
Stanley F. Mires, Attorney, Federal Compliance.

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BILLING CODE 7710–12–P

POSTAL SERVICE

Product Change—Priority Mail Express Negotiated Service Agreement

AGENCY: Postal Service™.

ACTION: Notice.

SUMMARY: The Postal Service gives notice of filing a request with the Postal Regulatory Commission to add a domestic shipping services contract to the list of Negotiated Service Agreements in the Mail Classification Schedule’s Competitive Products List.

DATES: Effective date: February 21, 2017.

FOR FURTHER INFORMATION CONTACT: Elizabeth A. Reed, 202–268–3179.


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SECURITIES AND EXCHANGE COMMISSION


Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Order Granting Approval of a Proposed Rule Change, as Modified by Amendment No. 1, Related to the Nullification and Adjustment of Options Transactions

February 14, 2017.

I. Introduction

On December 14, 2016, Chicago Board Options Exchange, Incorporated (the “Exchange” or “CBOE”) filed with the Securities and Exchange Commission (“Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”),¹ and Rule 19b–4 thereunder,² a proposed rule change to amend Exchange Rule 6.25, relating to the adjustment and nullification of erroneous complex order and stock-option order transactions. The proposed rule change was published for comment in the Federal Register on January 3, 2017.³ On February 13, 2017, the Exchange submitted Amendment No. 1 to the proposed rule change.⁴ The Commission received no comments regarding the proposal. This order approves the proposed rule change, as modified by Amendment No. 1.

II. Description of the Proposed Rule Change

The Exchange proposes to amend Rule 6.25, entitled “Nullification and Adjustment of Options Transactions” by adding Interpretation and Policy .07 (a)–(c) related to the adjustment and nullification of erroneous complex order and stock-option transactions.

A. Background

The Exchange and other options exchanges previously adopted new, harmonized rules related to the adjustment and nullification of erroneous options transactions.⁵ The Exchange believes that the changes the options exchanges implemented with the new, harmonized rule have led to increased transparency and finality with respect to the adjustment and nullification of erroneous options transactions. However, as part of the initial initiative, the Exchange and other options exchanges deferred a few specific matters for further discussion, including how erroneous complex orders and stock-option orders should be handled.

Since the adopting of the initial harmonized rule, the exchanges that offer complex orders and/or stock-option orders discussed the adoption of a rule—described below—that they collectively believe will improve the handling of erroneous options transactions that result from the execution of complex orders and stock-option orders.⁶

B. Proposed Rule

The proposed rule applies much of the initial harmonized rule to complex orders and stock-option orders. The proposed rule, however, deviates from the initial harmonized rule to account for unique qualities of complex orders and stock-option orders. Specifically, the proposed rule reflects the fact that complex orders can execute against other complex orders or can execute against individual simple orders in the leg markets. When a complex order executes against the leg markets, there may be different counterparties on each leg of the complex order, and not every leg will necessarily be executed at an erroneous price. With regards to stock-option orders, the proposed rule reflects the fact that stock-option orders contain a stock component that is executed on a stock trading venue, and the Exchange may not be able to ensure that the stock trading venue will adjust or nullify the stock execution in the event of an obvious or catastrophic error. In order to account for the unique characteristics of complex orders and stock-option orders,
the Exchange divided proposed Interpretation and Policy .07 into three parts—paragraphs (a), (b), and (c).

1. Complex Orders Executed Against Individual Legs

Proposed Interpretation and Policy .07(a) governs the review of complex orders that are executed against individual legs (as opposed to a complex order that executes against another complex order). Proposed Rule 6.25.07(a) provides:

If a complex order executes against individual legs and at least one of the legs qualifies as an Obvious or Catastrophic Error under this Rule 6.25, then the leg(s) that is an Obvious or Catastrophic Error will be adjusted in accordance with paragraphs (c)(4)(A) or (d)(3), respectively, regardless of whether one of the parties is a Customer. However, any Customer order subject to this paragraph (a) will be nullified if the adjustment would result in an execution price higher (for buy transactions) or lower (for sell transactions) than the Customer’s limit price on the complex order or individual leg(s). If any leg of a complex order is nullified, the entire transaction is nullified.

At least one of the legs of the complex order must qualify as an obvious or catastrophic error under the initial harmonized rule in order for the complex order to receive obvious or catastrophic error relief. Thus, when the Exchange is notified (within the timeframes set forth in paragraph (c)(2) or (d)(2)) of a complex order that is a possible obvious error or catastrophic error, the Exchange will first review the individual legs of the complex order to determine if one or more legs qualify as an obvious or catastrophic error. If no leg qualifies as an obvious or catastrophic error, the transaction stands—no adjustment and no nullification.

