

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 such filing also will 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-Phlx-2017-09, and should be submitted on or before March 9, 2017.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>32</sup>

**Eduardo A. Aleman,**  
Assistant Secretary.

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-80020; File No. SR-NYSEMKT-2016-119]

### Self-Regulatory Organizations; NYSE MKT LLC; Order Granting Approval of a Proposed Rule Change To Conform to Proposed Amendment to Rule 15c6-1(a) Under the Securities Exchange Act of 1934 To Shorten the Standard Settlement Cycle for Most Broker-Dealer Transactions From Three Business Days After the Trade Date ("T+3") to Two Business Days After the Trade Date ("T+2")

February 10, 2017.

#### I. Introduction

On December 15, 2016, NYSE MKT LLC ("NYSE MKT" or "Exchange") filed with the Securities and Exchange Commission ("Commission"), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")<sup>1</sup> and Rule

19b-4 thereunder,<sup>2</sup> a proposed rule change to conform its rules to an amendment proposed by the Commission to Rule 15c6-1(a) under the Act to shorten the standard settlement cycle for most broker-dealer transactions from three business days after the trade date ("T+3") to two business days after the trade date ("T+2").<sup>3</sup> The proposed rule change was published for comment in the **Federal Register** on December 29, 2016.<sup>4</sup> The Commission received two comments on the proposal, each of which supports the proposed rule change.<sup>5</sup> This order approves the proposed rule change.

#### II. Description of the Proposal

The Exchange proposes to adopt Equities Rules 14T—Equities (Non-Regular Way Settlement Instructions for Orders); 64T—Equities (Bonds, Rights and 100-Share-Unit Stocks); 235T—Equities (Ex-Dividend, Ex-Rights); 236T—Equities (Ex-Warrants); 257T—Equities (Deliveries After "Ex" Date); 282.65T—Equities (Failure to Deliver and Liability Notice Procedures); and Sections 510T (Three Day Delivery Plan) and 512T (Ex-Dividend Procedure) of the NYSE MKT Company Guide, in order to conform the Exchange's rulebook to the Commission's proposed amendment to Rule 15c6-1(a) under the Act, which would shorten the standard settlement cycle from T+3 to T+2 for most broker-dealer transactions.

Exchange Rule 14—Equities defines "non-regular way" settlement instructions as instructions that allow for settlement other than "regular way" (*i.e.*, other than settlement on the third business day following trade date for securities other than U.S. Government Securities). Proposed Exchange Rule 14T—Equities would amend this definition to replace "third business day" with "second business day."

Similarly, Exchange Rule 64(a)—Equities defines "regular way" as "for delivery on the third business day following the day of the contract." Proposed Exchange Rule 64T(a)—Equities would replace "third business day" with "second business day."<sup>6</sup>

Exchange Rule 64(a)(ii)—Equities currently provides that on the second and third business days preceding the final day for subscription, bids and offers in rights to subscribe shall be made only "next day." To conform with the move to a T+2 settlement cycle, proposed Exchange Rule 64T(a)(ii)—Equities would delete the reference to the third business day preceding the final day for subscription because in a T+2 settlement cycle, bids and offers in rights to subscribe on that day would simply be subject to "regular way" settlement. Under Current Exchange Rule 64(c)—Equities, all "seller's option" trades, for delivery between 2 and 60 business days, should be reported to the tape only in calendar days. The Exchange proposes to amend Exchange Rule 64T(c)—Equities to replace the reference to "two" with a reference to "three."

Exchange Rule 235—Equities provides that transactions in stocks, except those made for "cash" as prescribed in Exchange Rule 14—Equities, shall be ex-dividend or ex-rights on the second business day preceding the record date fixed by the corporation or the date of the closing of transfer books. The Exchange proposes in Exchange Rule 235T—Equities to change "second business day preceding" to "business day preceding." The current Exchange Rule 235—Equities further provides that, if the record date or closing of transfer books occurs upon a day other than a business day, Exchange Rule 235 shall apply for the third preceding business day. The Exchange proposes to change "third preceding business day" to "second preceding business day" in proposed Exchange Rule 235T—Equities.<sup>7</sup>

Exchange Rule 236—Equities pertaining to ex-warrants similarly provides that transactions in securities that have subscription warrants attached, except those made for cash, shall be ex-warrants on the second business day preceding the date of expiration of the warrants, except that when the date of expiration occurs on a day other than a business day, the

removed from the single quote before the words "issued" and "regular" and a missing parenthesis added before the word "See" in the second sentence of the second paragraph. Italics would also be removed from the single quote before the word "seller's" in five places in proposed Exchange Rule 64T(c)—Equities as well as before the word "regular" in the last sentence. Finally, as reflected in proposed Exchange Rule 64T(a)(1), (a)(ii) and (b)—Equities, bold would be removed from "(a)(i)," "(ii)" and "(b)."

