options expiring on a day that is not a business day, on the last business day before their expiration (“expiring options”). Unless waived by The Options Clearing Corporation, expiring standardized equity options are subject to the Exercise-by-Exception (“Ex-by-Ex”) procedure under The Options Clearing Corporation Rule 805. This Rule provides that, unless contrary instructions are given, standardized equity option contracts that are in-the-money by specified amounts shall be automatically exercised. In addition to The Options Clearing Corporation rules, the following FINRA requirements apply with respect to expiring

standardized equity options. Option holders desiring to exercise or not exercise expiring standardized equity options must either:

a. through b. No Change.

(iii) Exercise cut-off time. Option holders have until 5:30 p.m. Eastern Time (“ET”) on the business day of expiration, or, in the case of a standardized equity option expiring on a day that is not a business day, on the business day immediately prior to the expiration date to make a final exercise decision to exercise or not exercise an expiring option. Members may not accept exercise instructions for customer or non-customer accounts after 5:30 p.m. ET.

(iv) through (vii) No Change.

(viii) In the event a national options exchange or The Options Clearing Corporation provides advance notice on or before 5:30 p.m. ET on the business day immediately prior to the business day of expiration, or, in the case of a standardized equity option expiring on a day that is not a business day, the business day immediately prior to the last business day before the expiration date, indicating that a modified time for the close of trading in standardized equity options on such business day of expiration, or, in the case of a standardized option expiring on a day that is not a business day, such last business day before expiration will occur, then the deadline for an option holder to make a final decision to exercise or not exercise an expiring option shall be 1 hour 30 minutes following the time announced for the close of trading on that day instead of the 5:30 p.m. ET

deadline found in subparagraph (iii) above. However, members have until 7:30 p.m. ET to deliver a Contrary Exercise Advice or Advice Cancel to the places specified in subparagraphs (iv)a. through d. above for customer accounts and non-customer accounts where such member firm employs an electronic submission procedure with time stamp for the submission of exercise instructions. For non-customer accounts, members that do not employ an electronic procedure with time stamp for the submission of exercise instructions are required to manually deliver a Contrary Exercise Advice or Advice Cancel within 1 hour and 30 minutes following the time announced for the close of trading on that day instead of the 5:30 p.m. ET deadline found in subparagraph (iv) above.

(ix) through (xi) No Change.

(B) through (D) No Change.

(24) No Change.

(c) No Change.

••• Supplementary Material: -----

.01 through .03 No Change.

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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 and discussed any comments it received on 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

Most option contracts (“Standard Expiration Contracts”) currently expire on the Saturday following the third Friday of the specified expiration month (“expiration date”). However, the OCC is streamlining its options expiration procedures to change the expiration date for most option contracts to the third Friday of the expiration month instead of the Saturday following the third Friday.⁴ The OCC rule change applies only to Standard Expiration Contracts expiring after February 1, 2015. After February 1, 2015, virtually all Standard Expiration Contracts will expire on Friday.⁵ In order to start the transition to Friday night expiration processing, the OCC began on June 21, 2013, to move the expiration exercise process to Friday for all Standard Expiration Contracts even though the contracts will continue to expire on Saturday.

The rules of the options exchanges⁶ and FINRA Rule 2360(b)(23)⁷ set forth special procedures that apply to the exercise of expiring options.⁸ The options exchanges have amended their rules

⁴ See Securities Exchange Act Release No. 69772 (June 17, 2013), 78 FR 37645 (June 21, 2013) (Order Approving File No. SR-OCC-2013-04).

⁵ The only Standard Expiration Contracts that will expire on a Saturday after February 1, 2015 will be certain options that were listed prior to the effectiveness of the OCC rule change, and a limited number of options that may be listed prior to necessary systems’ changes of the options exchanges. The exchanges agreed that once these systems’ changes are made they will not open for trading any new series of options contracts with Saturday expiration dates falling after February 1, 2015.

⁶ See ISE Rule 1100; BOX Rule 9000; PHLX Rule 1042; NYSE Arca Options Rule 6.24; NYSE MKT Rule 980; CBOE Rule 11.1; BX Chapter VIII Section 1; NASDAQ Chapter VIII Section 1; BATS Rule 23.1; and MIAX Rule 700 (each an “options exchange”).

⁷ The provisions of FINRA Rule 2360(b)(23) apply only to members that are not also members of the exchange on which the standardized option is traded (so called “access”

to remain consistent with the OCC amendments.⁹ Accordingly, FINRA proposes to similarly amend Rule 2360(b)(23) to address the OCC amendments.

Specifically, FINRA proposes to amend Rule 2360(b)(23)(A)(ii) to provide that special procedures apply to the exercise of standardized equity options on the business day of their expiration (i.e. for Friday expirations), or, in the case of standardized equity options expiring on a day that is not a business day, on the last business day before their expiration (as is currently the case for Saturday expirations).

members) in order to subject such firms and customers of such firms to the same requirements for options exercise procedures as customers that are members of an options exchange.

