

Dyson, Director/Chief Information Officer, Securities and Exchange Commission, c/o Remi Pavlik-Simon, 100 F Street NE., Washington, DC 20549 or send an email to: [PRA\\_Mailbox@sec.gov](mailto:PRA_Mailbox@sec.gov). Comments must be submitted to OMB within 30 days of this notice.

Dated: October 27, 2015.

**Robert W. Errett,**

*Deputy Secretary.*

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-76276; File No. SR-NYSEMKT-2015-80]

### Self-Regulatory Organizations; NYSE MKT LLC; Notice of Filing of Proposed Rule Change Deleting Rule 410B Equities Governing Reporting Requirements for Off-Exchange Transactions

October 27, 2015.

Pursuant to Section 19(b)(1)<sup>1</sup> of the Securities Exchange Act of 1934 (the “Act”)<sup>2</sup> and Rule 19b-4 thereunder,<sup>3</sup> notice is hereby given that, on October 16, 2015, NYSE MKT LLC (the “Exchange” or “NYSE MKT”) 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

The Exchange proposes to delete Rule 410B—Equities governing reporting requirements for off-Exchange transactions. The text of the proposed rule change is available on the Exchange’s Web site at [www.nyse.com](http://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

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 Consolidated Tape, and to make conforming amendments to Rule 476A to delete a reference to Rule 410B.

##### Background

##### Rule 410B

Currently, Rule 410B requires members or member organizations to report to the Exchange transactions in NYSE-listed securities effected for the account of a member or member organization, or for the account of a customer of a member or member organization, that are not reported to the Consolidated Tape. Reports prepared pursuant to the Rule must contain the following information:

- Time and date of the transaction;
- stock symbol of the listed security;
- number of shares;
- price;
- marketplace where the transaction was executed;
- an indication whether the transaction was a buy (B), sell (S) or cross (C);
- an indication whether the transaction was executed as principal or agent; and
- the name of the contra-side broker-dealer to the trade.<sup>4</sup>

Rule 410B was adopted by the Exchange’s affiliate the New York Stock Exchange LLC (“NYSE”) in 1992. At the time, transactions in NYSE-listed stocks effected outside of business hours or in foreign markets were not reported to the Consolidated Tape and, with the exception of program trading information, were not reported to the Exchange. The Exchange (then the New York Stock Exchange, Inc.) believed that “all transactions in NYSE-listed stocks that are not reported to the Consolidated Tape should be reported to the Exchange in order to provide an

accurate record of overall trading activity in NYSE-listed stocks.”<sup>5</sup> The Rule 410B reporting requirement would thus “augment and enhance” the NYSE’s ability to “surveil for and investigate, among other matters, insider trading, frontrunning and manipulative activities” and “provide a more complete audit trail and depiction of member trading in each NYSE-listed stock, which should facilitate surveillance by the Exchange in NYSE-listed stocks.”<sup>6</sup>

Despite the significant changes to the marketplace and the regulatory landscape in the ensuing decades, the Exchange adopted Rule 410B without amendment in 2008.<sup>7</sup>

##### Changes to Regulatory Landscape

On July 30, 2007, the NASD, 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”).<sup>8</sup> The Exchange was added as a party to the 17d-2 Agreement in 2009.<sup>9</sup> In 2008, the Exchange, NASD, NYSE, and NYSE Regulation also entered into a plan to allocate to FINRA regulatory responsibility over common FINRA members for surveillance, investigation, and enforcement of insider trading with respect to NYSE-MKT listed stocks, among others, irrespective of where the relevant trading occurred (the “Insider Trading Plan”).<sup>10</sup> On June 14, 2010, FINRA was retained to perform the residual market surveillance and enforcement functions that had, up to that point, been performed by NYSE Regulation.<sup>11</sup> In

<sup>5</sup> See Securities Exchange Act Release No. 31358 (October 26, 1992), 57 FR 1294 (January 6, 1992) (SR-NYSE-91-45) (“Rule 410B Approval Order”).

<sup>6</sup> See *id.*, 57 FR at 1294.

<sup>7</sup> See Securities Exchange Act Release No. 58265 (July 30, 2008), 73 FR 46075, 46078 (August 7, 2008) (SR-Amex-2008-63).

<sup>8</sup> 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.

<sup>9</sup> See Securities Exchange Act Release No. 60409 (July 30, 2009), 74 FR 39353 (August 6, 2009) (File No. 4-587).

<sup>10</sup> 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).

<sup>11</sup> See note 8, *supra*; Securities Exchange Act Release No. 62355 (June 22, 2010), 75 FR 36729

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

<sup>2</sup> 15 U.S.C. 78a.

<sup>3</sup> 17 CFR 240.19b-4.

<sup>4</sup> See Rule 410B.

