

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-77147; File No. SR-EDGX-2016-04]

Self-Regulatory Organizations; EDGX Exchange, Inc.; Notice of Filing of a Proposed Rule Change To Amend the Certificate of Incorporation and Bylaws of the Exchange's Ultimate Parent Company, BATS Global Markets, Inc.

February 16, 2016.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the "Act"),¹ and Rule 19b-4 thereunder,² notice is hereby given that on February 9, 2016, EDGX Exchange, Inc. (the "Exchange" or "EDGX") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as 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 from interested persons.

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

The Exchange filed a proposal to amend the certificate of incorporation and bylaws of the Exchange's ultimate parent company, BATS Global Markets, Inc. (the "Corporation").

The text of the proposed rule change is available at the Exchange's Web site at www.batstrading.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 Exchange 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. 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 Statutory Basis for, the Proposed Rule Change

1. Purpose

On December 16, 2015, the Corporation, the ultimate parent company of the Exchange, filed a registration statement on Form S-1 with the Commission seeking to register shares of common stock and to conduct an initial public offering of those shares, which will be listed for trading on BATS Exchange, Inc. (the "IPO"). In connection with its IPO, the Corporation intends to (i) amend and restate its current certificate of incorporation (the "Current Certificate of Incorporation") and adopt these changes as its Amended and Restated Certificate of Incorporation (the "New Certificate of Incorporation"), and (ii) amend and restate its current bylaws (the "Current Bylaws") and adopt these changes as its Amended and Restated Bylaws (the "New Bylaws"). It is anticipated that the New Certificate of Incorporation and the New Bylaws will become effective (the "Effective Date") the moment before the closing of the IPO.

The amendments to the Current Certificate of Incorporation include, among other things, (i) increasing the total number of authorized shares of capital stock of the Corporation, (ii) effecting a conversion and elimination of one class of non-voting common stock and reclassifying the remaining class of non-voting common stock, (iii) establishing a classified board structure, (iv) prohibiting cumulative voting in the election of directors, (v) eliminating the process for action by written consent of stockholders, (vi) revising certain requirements for approval of future amendments to the New Certificate of Incorporation, and (vii) and changing the name of the Corporation from "BATS Global Markets, Inc." to "Bats Global Markets, Inc."

The amendments to the Current Bylaws include, among other things, (i) revising the procedures for stockholder proposals and nomination of directors, (ii) revising the authority to call special meetings of the stockholders, (iii) eliminating the process for action by written consent of stockholders, (iv) establishing a classified board structure, (v) revising the requirements for removal of directors, (vi) removing duplicative provisions relating to the indemnification of officers and directors that are contained in the Current Certificate of Incorporation (and are proposed to be maintained in the New Certificate of Incorporation), (vii) revising certain requirements for

approval of future amendments to the New Bylaws, (viii) eliminating the authority to make loans to corporate officers, and (ix) changes to reflect the change of the Corporation's name. The amendments to the Corporation's Current Certificate of Incorporation and Current Bylaws are intended primarily to reflect (i) the adoption of provisions more customary for publicly-owned companies, (ii) changes to the Corporation's capital structure, specifically with respect to non-voting common stock, and (iii) stylistic and other non-substantive changes.³

The purpose of this rule filing is to submit for Commission approval the New Certificate of Incorporation and the New Bylaws. The changes described herein relate to the certificate of incorporation and bylaws of the Corporation only, not to the governance of the Exchange. The Exchange will continue to be governed by its existing certificate of incorporation and bylaws. The stock in, and voting power of, the Exchange will continue to be directly and solely held by Direct Edge LLC, an intermediate holding company wholly-owned by the Corporation.

The Corporation was originally formed as BATS Global Markets Holdings, Inc. on August 22, 2013 as a new ultimate holding company for the Exchange as a result of a business combination involving the ultimate holding company of the Exchange at the time and the ultimate holding company at the time of BATS Exchange, Inc. and BATS Y-Exchange, Inc.⁴

1. The New Certificate of Incorporation

a. Capital Stock; Voting Rights

The current capital structure of the Corporation is comprised of 75 million authorized shares of Common Stock,

³ Certain of the amendments proposed to be adopted in the New Certificate of Incorporation and New Bylaws were previously approved by the Commission in 2011 as part of proposed amendments to the certificate of incorporation and bylaws of the ultimate parent company of BATS Exchange, Inc. and BATS Y-Exchange Inc. at the time. See, e.g., Securities Exchange Act Release No. 65646 (October 27, 2011), 76 FR 67783 (November 2, 2011) (SR-BATS-2011-033); Securities Exchange Act Release No. 65728 (November 10, 2011), 76 FR 71411 (November 17, 2011) (SR-BATS-2011-035). Although approved, the Exchange understands that these amendments were not ultimately implemented.

⁴ The ownership structure of the Exchange at the time of the business combination and the Current Certificate of Incorporation and Current Bylaws of the Corporation are further described in the Commission's order approving the Exchange's proposed rule changes in connection with the Corporation's business combination with Direct Edge Holdings LLC. See Securities Exchange Act Release No. 71449; (January 30, 2014), 79 FR 6961 (February 5, 2014) (SR-EDGX-2013-43; SR-EDGA-2013-34).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

consisting of 55 million shares of Voting Common Stock, 10 million shares of Class A Non-Voting Common Stock and 10 million shares of Class B Non-Voting Common Stock. Article Fourth(a)(i) of the New Certificate of Incorporation would revise this capital structure such that there would be 150 million total authorized shares of capital stock, consisting of 125 million shares designated as Voting Common Stock and a single class of 10 million shares designated as Non-Voting Common Stock (together with Voting Common Stock, "Common Stock"), as well as 15 million shares of Preferred Stock.