⁸ The procedures provide that an option holder with an expiring standardized equity option may: (1) take no action and allow automatic exercise determinations to be made in accordance with the OCC exercise by exception (“Ex-by-Ex”) procedures (whereby an option will be automatically exercised if the option contract is in the money by a requisite amount) or (2) submit a Contrary Exercise Advice (“CEA”) (or Expiring Exercise Declaration (“EED”) as referenced in the OCC rules) to communicate an option holder’s intent not to exercise an option that would be automatically exercised under the OCC’s Ex-by-Ex procedures or to exercise an option that would not be automatically exercised under the OCC’s Ex-by-Ex procedures.

⁹ See the options exchanges’ filings to conform to the OCC amendments in Securities Exchange Act Release No. 70372 (September 11, 2013), 78 FR 57186 (September 17, 2013) (Notice of Filing and Immediate Effectiveness of File No. SR-NYSEARCA-2013-88); Securities Exchange Act Release No. 70373 (September 11, 2013), 78 FR 57198 (September 17, 2013) (Notice of Filing and Immediate Effectiveness of File No. SR-NYSEMKT-2013-73); Securities Exchange Act Release No. 70745 (October 23, 2013), 78 FR 64559 (October 29, 2013) (Notice of Filing and Immediate Effectiveness of File No. SR-PHLX-2013-104); Securities Exchange Act Release No. 70747 (October 23, 2013), 78 FR 64556 (October 29, 2013) (Notice of Filing and Immediate Effectiveness of File No. SR-NASDAQ-2013-133); Securities Exchange Act Release No. 70746 (October 23, 2013), 78 FR 64563 (October 29, 2013) (Notice of Filing and Immediate Effectiveness of File No. SR-BX-2013-055); Securities Exchange Act Release No. 69996 (July 17, 2013), 78 FR 44183 (July 23, 2013) (Notice of Filing and Immediate Effectiveness of File No. SR-MIAX-2013-32); Securities Exchange Act Release No. 70488 (September 24, 2013), 78 FR 59998 (September 30, 2013) (Notice of Filing and Immediate Effectiveness of File No. SR-BOX-2013-45) and Securities Exchange Act Release No. 70900 (November 19, 2013), 78 FR 70382 (November 25, 2013) (Notice of Filing and Immediate Effectiveness of File No. SR-ISE-2013-58).

FINRA also proposes to amend Rule 2360(b)(23)(A)(iii) regarding the exercise cut-off time. Option holders have until 5:30 p.m. Eastern Time (“ET”)¹⁰ on the business day of expiration (i.e., for Friday expiration), or, in the case of a standardized equity option expiring on a day that is not a business day, on the business day immediately prior to the expiration date (as is currently the case for Saturday expirations) to make a final exercise decision to exercise or not exercise an expiring option.

Finally, FINRA proposes to amend Rule 2360(b)(23)(A)(viii) to specify in the event a national options exchange or the OCC provides advance notice on or before 5:30 p.m. ET on the business day immediately prior to the business day of expiration (i.e., Thursday for Friday expirations), or in the case of a standardized equity option expiring on a day that is not a business day, the business day immediately prior to the last business day before the expiration date (i.e., Thursday for Saturday expirations as is the case today), indicating that a modified time for the close of trading in standardized equity options on such business day of expiration (i.e., Friday for Friday expirations), or in the case of an standardized option expiring on a day that is not a business day, such last business day before expiration will occur (i.e., Friday for Saturday expirations), then the deadline for an option holder to make a final decision to exercise or not exercise an expiring option shall be 1 hour 30 minutes following the time announced for the close of trading on that day. FINRA believes that keeping its rules consistent with those of the industry will protect all market participants in the market by eliminating confusion.

FINRA has filed the proposed rule change for immediate effectiveness. The implementation date will be 30 days after the date of filing, June 17, 2014.

¹⁰ The time of day for the exercise cut-off (i.e., 5:30 p.m. ET) is unchanged from the current requirements.

2. Statutory Basis

FINRA believes that the proposed rule change is consistent with the provisions of Section 15A(b)(6) of the Act,¹¹ 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 will promote consistent regulation by harmonizing FINRA's rules with those of the options exchanges as such rules have been amended to comply with recent amendments by OCC. FINRA believes that keeping its rules consistent with those of the industry will protect all participants in the market by eliminating confusion.

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. FINRA believes that the proposed rule change will promote consistent regulation by harmonizing FINRA's rules with those of the options exchanges and OCC and will apply equally to all members with expiring standardized equity options. FINRA does not believe that the proposed rule change will impose a burden on competition because it will be applied to all members equally. In addition, FINRA does not believe the proposed rule change will impose a burden on competition because it will be applied industry-wide, apply to all market participants and is designed to allow the OCC to streamline the expiration process.

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.

¹¹ 15 U.S.C. 78o-3(b)(6).

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 Act¹² and Rule 19b-4(f)(6) thereunder.¹³

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

¹² 15 U.S.C. 78s(b)(3)(A).

¹³ 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6) 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. FINRA has satisfied this requirement.

- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-FINRA-2014-027 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-FINRA-2014-027. 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 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-2014-027 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.¹⁴

Kevin M. O'Neill
Deputy Secretary

¹⁴ 17 CFR 200.30-3(a)(12).