<sup>7</sup> The Exchange also proposes to make non-substantive changes to correct punctuation in proposed Exchange Rule 235T—Equities by removing italics from the single quote before the word "cash" in two places.

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> See Securities Exchange Act Release No. 78962 (Sept. 28, 2016), 81 FR 69240 (Oct. 5, 2016) (File No. S7-22-16) ("T+2 Proposing Release").

<sup>4</sup> See Securities Exchange Act Release No. 79659 (Dec. 22, 2016), 81 FR 84635 (Dec. 29, 2016).

<sup>5</sup> See Letters from Manisha Kimmel, Chief Regulatory Officer, Wealth Management, Thomson Reuters, dated January 19, 2017; and Thomas F. Price, Managing Director, Operations, Technology & BCP, Securities Industry and Financial Markets Association ("SIFMA"), dated January 19, 2017.

<sup>6</sup> The Exchange also proposes to make several non-substantive changes. As reflected in proposed Exchange Rule 64T(a)(i)—Equities, italics would be

<sup>32</sup> 17 CFR 200.30-3(a)(12).

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

transactions shall be ex-warrants on the third business day preceding the date of expiration. The Exchange proposes to adopt proposed Exchange Rule 236T—Equities and change the warrant period to the business day preceding expiration of the warrants instead of the second business day. Under proposed Exchange Rule 236T—Equities, when warrant expiration does not occur on a business day, the ex-warrant period will begin on the second business day preceding the expiration date instead of on the third business day.<sup>8</sup>

Exchange Rule 257—Equities prescribes that the time frame for delivery of dividends or rights for securities sold before the “ex” date but delivered after the record date must occur within three days after the record date. Proposed Exchange Rule 257T—Equities would shorten the time frame to two days.<sup>9</sup>

Subdivision (1)(A) of Supplementary Material .65 to current Exchange Rule 282—Equities provides that when a liability notice is sent by parties to a contract who are not both participants in a Qualified Clearing Agency that has an automated service for notifying a failing party of the liability that will be attendant to a failure to deliver, that notice must be issued no later than one business day prior to the latest time and the date of the offer or other event in order to obtain the protection provided under Exchange Rule 282—Equities. The Exchange proposes to amend the Supplementary Material so that Exchange Rule 282.65T(1)(A)—Equities would provide that, to obtain the protection provided by Exchange Rule 282—Equities, the receiving member organization must send the liability notice to the delivering member organization as soon as practicable but not later than two hours prior to the cutoff time set forth in the instructions on a specific offer or other event.

Section 510 of the Exchange’s Company Guide provides that all transactions effected on the Exchange (unless otherwise specified) will be settled in three business days. Additionally, Section 510 states that a “regular way” transaction is due for settlement by delivery of the securities against payment on the third business day after the transaction date. Section

510 also provides an example stating that a “regular way” transaction made on a Friday is due for settlement on Wednesday of the following week and that a transaction on Monday is due for settlement on Thursday of the same week. The Exchange proposes in Section 510T to replace both references to “three business days” with a reference to “two business days.” Proposed Section 510T would also amend the example provided in Section 510 by changing “Wednesday” to “Tuesday” and “Thursday” to “Wednesday.”

Section 512 of the Exchange’s Company Guide provides that transactions in stocks (except those made for “cash”) are ex-dividend on the second business day preceding the record date, unless the record date selected is not a business day, in which case the stock will be quoted ex-dividend on the third preceding business day. Proposed Section 512T would shorten these time frames to the business day preceding the record date and the second business day preceding the record date, respectively.