The Corporation's existing Class A Non-Voting Common Stock is currently held by International Securities Exchange Holdings, Inc. ("ISE Holdings"). Pursuant to the Investor Rights Agreement dated January 31, 2014, among the Corporation and its stockholders signatory thereto (the "Investor Rights Agreement"), and the Current Certificate of Incorporation, ISE Holdings' shares of Class A Non-Voting Common Stock may convert into Voting Common Stock (i) automatically with respect to any shares transferred to persons other than related persons of ISE Holdings; (ii) upon the termination of the Investor Rights Agreement, with such agreement (other than with respect to registration rights) terminating upon the IPO; or (iii) automatically with respect to any shares of Class A Non-Voting Common Stock sold by ISE Holdings in any public offering of the stock of the Corporation. In addition, ISE Holdings' shares of Class A Non-Voting Common Stock may convert into Voting Stock at the option of ISE Holdings, provided that ISE Holdings furnishes to the Corporation a written notice stating that ISE Holdings desires to convert a stated number of shares of Class A Non-Voting Common Stock and the certificates representing such shares.⁵

As a result of these conversion rights, the Corporation expects the Class A Non-Voting Common Stock to convert into Voting Common Stock at the time of the IPO. To effect this conversion, Article Fourth(b)(i) of the New Certificate of Incorporation states that, at the time that the New Certificate of Incorporation becomes effective (the "Effective Time"),⁶ each authorized, issued and outstanding share of Class A Non-Voting Common Stock shall be automatically converted into one share

⁵ See Current Certificate of Incorporation, Art. Fourth, para. (c); Investor Rights Agreement, Section 2.2(j).

⁶ It is anticipated that the Effective Time will coincide with the date of the closing of the IPO and will occur immediately prior thereto.

of Voting Common Stock. To simplify the capital structure of the Corporation, Article Fourth(b)(ii) would reclassify each authorized, issued and outstanding share of Class B Non-Voting Common Stock into one share of Non-Voting Common Stock.⁷

Pursuant to Article Fourth(c) of the New Certificate of Incorporation, as proposed to be adopted, all voting power will be vested in Voting Common Stock (except with regard to certain matters relating to the rights of holders of Preferred Stock described below). Specifically, each holder of Voting Common Stock will be entitled to one vote for each share of Voting Common Stock held of record by such holder on all matters on which stockholders generally are entitled to vote. Shares of Non-Voting Common Stock are non-voting, except with regard to certain matters that would adversely affect their respective rights as described in the proposed amendments to Article Fourth(c)(ii) of the New Certificate of Incorporation.

Pursuant to Article Fourth(d) of the New Certificate of Incorporation, Non-Voting Common Stock will generally have the conversion features that previously applied to Class B Non-Voting Common Stock under the Current Certificate of Incorporation. Non-Voting Common Stock will be convertible into Voting Common Stock, on a one-to-one basis, following a "Qualified Transfer," as defined in Article Fourth(d)(i).⁸ Voting Common

⁷ The Exchange understands that the existing Class B Non-Voting Common Stock is, and the Non-Voting Common Stock upon conversion will be, held by certain persons subject to restrictions under the Bank Holding Company Act of 1956 on the extent to which they are permitted to own voting stock of the Corporation or certain types of non-voting stock convertible into voting stock of the Corporation.

⁸ A "Qualified Transfer" is defined as a sale or other transfer of Non-Voting Common Stock by a holder of such shares: (A) in a widely distributed public offering registered pursuant to the Securities Act of 1933 (15 U.S.C. 77a.); (B) in a private sale or transfer in which the relevant transferee (together with its Affiliates, as defined below, and other transferees acting in concert with it) acquires no more than two percent of any class of voting shares (as defined in 12 CFR 225.2(q)(3)) and determined by giving effect to any such permitted conversion of transferred shares of Non-Voting Common Stock upon such transfer pursuant to Article Fourth of the New Certificate of Incorporation; (C) to a transferee that (together with its Affiliates and other transferees acting in concert with it) owns or controls more than 50 percent of any class of voting shares (as defined in 12 CFR 225.2(q)(3)) of the Corporation without regard to any transfer of shares from the transferring holder of shares of Non-Voting Common Stock; or (D) to the Corporation. As used above, the term "Affiliate" means, with respect to any person, any other person directly or indirectly controlling, controlled by or under common control with such person, and "control" (including, with correlative meanings, the terms "controlled by" and

Stock will not be convertible into Non-Voting Common Stock.

Except for voting rights and certain conversion features, as described above, Non-Voting Common Stock and Voting Common Stock will generally rank equally and have identical rights and privileges. Because the IPO is expected to be a widely distributed public offering registered pursuant to the Securities Act of 1933 (15 U.S.C. 77a.), the Corporation expects it to be a "Qualified Transfer," for purposes of the conversion feature of the Non-Voting Common Stock,⁹ such that any shares of Non-Voting Common Stock sold in the IPO would convert to Voting Common Stock. As a result, purchasers of the Corporation's common stock in the IPO will receive only Voting Common Stock.

Proposed Article Fourth(a)(i) of the New Certificate of Incorporation would increase the Corporation's authorized shares in order to accommodate the reclassification of Class A Non-Voting Common Stock and Class B Non-Voting Common Stock discussed above, while providing sufficient additional authorized shares for future issuances, such as, for example, grants of equity to employees pursuant to a compensation plan.

b. Board of Directors

Article Sixth of the New Certificate of Incorporation would amend certain provisions relating to the Corporation's board of directors to add further specificity and detail, and effect a number of changes to the board of directors of the Corporation.

Article Sixth(a) of the New Certificate of Incorporation would explicitly specify that the business and affairs of the Corporation shall be managed by or under the board of directors and empower the board of the directors to do all such acts and things as may be exercised or done by the Corporation. This provision is intended to restate the power of the Corporation's board in accordance with the General Corporation Law of the State of Delaware, as amended ("Delaware Law").¹⁰

Article Sixth(c) of the New Certificate of Incorporation would establish a "staggered" or classified board structure in which the directors would be divided into three classes of equal size, to the extent possible. Only one class of directors would be elected each year,

"under common control with") has the meaning set forth in 12 CFR 225.2(e)(1).

⁹ See New Certificate of Incorporation, Art. Fourth(d)(i).

¹⁰ See Delaware Law Section 141(a).

and once elected, directors would serve a three-year term. Directors initially designated as Class I directors would serve for a term ending on the date of the 2017 annual meeting of stockholders, directors initially designated as Class II directors would serve for a term ending on the date of the 2018 annual meeting of stockholders, and directors initially designated as Class III directors would serve for a term ending on the date of the 2019 annual meeting of stockholders. The names and addresses of each of the directors initially classified as Class I, Class II and Class III directors are set forth in Article Sixth(c)(ii) of the New Certificate of Incorporation. The Exchange believes that such a classified board structure is common for publicly-held companies, as it has the effect of making hostile takeover attempts more difficult.