Reviewing the legs to determine whether one or more legs qualify as an obvious or catastrophic error requires the Exchange to follow the initial harmonized rule. In accordance with paragraphs (c)(1) and (d)(1) of the initial harmonized rule, the Exchange compares the execution price of each individual leg to the Theoretical Price of each leg (as determined by paragraph (b) of the initial harmonized rule). Under the proposed rule, if the execution price of an individual leg is higher or lower than the Theoretical Price for the series by an amount equal to at least the amount shown in the obvious error table in paragraph (c)(1) of the initial harmonized rule or the catastrophic error table in paragraph (d)(1) of the initial harmonized rule, the individual leg qualifies as an obvious or catastrophic error, and the Exchange will take steps to adjust or nullify the transaction.10

Paragraph (c)(4)(A) of the initial harmonized rule mandates that if it is determined that an obvious error has occurred, the execution price of the transaction will be adjusted pursuant to the table set forth in (c)(4)(A).11 Although for simple orders paragraph (c)(4)(A) is only applicable when no party to the transaction is a Customer, for the purposes of complex orders, paragraph (a) of proposed Interpretation and Policy .07 will supersede that limitation; therefore, if it is determined that a leg (or legs) of a complex order is an obvious error, the leg (or legs) will be adjusted pursuant to paragraph (c)(4)(A), regardless of whether a party to the transaction is a Customer. The Size Adjustment Modifier defined in subparagraph (a)(4) will similarly apply (regardless of whether a Customer is on the transaction) by virtue of the application of paragraph (c)(4)(A).12

Pursuant to proposed Rule 6.25.07(a), if a complex order executes against individual legs and at least one of the leg(s) qualifies as an Obvious Error or a Catastrophic Error, then the leg(s) that is an Obvious or Catastrophic error will be adjusted in accordance with paragraphs (c)(4)(A) or (d)(3) of the initial harmonized rule, respectively, regardless of whether one of the parties is a Customer. However, because incoming complex orders may execute against resting simple orders in the leg market and adjusting the execution price of the leg may violate the limit price of the resting order, proposed Rule 6.25.07(a) also provides protection for Customer orders, stating that where at least one party to a complex order transaction is a Customer, the transaction will be nullified if adjustment would result in an execution price higher (for buy transactions) or lower (for sell transactions) than the Customer’s limit price on the complex order or individual leg(s). If any leg of a complex order is nullified, the entire transaction will be nullified.

2. Complex Orders Executed Against Complex Orders

Proposed Interpretation and Policy .07(b) governs the review of complex orders that are executed against other complex orders. Proposed Rule 6.25.07(b) provides:

If a complex order executes against another complex order and at least one of the legs qualifies as an Obvious Error under paragraph (c)(1) or a Catastrophic Error under paragraph (d)(1), then the leg(s) that is an Obvious or Catastrophic Error will be adjusted or busted in accordance with paragraph (c)(4) or (d)(3), respectively, so long as either: (i) the width of the National Spread Market for the complex order strategy just prior to the erroneous transaction was equal to or greater than the amount set forth in the wide quote table of paragraph (b)(3) or (ii) the net execution price of the complex order is higher (lower) than the offer (bid) of the National Spread Market for the complex order strategy just prior to the erroneous transaction by an amount equal to or at least the amount shown in the table in paragraph (c)(1).

If any leg of a complex order is nullified, the entire transaction is nullified. For purposes of Rule 6.25, the National Spread Market for a complex order strategy is determined by the National Best Bid/Offer of the individual legs of the strategy.

As described above in relation to proposed Rule 6.25.07(a), the first step is for the Exchange to review (upon receipt of a timely notification in accordance with paragraph (c)(2) or (d)(2) of the initial harmonized rule) the individual legs to determine whether a leg or legs qualifies as an obvious or catastrophic error. If no leg qualifies as an obvious or catastrophic error, the transaction stands—no adjustment and no nullification.

Unlike proposed Rule 6.25.07(a), the Exchange also proposes to compare the
net execution price of the entire complex order package to the National Spread Market for the complex order strategy. Complex orders are exempt from the order protection rules of the options exchanges. Thus, depending on the manner in which the systems of an options exchange are calibrated, a complex order can execute without regard to the prices offered in the complex order books or the leg markets of other options exchanges.