The Exchange proposes to adopt the rules but delay making the rules operative until the compliance date of any amendment to Rule 15c6–1(a) under the Act that the Commission adopts. The Exchange proposes to add preambles to each amended rule, and to the rule it would replace, to provide that (1) the existing rule will remain operative until the Exchange files separate proposed rule changes as necessary to establish the operative date of the revised rule, to delete the current rule and proposed preamble, and to remove the preamble text from the revised rule; and (2) in addition to filing the necessary proposed rule changes, the Exchange will announce via Information Memo the operative date of the deletion of the current rule and implementation of the proposed rule designated with a T.

### III. Discussion and Commission’s Findings

After careful review of the proposed rule change and the comments, the Commission finds that the proposal is consistent with the requirements of the Act and the rules and regulations thereunder that are applicable to a national securities exchange.<sup>10</sup> Specifically, the Commission finds that the rule change is consistent with Section 6(b)(5) of the Act,<sup>11</sup> which

requires that the rules of a national securities exchange be designed, among other things, to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and to protect investors and the public interest.

As noted above, the Commission received two comment letters on the proposed rule change.<sup>12</sup> Both comment letters express support for Commission approval of the proposed rule change.

The Commission notes that the proposal would amend the Exchange’s rules to conform to the amendment that the Commission has proposed to Rule 15c6–1(a) under the Act<sup>13</sup> and support a move to a T+2 standard settlement cycle. In the T+2 Proposing Release the Commission stated its preliminary belief that shortening the standard settlement cycle from T+3 to T+2 will result in a reduction of credit, market, and liquidity risk,<sup>14</sup> and as a result a reduction in systemic risk for U.S. market participants.<sup>15</sup> The Commission also notes that it has not yet adopted the proposed amendment to Rule 15c6–1(a) under the Act and that the Exchange has, accordingly, not proposed to make its amended rules operative at present. Instead, the Exchange has proposed to announce the operative date of the Exchange’s proposal via Information Memo and by filing a separate proposed rule change. The Commission expects that the operative date of the proposed rule change would correspond with the compliance date of any amendment to Rule 15c6–1(a) that is adopted by the Commission. The Commission notes that, in October 2014, Depository Trust and Clearing Corporation, in collaboration with the Investment Company Institute, SIFMA, and other market participants, formed an Industry

<sup>12</sup> See *supra* note 5.

<sup>13</sup> See *supra* note 3.

<sup>14</sup> Credit risk refers to the risk that the credit quality of one party to a transaction will deteriorate to the extent that it is unable to fulfill its obligations to its counterparty on settlement date. Market risk refers to the risk that the value of securities bought and sold will change between trade execution and settlement such that the completion of the trade would result in a financial loss. Liquidity risk describes the risk that an entity will be unable to meet financial obligations on time due to an inability to deliver funds or securities in the form required though it may possess sufficient financial resources in other forms. See T+2 Proposing Release, *supra* note 3, 81 FR at 69241 n. 3.

<sup>15</sup> See T+2 Proposing Release, *supra* note 3, 81 FR at 69241.

<sup>8</sup> The Exchange also proposes to make non-substantive changes to correct punctuation in proposed Rule 236T—Equities by removing italics from the single quote before the word “cash” in two places.

<sup>9</sup> The Exchange also proposes to make non-substantive changes to correct punctuation in proposed Rule 257T—Equities by removing italics from the single quote before the word “Ex” in the heading and the word “cash” in the rule text.

<sup>10</sup> In approving this proposed rule change, the Commission has considered the rule’s impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

<sup>11</sup> 15 U.S.C. 78f(b)(5).

Steering Group (“ISC”) and an industry working group to facilitate the transition to a T+2 settlement cycle for U.S. trades in equities, corporate and municipal bonds, and unit investment trusts.<sup>16</sup> The ISC has identified September 5, 2017, as the target date for the transition to a T+2 settlement cycle to occur.<sup>17</sup>

For the reasons noted above, the Commission finds that the proposal is consistent with the requirements of the Act and would foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and to protect investors and the public interest.

#### IV. Conclusion

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,<sup>18</sup> that the proposed rule change (SR–NYSEMKT–2016–119), be and hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>19</sup>

**Eduardo A. Aleman,**

*Assistant Secretary.*

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–80019; File No. SR–NYSE–2017–03]

### Self-Regulatory Organizations; New York Stock Exchange LLC; Notice of Filing of Proposed Rule Change Amending Rule 98

February 10, 2017.