Pursuant to Article Sixth(d) of the New Certificate of Incorporation, cumulative voting in the election of directors will be prohibited. If the Corporation were to permit cumulative voting, stockholders would be entitled to as many votes as are equal to the number of voting shares it holds, multiplied by the number of director seats up for election to the board of directors, and such stockholder may allocate all of its votes to one or more directorial candidates, as the stockholder desires. In contrast, in "regular" or "statutory" voting (*i.e.*, when cumulative voting is prohibited), stockholders may not vote more than one vote per share to any single director nominee. The Exchange believes that cumulative voting is inappropriate for the ultimate parent company of a national securities exchange, as it would increase the likelihood that a stockholder or group of stockholders holding only a minority of voting shares would be able to exert an outsized influence in the election of directors of the Corporation, relative to its stockholdings in the Corporation. As a result, cumulative voting could undermine the limitations on concentrations of ownership or voting included in both the Current Certificate of Incorporation and New Certificate of Incorporation.¹¹

c. Transfer, Ownership and Voting Restrictions

The transfer, ownership and voting restrictions set forth in Article Fifth of the Corporation's Current Certificate of Incorporation would be retained in the New Certificate of Incorporation. Article

Fifth of the Corporation's Current Certificate of Incorporation provides that for so long as the Corporation controls, directly or indirectly, a national securities exchange, subject to certain exceptions, (i) no person, either alone or together with its "Related Persons" (as defined therein), may own, directly or indirectly, of record or beneficially, shares constituting more than 40 percent of any class of the Corporation's capital stock, (ii) no member of such a national securities exchange, either alone or together with its Related Persons, may own, directly or indirectly, of record or beneficially, shares constituting more than 20 percent of any class of the Corporation's capital stock, and (iii) no person, either alone or together with its Related Persons, at any time, may, directly, indirectly or pursuant to any of various arrangements, vote or cause the voting of shares or give any consent or proxy with respect to shares representing more than 20 percent of the voting power of the Corporation's then issued and outstanding capital stock.

In the case of shares of the Corporation purportedly transferred in violation of the limitations contained in Article Fifth, in addition to other remedies provided under Article Fifth(d),¹² Article Fifth(e) of the Current Certificate of Incorporation provides that the Corporation may redeem the shares sold, transferred, assigned, pledged, or owned in violation of Article Fifth for a price equal to the fair market value of those shares.

These limitations and remedies are designed to prevent any stockholder from exercising undue influence over the Corporation's national securities exchange subsidiaries. As a result, these limitations and remedies would be retained in the New Certificate of Incorporation. However, in the case of the redemption of shares purportedly transferred in violation of Article Fifth, the Current Certificate of Incorporation does not specify the manner of determining the fair market value. In order to enhance this remedy and provide clarity in the event that it is necessary to enforce it, Article Fifth(e) of the New Certificate of Incorporation is proposed to be amended to provide that the fair market value would be determined as the volume-weighted average price per share of the Common Stock during the five business days

immediately preceding the date of the redemption.

d. Future Amendments to the Certificate of Incorporation

Article Twelfth of the Current Certificate of Incorporation requires that any proposed amendment to the Current Certificate of Incorporation be approved by the board of directors of the Corporation, submitted to the Board of Directors of the Exchange and filed with, or filed with and approved by, the Commission, if required under Section 19 of the Act. Provided that these conditions are satisfied, the Current Certificate of Incorporation can be amended in any manner permitted by Delaware Law, which today generally allows for the amendment of a certificate of incorporation by the affirmative vote of the majority of the outstanding stock entitled to vote thereon. Pursuant to proposed Article Fourteenth(a) of the New Certificate of Incorporation, certain provisions of the New Certificate of Incorporation would only be able to be amended upon the affirmative vote of not less than 66 $\frac{2}{3}$ percent of the total voting power of the Corporation's outstanding securities entitled to vote generally in the election of directors, voting together as a single class. These provisions include Article Fourth(c) and (d), relating to voting rights and conversion of Non-Voting Common Stock, and Articles Fifth through Thirteenth, relating to limitations on transfer, ownership and voting, board of directors, duration of the Corporation, adopting, amending or repealing bylaws, indemnification and limitation of director liability, meetings of stockholders, forum selection, compromise or other arrangement, Section 203 opt-in (discussed below), and amendments to the certificate of incorporation, respectively.

The purpose of this supermajority requirement, which the Exchange believes is common among public companies, is to deter actions being taken that the Corporation believes may be detrimental to the Corporation, including any actions that could detrimentally affect the Corporation's ability to comply with its unique responsibilities under the Act as the ultimate parent of four registered national securities exchanges. The purpose for limiting the application of the supermajority voting requirement to certain specified provisions of the certificate of incorporation is to focus such requirement on the most critical provisions of the certificate of incorporation.

¹¹ See Current Certificate of Incorporation, Art. Fifth; New Certificate of Incorporation, Art. Fifth.

¹² Article Fifth(d) of the Current Certificate of Incorporation provides that purported transfers that would result in a violation of the ownership limitations are not recognized by the Corporation to the extent of any ownership in excess of the limitation.

e. Other Amendments

The New Certificate of Incorporation will amend and restate various other provisions of the Current Certificate of Incorporation in a manner that the Exchange believes are intended to reflect provisions that are more customary for publicly-owned companies organized under Delaware Law. In particular:

- *Preferred Stock.* Pursuant to proposed Article Fourth(a) of the New Certificate of Incorporation, the Corporation will have the authority to issue 15 million shares of Preferred Stock, par value \$0.01 per share (the "Preferred Stock"), which the Corporation's board of directors may, by resolution from time to time, issue in one or more classes or series by filing a certificate of designation pursuant to Delaware Law, fixing the terms and conditions of such class or series of Preferred Stock. The Preferred Stock may be used by the Corporation to raise capital or to act as a safety mechanism for unwanted takeovers. Pursuant to Article Sixth(f) of the New Certificate of Incorporation, should the Corporation issue Preferred Stock and the holders of Preferred Stock have the right to vote separately or as a class to elect directors, the features of such directorships shall be governed by the terms of the resolution adopted by the board of directors, rather than the features otherwise applicable under Article Sixth.