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.<sup>12</sup>

#### 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”).<sup>13</sup> In 2010, in order to enhance the scope of the order audit trail in the U.S. equity markets following the creation of FINRA, 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,<sup>14</sup> including NYSE MKT-listed securities. The Exchange adopted the OATS Rules in 2011.<sup>15</sup> FINRA may use the information it collects pursuant to the

(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. *See id.*, 75 FR at 36731, n.6.

<sup>12</sup> *See* Securities Exchange Act Release No. 63750 (January 21, 2011), 76 FR 4948 (January 27, 2011) (File No. 4–566).

<sup>13</sup> *See* Securities Exchange Act Release No. 39729 (March 6, 1998), 63 FR 12559 (March 13, 1998) (SR–NASD–97–56).

<sup>14</sup> *See* Securities Exchange Act Release No. 63311 (November 12, 2010), 75 FR 70757 (November 18, 2010) (SR–FINRA–2010–044) (“OATS Extension Approval Order”). By capturing OATS information for all NMS stocks, FINRA noted that it would be able to expand its existing surveillance patterns to conduct more comprehensive cross-market surveillance in furtherance of the Exchange’s outsourcing of its surveillance and other regulatory functions to FINRA. *See id.* at 70758. The Commission observed extending OATS to all NMS stocks was calculated to “enhance FINRA’s market surveillance and investigative capabilities” and in turn “enhance FINRA’s oversight of the U.S. equities markets.” *Id.*

<sup>15</sup> *See* Securities Exchange Act Release No. 65524 (October 7, 2011), 76 FR 64151 (October 17, 2011) (SR–NYSEAmex–2011–74). The Commission noted that member and member organizations that are also FINRA members (“Dual Members”) need only report OATS information to FINRA once to meet both the FINRA and NYSE OATS requirements. *See id.* at 64152. Further, the Commission noted that NYSE member organizations that were not members of FINRA were also members of NASDAQ (this is still the case today, *see* note 22, *infra*), and, as such, were subject to certain OATS obligations for proprietary trading firms under the NASDAQ Rule 6950 Series that were “substantially similar” to the NASDAQ OATS requirements for the same firms. *See id.* OATS information for NYSE-only member firms is available for FINRA to utilize for regulatory purposes.

OATS Rules to perform its regulatory functions.

Rule 410B also predates the establishment of a FINRA Trade Reporting Facility (“TRF”). FINRA Rule 6110 requires FINRA members to report transactions in NMS stocks<sup>16</sup> effected “otherwise than on or through a national securities exchange.”<sup>17</sup> 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.<sup>18</sup> FINRA members using these TRFs to report off-Exchange transactions are in turn subject to FINRA Rule 7230B, which imposes transaction information reporting requirements similar to Rule 410B.<sup>19</sup> As

<sup>16</sup> As defined in Rule 600(b)(47) of SEC Regulation NMS.

<sup>17</sup> *See* FINRA Rule 6110. *See generally* FINRA Rule 6300A and 7200A Series (FINRA/Nasdaq TRF) and 6300B and 7200B Series (FINRA/NYSE TRF). Transactions in non-NMS stocks such as OTC Markets securities, ADRs, Canadian issues, foreign securities and non-exchange-listed DPP securities and transactions in Restricted Equity Securities pursuant to Securities Act Rule 144A are governed by the FINRA Rule 6620 and 7300 Series and must be reported to FINRA’s OTC Reporting Facility or ORF. FINRA’s rules expressly provide that certain types of transactions need not be reported for publication or regulatory purposes, including transactions in foreign equity securities executed on and reported to a foreign securities exchange or executed OTC in a foreign country and reported to that country’s securities regulator. *See* Trade Reporting Frequently Asked Questions, Section 500, Q/A500:1 & Section 701, Q/A701.1, available at <http://www.finra.org/industry/trade-reporting-faq>.

<sup>18</sup> *See* FINRA Rules 6300A & 6300B.

<sup>19</sup> *See* Rule 7230B. Specifically, the following information must be submitted for each transaction: (1) Security Identification Symbol of the eligible security (SECID); (2) number of shares or bonds; (3) unit price, excluding commissions, mark-ups or mark-downs; (4) time of execution expressed in hours, minutes and seconds based on Eastern Time in military format, unless another provision of FINRA rules requires that a different time be included on the report; (5) a symbol indicating whether the party submitting the trade report represents the Reporting Member (denoted as the Executing Party or “EPID”) side or the Non-Reporting Party (denoted as the Contra Party or “CPID”) side; (6) a symbol indicating whether the transaction is a buy, sell or cross, and if applicable, a symbol indicating that the transaction is a sell short or sell short exempt trade from the Reporting Member perspective or contra side perspective, irrespective of whether the contra side is a member; (7) a symbol indicating whether the trade is as principal, riskless principal, or agent; (8) reporting side Clearing Broker (if other than normal Clearing Broker); (9) reporting side executing broker in the case of a give up agreement, as defined in Rule 6380B(g); (10) contra side executing broker; (11) contra side Introducing Broker in the case of a give up agreement, as defined in Rule 6380B(g); and (12) contra side Clearing Broker (if other than normal Clearing Broker). For any transaction for which a member has recording and reporting obligations under Rules 7440 and 7450, the trade report must include an order identifier, meeting such parameters as may be prescribed by FINRA, assigned to the order that uniquely identifies the order for the date it was received. *See* Rule 7440(b)(1).

a result, Dual Members must report off-Exchange transactions to a TRF and submit substantially similar reports to the NYSE and FINRA.