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 January 26, 2017, New York Stock Exchange LLC (“NYSE” or the “Exchange”) filed with the Securities and Exchange Commission (the “Commission”) the proposed rule change as described in

<sup>16</sup> See Press Release, DTCC, Industry Steering Committee and Working Group Formed to Drive Implementation of T+2 in the U.S. (Oct. 2014), <http://www.dtcc.com/news/2014/october/16/ust2.aspx>.

<sup>17</sup> See Press Release, ISC, U.S. T+2 ISC Recommends Move to Shorter Settlement Cycle On September 5, 2017 (Mar. 7, 2016), <http://www.ust2.com/pdfs/T2-ISC-recommends-shorter-settlement-030716.pdf>.

<sup>18</sup> 15 U.S.C. 78s(b)(2).

<sup>19</sup> 17 CFR 200.30–3(a)(12).

<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.

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 amend Rule 98 to provide that, while on the Trading Floor, Designated Market Makers (“DMM”) must trade DMM securities at their assigned stock trading post location and may not trade any security that is a related product of their DMM securities. 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 amend Rule 98 to provide that, while on the Trading Floor, DMMs must trade DMM securities at their assigned stock trading post location and may not trade any security that is a related product of their DMM securities.<sup>4</sup>

<sup>4</sup> As defined in Rule 2(i), the term “DMM” means an individual member, officer, partner, employee or associated person of a Designated Market Maker Unit who is approved by the Exchange to act in the capacity of a DMM. The term “DMM securities” is defined in Rule 98(a)(2) to mean any securities allocated to the DMM unit pursuant to Rule 103B or other applicable rules. The term “related products” is defined in Rule 98(a)(7) to mean any derivative instrument that is related to a DMM security, including options, warrants, hybrid securities, single-stock futures, security-based swap agreement, a forward contract, or any other instrument that is exercisable into or whose price is based upon or derived from a security traded at the Exchange.

#### Background

Rule 98 governs the operation of a DMM unit and paragraph (c)(3) of that rule specifies restrictions on trading for member organizations operating a DMM unit. More specifically, Rule 98(c)(3)(B) provides that, while on the Trading Floor <sup>5</sup> of the Exchange, employees of the DMM unit:

(i) Except as provided for in Rule 36.30,<sup>6</sup> may trade only DMM securities only on or through the systems and facilities of the Exchange as permitted by Exchange rules.

(ii) except as provided for in Rules 36.30, may not communicate with individuals or systems responsible for making trading decisions for related products or for away-market trading in their assigned DMM securities.

(iii) shall not have access to customer information or the DMM unit’s position in related products.

Accordingly, under current Rule 98, while on the Trading Floor, DMMs may only trade DMM securities and, thus, may not trade any other securities, including securities that are related products to their DMM securities.

#### Proposed Rule Change

The Exchange proposes to amend Rule 98 to remove restrictions to DMM operations on the Trading Floor that are unrelated to the unique role of DMMs at the Exchange. Specifically, as described in Rule 104, DMMs have specified obligations with respect to their DMM securities and have access to specified non-public order information regarding their DMM securities.<sup>7</sup> However, DMMs do not have a unique role or access to any non-public order information with respect to securities that are not assigned to them under Rule 103B. The

<sup>5</sup> As defined in Rule 6A, the term “Trading Floor” means the restricted-access physical areas designated by the Exchange for the trading of securities, commonly known as the “Main Room” and the “Buttonwood Room” and does not include (i) the areas in the “Buttonwood Room” designated by the Exchange where NYSE Amex-listed options are traded, which, for the purposes of the Exchange’s Rules, shall be referred to as the “NYSE Amex Options Trading Floor” or (ii) the physical area within fully enclosed telephone booths located in 18 Broad Street at the Southeast wall of the Trading Floor.

<sup>6</sup> Rule 36.30 permits a DMM unit that is registered in an Investment Company Unit (as defined in Section 703.16 of the Listed Company Manual) or a Trust Issued Receipt (as that term is defined in Rule 1200) to use a telephone connection or order entry terminal at the DMM unit’s post to enter proprietary orders in the Unit or receipt in another market center, in a Component Security of such a Unit or receipt, or an options or futures contract related to such Unit or receipt, and may use the post telephone to obtain market information with respect to such Units, receipts, options, futures or Component Securities.

<sup>7</sup> See, e.g., Rule 104(a) and (j).