- *Stockholder Meetings.* Article Tenth of the Current Certificate of Incorporation permits action to be taken by the stockholders of the Corporation, without a meeting, by written consent as permitted by Delaware Law. The New Certificate of Incorporation would amend Article Tenth to provide that any action required or permitted to be taken at any meeting of the stockholders may be taken only upon the vote of stockholders at a meeting of the stockholders in accordance with Delaware Law and the New Certificate of Incorporation, and may not be taken by written consent without a meeting, subject to the rights of the holders of any class or series of Preferred Stock then outstanding. Proposed Article Tenth(a) would establish a requirement for the Corporation to hold annual meetings of stockholders for director elections and other business, while Proposed Article Tenth(b) would permit special meetings to be called only upon a resolution of a majority of the board of directors (except that when holders of Preferred Stock have the right to elect directors, such holders may call a special meeting). Provisions providing

for annual meetings and special meetings are currently contained only in the Current Bylaws.¹³

- *Forum Selection.* The New Certificate of Incorporation would add a new Article Eleventh, designating the Court of Chancery of the State of Delaware as the sole and exclusive forum for certain actions or proceedings, such as derivative actions brought on behalf of the Corporation or actions asserting a claim of breach of fiduciary duty owed by any director, officer or other employee of the Corporation to the Corporation or to its stockholders. Among other things, this provision prevents similar actions from being brought in multiple jurisdictions and helps ensure that any litigation will be handled by the court that is most experienced in applying Delaware Law. Article Eleventh also provides that any person or entity acquiring an interest in shares of capital stock of the Corporation shall be deemed to have notice of and consented to this exclusive forum provision.

- *Section 203.* The New Certificate of Incorporation would add Article Thirteenth, providing that the Corporation will be governed by Section 203 of Delaware Law. In general, Section 203 prohibits a publicly-held Delaware corporation from engaging in a business combination with anyone who owns at least 15 percent of its common stock. This prohibition lasts for a period of three years after that person has acquired the 15 percent ownership. The corporation may, however, engage in a business combination if it is approved by its board of directors before the person acquires the 15 percent ownership or later by its board of directors and two-thirds of the stockholders of the public corporation. The restrictions contained in Section 203 do not apply if, among other things, the corporation's certificate of incorporation contains a provision expressly electing not to be governed by Section 203. Unless opted-out, Section 203 provides Delaware corporations with a defense to unwanted corporate takeovers.

The New Certificate of Incorporation also removes various references to the Investor Rights Agreement, as the provisions of that agreement, other than certain registration rights, is expected to terminate upon the occurrence of the IPO.¹⁴ The New Certificate of

Incorporation additionally makes various non-substantive, stylistic changes throughout. For example, the New Certificate of Incorporation would amend the name of the Corporation from "BATS Global Markets, Inc." to "Bats Global Markets, Inc."

2. The New Bylaws

a. Registered Office

Article I of the Current Bylaws designates the initial registered office of the Corporation in the State of Delaware as 1209 Orange Street in the City of Wilmington, County of New Castle, Delaware and the initial registered agent at that address as The Corporation Trust Company. Section 1.01 of the New Bylaws would amend Article I to state that the registered office will continue to be located at the same location and to further provide the board of directors with the authority to designate another location from time to time. This will provide the board of directors with the flexibility to change the registered office in the future if it believes that such a change is necessary. In addition, Section 1.01 of the New Bylaws would provide that the registered agent will continue to be The Corporation Trust Company.

b. Annual Meeting of Stockholders

Section 2.02(a) of the Current Bylaws requires that an annual meeting of stockholders for the purpose of election of directors and for such other business as may lawfully come before the meeting occur on the third Tuesday of January, or such other time as the board of directors may designate. The New Bylaws remove the reference to the third Tuesday of January from Section 2.02(a) and authorize the board of directors to determine the place, date and time of the annual meeting.

Section 2.02(b) of the Current Bylaws specifies the procedures for stockholders to properly bring matters before the annual meeting, including specifying that stockholders provide timely notice to the Corporation of the business desired to be brought before the meeting. To be considered timely, Section 2.02(b) of the Current Bylaws states that the stockholder's notice must be delivered to the Corporation no earlier than the ninetieth day or later than the sixtieth day prior to the first anniversary of the preceding year's annual meeting. The New Bylaws modify the acceptable time period so that the stockholder's notice must be delivered to the Corporation no earlier than the one hundred and fiftieth day or later than the one hundred and

¹³ Current Bylaws, Sections 2.02 and 2.03.

¹⁴ See Investor Rights Agreement, Section 10 (providing that the rights and obligations of each stockholder party to the agreement shall terminate, to the extent not previously terminated, upon the occurrence of "Qualified Public Offering," as

defined therein, except that certain registration rights shall survive such termination).

twentieth day prior to the first anniversary of the preceding year's annual meeting. In the event that no annual meeting was held in the previous year or the date of the annual meeting has been changed by more than thirty days, the New Bylaws generally require that the stockholder's notice be delivered no earlier than the one hundred and twentieth day or later than the seventieth day prior to such annual meeting.

Section 2.02(b) of the Current Bylaws specifies what must be contained in the stockholder's notice. In addition to the requirements contained in the Current Bylaws, Section 2.02(b) of the New Bylaws would require that the stockholder's notice (i) disclose the text of the proposal, (ii) disclose the beneficial owner on whose behalf the proposal is being made, (iii) disclose all arrangements or understandings between the stockholder and any other person pursuant to which the proposal is being made, (iv) disclose all agreements, arrangements or understandings (including derivative positions) to create or mitigate loss or manage the risk or benefit of share price changes, or increase or decrease the voting power of the stockholder or any beneficial owner with respect to the securities of the Corporation, (v) provide a representation as to whether the stockholder or any beneficial owner intends, or is part of a group that intends, to deliver a proxy statement and/or form of proxy to holders of at least the percentage of the voting power of the Corporation needed to approve or adopt the proposal, or otherwise solicit proxies from stockholders in support of the proposal, and (vi) provide such other information relating to any proposed item of business as the Corporation may reasonably require to determine whether such proposed item of business is a proper matter for stockholder action.