Accordingly, the Exchange proposes to consider the National Spread Market. Specifically, proposed Rule 6.25.07(b) provides that if the Exchange determines that a leg or legs does qualify as an obvious or catastrophic error, the leg or legs will be adjusted or busted in accordance with paragraph (c)(4) or (d)(3) of the initial harmonized rule, so long as either: (i) The width of the National Spread Market for the complex order strategy just prior to the erroneous transaction was equal to or greater than the amount set forth in the wide quote table of paragraph (b)(3) of the initial harmonized rule or (ii) the net execution price of the complex order is higher (lower) than the offer (bid) of the National Spread Market for the complex order strategy just prior to the erroneous transaction by an amount equal to at least the amount shown in the table in paragraph (c)(1) of the initial harmonized rule.

For purposes of complex orders that meet the requirements of proposed Rule 6.25.07(b), the Exchange proposes to apply the initial harmonized rule and adjust or bust obvious errors in accordance with paragraph (c)(4) (as opposed to applying only paragraph (c)(4)(A) as is the case under proposed Rule 6.25.07(a)) and catastrophic errors in accordance with paragraph (d)(3). Therefore, for purposes of complex orders under proposed Rule 6.25.07(b), if one of the legs is determined to be an obvious error under paragraph (c)(1), all Customer transactions will be nullified, unless a Trading Permit Holder (“TPH”) submits 200 or more Customer transactions for review in accordance with paragraph (c)(4)(C). For purposes of complex orders under proposed Rule 6.25.07(b), if one of the legs is determined to be a catastrophic error under paragraph (d)(3) and all of the other requirements of proposed Rule 6.25.07(b) are met, all market participants will be adjusted in accordance with the table set forth in paragraph (d)(3). Again, however, pursuant to paragraph (d)(3) where at least one party to a complex order transaction is a Customer, the transaction will be nullified if adjustment would result in an execution price higher (for buy transactions) or lower (for sell transactions) than the Customer’s limit price on the complex order or individual leg(s). Also, if any leg of a complex order is nullified, the entire transaction is nullified.

3. Stock-Option Orders

Proposed Interpretation and Policy .07(c) governs stock-option orders. Proposed Rule 6.25.07(c) provides:

If the option leg of a stock-option order qualifies as an Obvious Error under paragraph (c)(1) or a Catastrophic Error under paragraph (d)(1), then the option leg that is an Obvious or Catastrophic Error will be adjusted in accordance with paragraph (c)(4)(A) or (d)(3), respectively, regardless of whether one of the parties is a Customer. However, the option leg of any Customer order subject to this paragraph (c) will be nullified if the adjustment would result in an execution price higher (for buy transactions) or lower (for sell transactions) than the Customer’s limit price on the stock-option order, and the Exchange will attempt to nullify the stock leg. Whenever a stock trading venue nullifies the stock leg of a stock-option order or whenever the stock leg cannot be executed, the Exchange will nullify the option leg upon request of one of the parties to the transaction or in accordance with paragraph (c)(3).

Similar to proposed Interpretation and Policy .07(a), an option leg (or legs) of a stock-option order must qualify as an obvious or catastrophic error under the initial harmonized rule in order for the stock-option order to qualify as an obvious or catastrophic error. Also, similar to proposed Rule 6.25.07(a), if an option leg (or legs) does qualify as an obvious or catastrophic error, the option leg (or legs) will be adjusted in accordance with paragraph (c)(4)(A) or (d)(3), respectively, regardless of whether one of the parties is a Customer. Again, as with proposed Rule 6.25.07(a), where at least one party to a complex order transaction is a Customer, the Exchange will nullify the option leg and attempt to nullify the stock leg if adjustment would result in an execution price higher (for buy transactions) or lower (for sell transactions) than the Customer’s limit price on the complex order or individual leg(s).

Finally, the Exchange proposes to provide guidance that whenever the stock trading venue nullifies the stock leg of a stock-option order, the option leg will be nullified upon request of one of the parties to the transaction or by an Official acting on their own motion in accordance with paragraph (c)(3). The Exchange states that there are situations in which buyer and seller agree to trade a stock-option order, but the stock leg cannot be executed. Thus, the Exchange proposes to provide that whenever the stock portion of a stock-option order cannot be executed, the Exchange will nullify the option leg upon request of one of the parties to the transaction or on an Official’s own motion.

In order to ensure that other options exchanges are able to adopt rules consistent with this proposal and to coordinate the effectiveness of such harmonized rules, the Exchange proposes to delay the effectiveness of this proposal to April 17, 2017.

III. Discussion and Commission Findings

The Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange. In particular, the Commission finds that the proposed rule change, as amended, is consistent with the requirements of Section 6(b) of the Act and with Section 6(b)(5) of the Act, which requires, among other things, that the Exchange’s rules be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest.