#### Proposed Rule Change

The Exchange proposes to delete Rule 410B in its entirety. Rule 410B is a regulatory rule intended to enhance audit trail quality and improve surveillance and investigation of violative activities such as market manipulation and insider trading. As noted above, 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. All of the Exchange’s member organizations, with only nine exceptions, are members of FINRA and, as such, must report all off-exchange transactions to FINRA, including transactions away from the Exchange that are not reported to the Consolidated Tape. This information is essentially duplicative of the Rule 410B reports the Exchange currently supplies to FINRA. The one exception would be transactions in dually listed securities executed on and reported to a foreign securities exchange, which is not required to be reported because such trades are executed “on or through an exchange.”<sup>20</sup> The Exchange 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. The Exchange therefore believes that the rationale underlying the exclusion of these foreign on-exchange trades in dually listed securities from its reporting requirements should apply equally to NYSE-listed securities in the absence of Rule 410B. Finally, only a handful of firms currently account for all of the Rule 410B activity, all of whom are also FINRA members.<sup>21</sup> Rule 410B is thus no longer necessary, and deleting it would eliminate essentially duplicative reporting of off-Exchange transactions by Dual Members.

<sup>20</sup> *See* Trade Reporting Frequently Asked Questions, Section 701, Q/A701.1, available at <http://www.finra.org/industry/trade-reporting-faq>. *See generally* note 17, *supra*.

<sup>21</sup> 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. Further, the list of firms that have in the past submitted Rule 410B reports does not include any non-FINRA members.

The Exchange does not believe that eliminating the Rule 410B reporting requirement for the small number of NYSE MKT-only members<sup>22</sup> would pose any significant regulatory risk. None of these firms has ever submitted a Rule 410B report. As noted above, a smaller number of Dual Member firms (five) account for all of the recent Rule 410B trading activity.<sup>23</sup> The Exchange believes that retaining a reporting requirement for firms that have never triggered the requirement serves no useful regulatory or other purpose. NYSE MKT-only members would remain subject to federal and Exchange books and records requirements.<sup>24</sup> Information about any trades away from the Exchange by these firms should thus be available for regulatory review if needed.

For the foregoing reasons, the Exchange believes that Rule 410B should be deleted in its entirety.

## 2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Act,<sup>25</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act,<sup>26</sup> in particular, because it is designed 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 protect investors and the public interest.

In particular, the Exchange believes that eliminating Rule 410B would remove impediments to and perfect the mechanism of a free and open market and a national market system by eliminating duplicative reporting by Dual Members of information those firms already provide to FINRA. The Exchange believes that eliminating Rule 410B reporting would not be inconsistent with the public interest and the protection of investors because FINRA would continue to receive information from Dual Members about off-Exchange transactions for incorporation in its cross-market surveillances. Further, the Exchange believes that eliminating Rule 410B reporting would not be inconsistent with the public interest and the protection of investors because the small number of NYSE [sic]-only firms

that would no longer be subject to the reporting requirement have never submitted a report under the Rule.

The Exchange further believes that deleting corresponding references to Rule 410B in another rule would remove impediments to and perfects the mechanism of a free and open market by reducing potential confusion and adding transparency and clarity to the Exchange's rules, thereby ensuring that members, regulators and the public can more easily navigate and understand the Exchange's rulebook.

### 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 rule change is not intended to address competitive issues, but rather it is designed to eliminate obsolete and duplicative regulatory reporting.

### 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

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 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 email to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-NYSEMKT-2015-80 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-NYSEMKT-2015-80. This file number should be included on the subject line if email 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 Web site (<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 Web site 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 will also be available for inspection and copying at the NYSE's principal office and on its Internet Web site at [www.nyse.com](http://www.nyse.com). 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-NYSEMKT-2015-80 and should be submitted on or before November 23, 2015.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>27</sup>

**Robert W. Errett,**  
Deputy Secretary.

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<sup>22</sup> These nine non-FINRA member firms do not have any public customers and are also members of Nasdaq as well as NYSE.

<sup>23</sup> See note 21, *supra*.

<sup>24</sup> See 17 CFR 240.17a-3, 17 CFR 240.17a-4 & Rule 440—Equities.

<sup>25</sup> 15 U.S.C. 78f(b).

<sup>26</sup> 15 U.S.C. 78f(b)(5).

<sup>27</sup> 17 CFR 200.30-3(a)(12).