Section 2.02(c) of the Current Bylaws specifies the procedures for stockholders to properly nominate persons for the board of directors, including that the stockholder provide timely notice to the Corporation. In addition to the requirements contained in the Current Bylaws, Section 2.02(c) of the New Bylaws would require that the stockholder's notice (i) disclose all agreements, arrangements or understandings (including derivative positions) to create or mitigate loss or manage the risk or benefit of share price changes, or increase or decrease the voting power of the stockholder, beneficial owner or any such nominee with respect to the securities of the Corporation, (ii) provide a

representation that such stockholder is a stockholder entitled to vote at such meeting and intends to appear in person or by proxy at the meeting and to bring such nomination or other business before the meeting, and (iii) provide a representation as to whether the stockholder or any beneficial owner intends, or is part of a group that intends, to deliver a proxy statement and/or form of proxy to holders of at least the percentage of the voting power of the Corporation needed to elect each such nominee, or otherwise solicit proxies from stockholders in support of the nomination.

The additional disclosure requirements being added to Sections 2.02(b) and 2.02(c) are intended to assure that stockholders asked to vote on a stockholder proposal or stockholder nominee are more fully informed in their voting and are able to consider any proposals or nominations along with the interests of those stockholders or the beneficial owners on whose behalf such proposal or nomination is being made.

The New Bylaws would further include a new Section 2.02(d), which would require that a stockholder proposal or a stockholder nomination be disregarded if the stockholder (or a qualified representative) does not appear at the annual or special meeting to present the proposal or nomination, notwithstanding that proxies may have been received and counted for purposes of determining a quorum. A "qualified representative" would include a duly authorized officer, manager or partner of the stockholder, or such other person authorized in writing to act as such stockholder's proxy. The purpose of this requirement is to assure that the stockholders' time at meetings is used efficiently and only serious stockholder proposals and nominations are considered.

The New Bylaws would also add Section 2.02(e), which would require that a stockholder, in addition to (and in no way limiting) all requirements set forth in Section 2.02 with respect to proposals or nominations, must also comply with all applicable requirements of the Act and the rules and regulations promulgated thereunder.

New Section 2.02(f) of the New Bylaws would note that, notwithstanding anything to the contrary in the New Bylaws, the notice requirements with respect to business proposals or nominations would be deemed satisfied if the stockholder submitted a proposal in compliance with Rule 14a-8 of the Act¹⁵ and the

proposal has been included in a proxy statement prepared by the Corporation to solicit proxies of the meeting of stockholders. This provision would assure that, in addition to proposals that meet the requirements of Section 2.02(b) of the New Bylaws, the Corporation would comply with the provisions of the Act and the rules promulgated thereunder with respect to the inclusion of stockholder proposals in its proxy statement.

c. Special Meetings of Stockholders

Section 2.03 of the Current Bylaws permits a special meeting of the stockholders to be called by any of (i) the chairman of the board of directors, (ii) the chief executive officer, (iii) the board of directors pursuant to a resolution passed by a majority of the board, or (iv) the stockholders entitled to vote at least 10 percent of the votes at the meeting. The New Bylaws would amend Section 2.03, consistent with Article Tenth(b) of the New Certificate of Incorporation, to only permit a special meeting of the stockholders to be called by the board of directors pursuant to a resolution adopted by the majority of the board. Additionally, whenever any holders of Preferred Stock have the right to elect directors pursuant to the New Certificate of Incorporation, such holders may call, pursuant to the terms of a resolution adopted by the board, a special meeting of the holders of such Preferred Stock. These amendments are designed to prevent any stockholder from exercising undue control over the operation of the Exchange by circumventing the board of directors of the Corporation through a special meeting of the stockholders.

d. Quorum; Vote Requirements

Section 2.05 of the Current Bylaws describe the quorum and voting requirements for the transaction of business at all meetings of stockholders of the Corporation. As the New Charter establishes two classes of stock, voting common stock and non-voting common stock, the New Bylaws would amend Section 2.05 to clarify that a majority of the voting power (the Voting Common Stock) is generally required for a quorum for the transaction of business, rather than a majority of all outstanding shares. The New Bylaws would also amend Section 2.05 to conform to Section 216 of Delaware Law to track the requirement of a majority of votes "present in person or represented by proxy" for a quorum where a separate vote by class or classes or series is required. In addition, Section 2.05 of the New Bylaws would also be amended to clarify that abstentions and broker non-

¹⁵ 17 CFR 240.14a-8.

votes shall not be counted as votes cast. Under Delaware Law, abstentions and broker non-votes are not shares authorized to vote and are not considered votes cast on any matter.¹⁶ This amendment conforms the provisions of Section 2.05 to Delaware Law and is intended to eliminate ambiguity in the counting of abstentions and broker non-votes.

e. Adjournment of Meetings

Section 2.06 of the Current Bylaws outlines certain requirements relating to the adjournment of stockholder meetings, including that any meeting of stockholders, whether annual or special, may be adjourned from time to time either by the chairman of the meeting or by the vote of a majority of the voting power of the shares casting votes, excluding abstentions. The New Bylaws would amend Section 2.06 such that only the chairman of the meeting or the board of directors would be permitted to adjourn a stockholder meeting. The authority to adjourn a stockholder meeting resting solely with the board of directors or the chairman is common among publicly-held companies. Furthermore, this amendment would provide the Corporation with flexibility to postpone a stockholder vote if it determines necessary and would prevent stockholders from adjourning a meeting if the board of directors and chairman desire to continue with the meeting.

f. Voting Rights

Section 2.07 of the Current Bylaws describes the rights of stockholders of the Corporation to vote their shares at a meeting of stockholders. The New Bylaws would amend Section 2.07 to further clarify that any share of stock of the Corporation held by the Corporation shall have no voting rights, except when such shares are held in a fiduciary capacity. The Current Bylaws do not address voting rights with respect to shares of stock of the Corporation held by the Corporation. This amendment is consistent with Delaware Law and removes ambiguity as to the voting rights of shares of stock of the Corporation held by the Corporation.¹⁷

g. Action Without a Meeting

Section 2.10(a) of the Current Bylaws permits certain actions to be taken by written consent of stockholders if signed by the holders of outstanding stock representing not less than the number of votes necessary to authorize or take

such action at a meeting where all shares entitled to vote were present and voted. However, Section 2.10(c) of the Current Bylaws provides that no action by written consent may be taken following an initial public offering of the common stock of the Corporation. The New Bylaws would amend Section 2.10 to prohibit at all times actions taken by written consent of stockholders without a meeting, subject to the rights of any holders of Preferred Stock. This change is consistent with proposed changes contained in Article Tenth(c) of the New Certificate of Incorporation and would simplify Section 2.10 of the New Bylaws, given that the New Bylaws would become effective the moment before the closing of the IPO.