The Commission believes that the proposal to amend Rule 6.25 will help assure greater objectivity, transparency, and clarity with respect to the adjustment and nullification of erroneous options transactions and, in particular, those involving complex order or stock-option order transactions. The Commission notes that the proposal is designed to achieve more consistent results for participants across U.S. options exchanges than under the initial harmonized rules, while maintaining a fair and orderly market, protecting investors, and protecting the public.
interest. In particular, the proposal is designed to increase the consistency and transparency in the handling of erroneous options transactions among those options exchanges that allow complex order or stock-option order transactions.

In its order approving the initial harmonized rule of BATS Exchange, Inc., the Commission noted that the options exchanges intended to work together to further develop additional objectivity with respect to their processes for the adjustment and nullification of erroneous options transactions. The Commission believes that the proposed rule change to specifically delineate the treatment of erroneous complex order or stock-option order transactions constitutes an additional step towards this goal. Based on the foregoing, the Commission believes that the proposed rule change is consistent with Section 6(b)(5) of the Act in that proposed Rule 6.25 will foster cooperation and coordination with persons engaged in regulating and facilitating transactions.

The Commission notes that the proposed rule change will become operative on April 17, 2017. This delayed implementation is to ensure that other options exchanges that permit transactions in complex orders or stock-option orders have sufficient time to put in place similar rules consistent with this proposed rule change and to coordinate the date of implementation of such harmonized rules.23

IV. Conclusion

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,24 that the proposed rule change, as modified by Amendment No. 1 (SR–CBOE–2016–088) be, and hereby is, approved.

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

Eduardo A. Aleman,
Assistant Secretary.

[F.R. Doc. 2017–03295 Filed 2–17–17; 8:45 am]

BILLING CODE 8011–01–P

SECURITIES AND EXCHANGE COMMISSION

[Investment Company Act Release No. 32478; File No. 812–14724]

Brinker Capital Destinations Trust, et al.; Notice of Application

February 14, 2017.

AGENCY: Securities and Exchange Commission (“Commission”).

ACTION: Notice of an application for an order under section 12(d)(1)(J) of the Investment Company Act of 1940 (the “Act”) for an exemption from sections 12(d)(1)(A), (B), and (C) of the Act and under sections 6(c) and 17(b) of the Act for an exemption from sections 17(a)(1) and (2) of the Act. The requested order would permit certain registered open-end investment companies to acquire shares of certain registered open-end investment companies, registered closed-end investment companies, business development companies, as defined in section 2(a)(48) of the Act, and unit investment trusts (collectively, “Underlying Funds”) that are within and outside the same group of investment companies as the acquiring investment companies, in excess of the limits in section 12(d)(1) of the Act.

APPLICANTS: Brinker Capital Destinations Trust, a Delaware statutory trust that is registered under the Act as an open-end management investment company with multiple series, and Brinker Capital, Inc., a Delaware Corporation registered as an investment adviser under the Investment Advisers Act of 1940.

DATES: Filing Dates: The application was filed on December 8, 2016 and amended on February 1, 2017.

Hearing or Notification of Hearing: An order granting the requested relief will be issued unless the Commission orders a hearing. Interested persons may request a hearing by writing to the Commission’s Secretary and serving applicants with a copy of the request, personally or by mail. Hearing requests should be received by the Commission by 5:30 p.m. on March 14, 2017 and should be accompanied by proof of service on the applicants, in the form of an affidavit, or, for lawyers, a certificate of service. Pursuant to Rule 0–5 under the Act, hearing requests should state the nature of the writer’s interest, any facts bearing upon the desirability of a hearing on the matter, the reason for the request, and the issues contested. Persons who wish to be notified of a hearing may request notification by writing to the Commission’s Secretary.


For further information contact: Jennifer O. Palmer, Senior Counsel, at (202) 551–5786, or Nadya Roytblat, Assistant Chief Counsel, at (202) 551–6821 (Division of Investment Management, Chief Counsel’s Office).

Supplementary Information: The following is a summary of the application. The complete application may be obtained via the Commission’s Web site by searching for the file number, or for an applicant using the Company name box, at http://www.sec.gov/search/search.htm, or by calling (202) 551–8090.

Summary of the Application

1. Applicants request an order to permit (a) a Fund (each a “Fund of Funds”) to acquire shares of Underlying Funds in excess of the limits in sections 12(d)(1)(A) and (C) of the Act and (b) the Underlying Funds that are registered open-end investment companies or series thereof, their principal underwriters and any broker or dealer registered under the Securities Exchange Act of 1934 to sell shares of the Underlying Fund to the Fund of Funds in excess of the limits in section 12(d)(1)(B) of the Act. Applicants also request an order of exemption under

21 See BATS Order, supra note 5, at 16039.
23 See Amendment No. 1.