h. Number of Directors and Classified Board Structure

Section 3.01 of the Current Bylaws stipulates that the board of directors of the Corporation shall consist of 15 members, or such other number of members as determined from time to time by resolution of the board of directors. Under the New Bylaws, Section 3.01 would be amended to state that the board of directors shall consist of one or more directors, with the exact number of directors to be determined by resolution adopted by the majority of the board of directors. In addition, Section 3.01 of the New Bylaws would, consistent with proposed Article Sixth(c) of the New Certificate of Incorporation, establish a classified board structure in which the directors would be divided into three classes of equal size, to the extent possible. Only one class of directors would be elected each year, and once elected, directors would serve a three-year term. The Exchange believes that such a classified board structure is common for publicly-held companies, as it has the effect of making hostile takeover attempts more difficult.

i. Vacancies and Resignation

Section 3.03 of the Current Bylaws provides that vacancies on the board of directors resulting from death, resignation, removal or other causes, and any newly created directorships resulting from any increase in the number of directors, shall be filled by a majority vote of the directors then in office, even if less than a quorum, unless the board of directors determines by resolution that any such vacancies or newly created directorships should be filled by stockholders. Once elected, the director would hold office for the remainder of the full term of the director for which the vacancy was created or occurred and until such director's

successor shall have been elected and qualified. Section 3.03 of the New Bylaws would adopt a substantially similar approach. Specifically, it would provide that vacancies or new directorships shall, except as otherwise required by law, be filled solely by a majority of the directors then in office (although less than a quorum) or by the sole remaining director, and each director so elected shall hold office for a term that shall coincide with the term of the class to which such director shall have been elected. The New Bylaws would also amend Section 3.03 to provide that if there are no directors in office, then an election of directors may be held in accordance with Delaware Law.

Section 3.04 of the Current Bylaws addresses the resignation of directors. For example, Section 3.04 provides that when one or more directors resign from the board of directors, effective at a future date, a majority of the directors then in office, including those who have so resigned, shall have the power to fill such vacancy or vacancies, the vote thereon to take effect when such resignation or resignations shall become effective. This provision would be retained in the New Bylaws, but it would be moved to Section 3.03. In addition, as is effectively the case under Section 3.04 of the Current Bylaws, Section 3.03 of the New Bylaws would provide that any director so chosen shall hold office as provided in the filling of other vacancies.

j. Removal of Directors

Section 3.05 of the Current Bylaws provides that the board of directors or any director may be removed, with or without cause, by the affirmative vote of at least 66⅔ percent of the voting power of all then-outstanding shares of voting stock of the Corporation. The New Bylaws would amend Section 3.05 to provide that directors may only be removed for cause with the affirmative vote of a simple majority of the holders of voting power of all then-outstanding securities of the Corporation generally entitled to vote in the election of directors, voting together as a single class.

The purpose of this amendment is to align the Corporation's requirements for removal of directors with Section 141(k)(1) of Delaware Law, which generally provides that, in the case of a corporation with a classified board, a simple majority of stockholders may remove any director, but only for cause, unless the certificate of incorporation provides otherwise.

¹⁶ See, e.g., *Berlin v. Emerald Partners*, 552 A.2d 482 (Del. 1988).

¹⁷ See Delaware Law Section 160(c).

k. Committees of Directors

Sections 3.10(a) and (b) of the Current Bylaws permit the board of directors to appoint an executive committee with certain enumerated powers of the board, as well as other committees permitted by law. The New Bylaws would amend Section 3.10(a) to eliminate specific reference to an executive committee and authorize the board to designate one or more committees that may exercise the power of the board to the extent permitted in the resolution designating the committee. This amendment would enhance the board's flexibility to create those committees it deems necessary and most efficient for the functioning of the board. Section 3.10(a) would be further amended to provide that no committee would have the power to (i) approve, adopt or recommend to the stockholders any matter required by Delaware Law to be submitted for stockholder approval, or (ii) adopt, amend or repeal any bylaw. These amendments are being made to assure that the full board of directors considers and passes upon these significant corporate decisions.

Section 3.10(c) of the Current Bylaws describes the requirements for committee meetings. The New Bylaws would amend Section 3.10(c) to require that each committee keep regular minutes of its meetings and report the same to the board of directors of the Corporation when required. This amendment is being made to assure that matters addressed during committee meetings are recorded in the corporate records of the Corporation and are available to be communicated to the full board of directors of the Corporation.

l. Preferred Stock Directors

The New Bylaws would add new Section 3.12 to clarify that whenever the holders of one or more classes or series of Preferred Stock have the right to elect one or more directors (a "Preferred Stock Director"), pursuant to the New Certificate of Incorporation, the provisions of Article III of the New Bylaws relating to the election, term of office, filling of vacancies, removal, and other features of directorships would not apply to the Preferred Stock Directors. Rather, such features would be governed by the applicable provisions of the New Certificate of Incorporation. This amendment is consistent with proposed Article Sixth(f) of the New Certificate of Incorporation with respect to the rights of holders of Preferred Stock, should any class or series of Preferred Stock be issued with director voting rights in the future.

m. Officers

Section 4.01 of the Current Bylaws provides that the officers of the Corporation shall include, if and when designated by the board of directors, the chairman of the board of directors, the chief executive officer, the president, one or more vice presidents and certain other employees. The New Bylaws would amend Section 4.01 to remove the chairman of the board of directors from the list of potential officers of the Corporation. Similarly, the New Bylaws would also remove Section 4.02(b) of the Current Bylaws, which describes the duties of the chairman of the board of directors. These changes would be made to reflect the fact that the chairman of the board of directors does not serve in an officer role in the Corporation.

n. Form of Stock Certificates

The New Bylaws would amend Section 6.01 of the Current Bylaws to state that the shares of the Corporation shall be represented by certificates, unless the board of directors provides by resolution that some or all of any class or series of stock be uncertificated. Except as otherwise provided by law, holders of certificated and uncertificated shares of the same class and series would have identical rights and obligations. Pursuant to Section 6.03(d) of the New Bylaws, the board will also have the power to make rules for issuance, transfer and registration of certificated or uncertificated shares, and the issuance of new certificates in lieu of those lost or destroyed. The New Bylaws further amend Section 6.01 to provide that the Corporation will not have the power to issue a certificate in bearer form. These amendments are intended to align the bylaws of the Corporation with standard provisions for Delaware public companies.

o. Fixing Record Dates

Section 6.04 of the Current Bylaws provides the procedures for fixing a record date for determining the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof. In general, a determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting. However, Section 6.04(a) of the Current Bylaws also permits the board of directors to fix a new record date for the adjourned meeting. The New Bylaws would amend Section 6.04(a) to clarify that the board of directors may fix a new record date for determination of stockholders entitled to vote at the adjourned meeting in its discretion or as

required by Delaware Law. In such case, the board of directors would be permitted to fix the same date or an earlier date as the record date for stockholders entitled to notice of such adjourned meeting. The New Bylaws would also remove Section 6.04(b) of the Current Bylaws, which relates to the fixing of a record date for determining the stockholders entitled to consent to corporate action in writing without a meeting. This provision would be removed because the New Bylaws would remove the ability of stockholders to authorize or take corporate action by written consent.

p. Indemnification

Article X of the Current Bylaws contains certain provisions for the indemnification of directors, officers, employees and certain other agents of the Corporation. The New Bylaws will eliminate such provisions in their entirety. These provisions are being eliminated because provisions regarding indemnification are already contained in Article Ninth of the Current Certificate of Incorporation and will remain in Article Ninth of the New Certificate of Incorporation.

q. Notices

Article XI of the Current Bylaws contains provisions governing the delivery of notices to stockholders and directors. Section 11.01(b) of the Current Bylaws, for example, states that notices to directors may be given through U.S. mail, facsimile, telex or telegram, except that such notice, other than one which is delivered personally, must be sent to such address as such director shall have filed in writing with the secretary of the Corporation, or, in the absence of such filing, to the last known post office address of such director. The corresponding section of the New Bylaws, Section 10.01(b), would be revised to additionally permit notice to directors to be given through electronic mail, in addition to the other forms of delivery currently permitted. The Exchange believes that it has become customary to deliver business communications through electronic mail. The remainder of the notice provisions would not be substantively amended in the New Bylaws.

r. Future Bylaws Amendments

Article Eighth of the Current Certificate of Incorporation (as proposed to be maintained in the New Certificate of Incorporation) provides that the bylaws may be adopted, amended or repealed by the board of directors or by action of the stockholders, in accordance with the procedures set out

in the bylaws. Article XII of the Current Bylaws permits the bylaws to be amended or repealed *only* by action of the stockholders holding 70 percent of the shares entitled to vote. Article XI of the New Bylaws would amend Article XII to provide that the bylaws may be altered, adopted, amended or repealed *either* by a majority of the board of directors, or by the stockholders with the affirmative vote of not less than 66 $\frac{2}{3}$ of the total voting power then entitled to vote at a meeting of stockholders, unless a higher percentage is required under the New Certificate of Incorporation. The New Certificate of Incorporation does not include a higher percentage, so the threshold set forth in the New Bylaws would govern. The Current Bylaws require a vote of at least 70 percent of the total stockholder voting power in order to maintain consistency with the threshold that was separately agreed to in the Investor Rights Agreement.¹⁸ As noted above, the Investor Rights Agreement is expected to terminate upon the IPO, except with respect to certain registration rights provisions, so the 70 percent threshold is no longer contractually necessary to maintain.¹⁹ The requirement to obtain 70 percent stockholder approval for any amendments to the Corporation's bylaws was practical while the Corporation was closely-held. However, the Exchange believes that it is customary for amendments to a publicly-held corporation's bylaws to be predominantly a matter for the corporation's board of directors, both as a matter of convenience, and to make unwanted corporate takeovers more difficult. As a result, the New Bylaws require that, should the stockholders wish to amend the Corporation's bylaws, a supermajority of 66 $\frac{2}{3}$ percent would be required. The threshold reduction from 70 percent to 66 $\frac{2}{3}$ is intended to be consistent with other publicly-held companies.

In addition to the board of directors and stockholder approval requirements, Article XI of the New Bylaws would maintain the provisions contained in Article XII of the Current Bylaws requiring that, for so long as the Corporation will control a national securities exchange registered with the Commission under Section 6 of the Act, before any amendment to the New Bylaws may become effective, the amendment must be submitted to the board of directors of such exchange, and if required by Section 19 of the Act,²⁰

filed with or filed with and approved by the Commission.

s. Loans to Officers

Article XIII of the Current Bylaws authorizes the Corporation to lend money to or guarantee obligations of any officer of the company under certain circumstances. In order to comply with Section 13(k)(1) of the Act,²¹ which will apply to the Corporation after the IPO, the New Bylaws eliminate this authority.

t. Other Amendments

The New Bylaws also remove references to the Investor Rights Agreement, as the provisions of that agreement, other than certain registration rights, is expected to terminate upon the occurrence of the IPO.²² In addition, the New Bylaws make various non-substantive, stylistic changes throughout. For example, as with the New Certificate of Incorporation, the New Bylaws would reflect a change in the name of the Corporation from "BATS Global Markets, Inc." to "Bats Global Markets, Inc."

2. Statutory Basis

The Exchange believes that its proposal is consistent with the requirements of the Act and rules and regulations thereunder that are applicable to a national securities exchange and, in particular, with the requirements of Section 6(b)(1) of the Act, in that it enables the Exchange to be so organized as to have the capacity to be able to carry out the purposes of the Act and to comply, and to enforce compliance by its members and persons associated with its members, with the provisions of the Act, the rules and regulations thereunder, and the rules of the Exchange.²³ In particular, the New Certificate of Incorporation is consistent with Section 6(b)(1) of the Act because it would retain the limitations on ownership and total voting power that currently exist and would adopt supermajority requirements for certain amendments to the New Certificate of Incorporation. These provisions would help prevent any stockholder, including any member of the Exchange along with its Related Persons, from exercising undue control over the operation of the Exchange. In addition, Sections 2.03 and 2.10(c) of the New Bylaws would prohibit the ability of the stockholders to call a special meeting of the stockholders and to act by written

consent. Therefore, as with the New Certificate of Incorporation, the New Bylaws would help prevent any stockholder from exercising undue control over the operation of the Exchange and assure that the Exchange is able to carry out its regulatory obligations under the Act.

(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. Indeed, the Exchange believes that the proposed rule change would enhance competition. The other major operators of registered national securities exchanges are currently public companies, with the access to the public markets that this facilitates. The amendments to the Corporation's certificate of incorporation and bylaws will facilitate the Corporation's IPO, facilitating capital formation and allowing the Corporation to better compete with other public companies operating national securities exchanges and other markets.

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

The Exchange has not solicited or received written comments on 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 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 Exchange consents, the Commission will: (a) By order approve or disapprove such 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:

¹⁸ See Investor Rights Agreement, Section 4.3(d).

¹⁹ See *supra* note 14 and accompanying text.

²⁰ 15 U.S.C. 78s.

²¹ 15 U.S.C. 78m(k)(1).

²² See *supra* note 14 and accompanying text.

²³ 15 U.S.C. 78f(b).

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. Please include File Number SR-EDGX-2016-04 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-EDGX-2016-04. 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 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-EDGX-2016-04 and should be submitted on or before March 14, 2016.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.²⁴

Brent J. Fields,

Secretary.

[FR Doc. 2016-03529 Filed 2-19-16; 8:45 am]

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-77148; File No. S7-966]

Program for Allocation of Regulatory Responsibilities Pursuant to Rule 17d-2; Notice of Filing and Order Approving and Declaring Effective an Amendment to the Plan for the Allocation of Regulatory Responsibilities Among NYSE MKT LLC, BATS Exchange, Inc., BOX Options Exchange LLC, C2 Options Exchange, Incorporated, the Chicago Board Options Exchange, Incorporated, the EDGX Exchange, Inc., the International Securities Exchange LLC, ISE Gemini, LLC, ISE Mercury, LLC Financial Industry Regulatory Authority, Inc., the New York Stock Exchange LLC, NYSE Arca, Inc., The NASDAQ Stock Market LLC, NASDAQ OMX BX, Inc., the NASDAQ OMX PHLX, Inc., and Miami International Securities Exchange, LLC Concerning Options-Related Sales Practice Matters

February 16, 2016.

Notice is hereby given that the Securities and Exchange Commission ("Commission") has issued an Order, pursuant to Section 17(d) of the Securities Exchange Act of 1934 ("Act"),¹ approving and declaring effective an amendment to the plan for allocating regulatory responsibility ("Plan") filed on February 3, 2016, pursuant to Rule 17d-2 of the Act,² by NYSE MKT LLC ("MKT"), BATS Exchange, Inc. ("BATS"), the BOX Options Exchange LLC ("BOX"), C2 Options Exchange, Incorporated ("C2"), the Chicago Board Options Exchange, Incorporated ("CBOE"), the EDGX Exchange, Inc. ("EDGX"), the International Securities Exchange LLC ("ISE"), ISE Gemini, LLC ("Gemini"), ISE Mercury, LLC ("ISE Mercury") Financial Industry Regulatory Authority, Inc. ("FINRA"), the New York Stock Exchange LLC ("NYSE"), NYSE Arca, Inc. ("Arca"), The NASDAQ Stock Market LLC ("Nasdaq"), NASDAQ OMX BX, Inc. ("BX"), NASDAQ OMX PHLX, Inc. ("PHLX"), and Miami International Securities Exchange ("MIAX") (collectively, "Participating Organizations" or "parties").

I. Introduction

Section 19(g)(1) of the Act,³ among other things, requires every self-regulatory organization ("SRO")

registered as either a national securities exchange or national securities association to examine for, and enforce compliance by, its members and persons associated with its members with the Act, the rules and regulations thereunder, and the SRO's own rules, unless the SRO is relieved of this responsibility pursuant to Section 17(d)⁴ or Section 19(g)(2)⁵ of the Act. Without this relief, the statutory obligation of each individual SRO could result in a pattern of multiple examinations of broker-dealers that maintain memberships in more than one SRO ("common members"). Such regulatory duplication would add unnecessary expenses for common members and their SROs.

Section 17(d)(1) of the Act⁶ was intended, in part, to eliminate unnecessary multiple examinations and regulatory duplication.⁷ With respect to a common member, Section 17(d)(1) authorizes the Commission, by rule or order, to relieve an SRO of the responsibility to receive regulatory reports, to examine for and enforce compliance with applicable statutes, rules, and regulations, or to perform other specified regulatory functions.

To implement Section 17(d)(1), the Commission adopted two rules: Rule 17d-1 and Rule 17d-2 under the Act.⁸ Rule 17d-1 authorizes the Commission to name a single SRO as the designated examining authority ("DEA") to examine common members for compliance with the financial responsibility requirements imposed by the Act, or by Commission or SRO rules.⁹ When an SRO has been named as a common member's DEA, all other SROs to which the common member belongs are relieved of the responsibility to examine the firm for compliance with the applicable financial responsibility rules. On its face, Rule 17d-1 deals only with an SRO's obligations to enforce member compliance with financial responsibility requirements. Rule 17d-1 does not relieve an SRO from its obligation to examine a common member for compliance with its own rules and provisions of the federal securities laws governing matters other than financial responsibility, including

⁴ 15 U.S.C. 78q(d).

⁵ 15 U.S.C. 78s(g)(2).

⁶ 15 U.S.C. 78q(d)(1).

⁷ See Securities Act Amendments of 1975, Report of the Senate Committee on Banking, Housing, and Urban Affairs to Accompany S. 249, S. Rep. No. 94-75, 94th Cong., 1st Session 32 (1975).

⁸ 17 CFR 240.17d-1 and 17 CFR 240.17d-2, respectively.

⁹ See Securities Exchange Act Release No. 12352 (April 20, 1976), 41 FR 18808 (May 7, 1976).

²⁴ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78q(d).

² 17 CFR 240.17d-2.

³ 15 U.S.C. 78s(g)(1).