the proposed rule change as described in Items I, II and III below, which Items have been prepared by the clearing agency. DTC filed the proposed rule change pursuant to Section 19(b)(3)(A) of the Act and Rule 19b–4(f)(4) thereunder. The proposed rule change was effective upon filing with the Commission. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Clearing Agency’s Statement of the Terms of Substance of the Proposed Rule Change

The proposed rule change would revise the DTC Settlement Service Guide (“Service Guide”) to enhance the Memo Segregation function (“Memo Seg”) with respect to its use by a Participant in connection with Deliveries processed at DTC for transactions related to DRS as discussed below.

II. Clearing Agency’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the clearing agency 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 clearing agency has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

1. Proposal That Standing Instructions Concerning the Designated Quantity

(a) By providing standing instructions, a Participant may maintain a certain quantity of Securities in a given CUSIP, hereinafter referred to as “Designated Quantity.” The Designated Quantity, as described in section A above, is determined and maintained by each Participant.

(b) When a Participant uses Memo Seg, if the Participant provides a standing instruction for its Designated Quantity, then the Designated Quantity will be used to the fullest extent possible.

(c) External to DTC, DRS allows an investor to hold a Security as the registered owner in electronic form on the books of a transfer agent rather than holding a certificate or holding indirectly through a broker-dealer. DRS-related transactions between transfer agents and broker-dealers that are both Participants may be processed through DTC. Typically, transfer agents are Limited Participants for purposes of processing DRS-related transactions. See Securities Exchange Act Release No. 37931 (November 7, 1996), 61 FR 58600 (November 15, 1996) (SR–DTC–96–15).

2. Outside of DTC, DRS allows an investor to hold a Security as the registered owner in electronic form on the books of a transfer agent rather than holding a certificate or holding indirectly through a broker-dealer. DRS-related transactions between transfer agents and broker-dealers that are both Participants may be processed through DTC. Typically, transfer agents are Limited Participants for purposes of processing DRS-related transactions. See Securities Exchange Act Release No. 37931 (November 7, 1996), 61 FR 58600 (November 15, 1996) (SR–DTC–96–15).

3. Participants that are registered broker-dealers use Memo Seg as a tool to maintain compliance with their obligations under Rule 15c3–3 (“Customer Protection Rule”). 17 CFR 240.15c3–3. The Customer Protection Rule requires, among other things, that broker-dealers maintain control of all fully-paid or excess margin Securities they hold for the accounts of customers. Compliance with those obligations by such broker-dealers is external to DTC. See Rule 2, supra note 5.

4. By providing standing instructions, a Participant may currently elect to have Deliveries of Securities for certain types of transactions automatically increase the Receiving Participant’s Designated Quantity. However, Securities transferred through DRS do not automatically increase the Receiving Participant’s Designated Amount.

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Committee of the Securities Operations Section of the Securities Industry and Financial Markets Association ("SIMFA") has requested that DTC modify Memso Seg so that Deliveries of Securities processed through DRS would automatically increase the Receiving Participant’s Designated Quantity.\(^1\)

In this regard, pursuant to the proposed rule change, DTC would revise the Service Guide to allow a Receiving Participant in a DRS-related transaction to elect to have its Designated Quantity automatically increased when the Delivering Participant uses Codes 390 or 391.\(^2\) A Receiving Participant would make this election by selecting Indicator 1.

2. Proposal To Update Memo Seg To Prevent Automatic Decrease of a Participant’s Designated Quantity for DRS Reclams

Pursuant to the Service Guide, a Free Delivery made by a Participant always reduces its Designated Quantity unless an exception for a given transaction type is expressly provided for. Pursuant to the proposed rule change, the text of the Service Guide would be revised so that a “Reclaim” of a DRS-related Free Delivery, where the related transaction is one that the Receiving Participant does not know (“DK”) (performed with Code 396), would not automatically reduce the Receiving Participant’s Designated Quantity. This change would allow a Participant to exercise greater control in managing its Designated Quantity.

3. Proposal To Make Technical Changes to the Memo Seg Section of the Service Guide

The proposed rule change would also make technical changes to the Memo Seg section of the Service Guide to:

- a. (i) Change references to “you” and “your” to “a Participant,” “the Participant,” “Participants” or “its,” as applicable and (ii) make grammatical and spacing changes to the text to provide enhanced clarity and readability with respect to provisions related to Memo Seg; and
- b. Add an annex to the Service Guide containing the descriptions of the Codes listed in the “Non-Optional Memo Segregation Transactions” and the “Optional Memo Segregation Indicators” subsections.

Effective Date of Proposed Rule Change

The proposed rule change would be effective upon filing with the Commission.

2. Statutory Basis

Section 17A(b)(3)(F)\(^3\) of the Securities Exchange Act of 1934 (“Act”) requires that the rules of the clearing agency be designed, \textit{inter alia}, to protect investors and the public interest. DTC believes the proposed rule change is consistent with this provision because it would (i) reduce the risk of unintended Delivery of Securities that are the subject of a DRS-related transaction by a Participant that (A) elects to use applicable Indicators\(^4\) or (B) enters a DK-related Reclaim in connection with a DRS-related Free Delivery and (ii) make other technical and grammatical changes to the text of the Service Guide in order to provide enhanced clarity and readability with respect to provisions related to Memo Seg. DTC believes that the proposed rule change would help protect investors and the public interest, consistent with Section 17(b)(3)(F) of the Act, cited above.

The proposed rule change is also designed to be consistent with Rule 17Ad–22(e)(23) of the Act,\(^5\) which was recently adopted by the Commission.\(^6\) Rule 17Ad–22(e)(23) requires DTC, \textit{inter alia}, to establish, implement, maintain and enforce written policies and procedures reasonably designed to publicly disclose all relevant rules and material procedures. The proposed rule change, as described above, would update the Service Guide to add descriptions of the Codes referenced in the Memo Seg section of the Service Guide, as discussed above. As such, DTC believes that the proposed rule change would promote disclosure of relevant rules and material procedures relating to Participants’ use of Memo Seg, in accordance with the requirements of Rule 17Ad–22(e)(23), promulgated under the Act, cited above.

(B) Clearing Agency’s Statement on Burden on Competition

DTC does not believe that the proposed rule change would have any impact on competition because the proposed rule change would merely enhance the ability of any Receiving Participant to control Securities in its Account.

(C) Clearing Agency’s Statement on Comments on the Proposed Rule Change Received From Members, Participants, or Others

Written comments relating to the proposed rule change have not been solicited or received. DTC will notify the Commission of any written comments received by DTC. DTC management has discussed its intent to implement the proposed change with SIFMA and Participants.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)\(^7\) of the Act and paragraph (f) of Rule 19b–4\(^8\) thereunder. At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

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:

\textit{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–DTC–2017–012 on the subject line.

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\(^1\) SIFMA has indicated that making this update to Memo Seg would strengthen the ability of Participants to control and protect customer fully-paid Securities transferred through DRS.

\(^2\) Code 390 indicates a DRS-related Delivery and Code 391 indicates a DRS-related return of a Delivery.


\(^4\) DTC makes Memo Seg available as a tool for Participants, but does not monitor, and is not responsible for, any Participant’s compliance with its obligation to protect customer fully-paid Securities. With respect to any Securities processed through DTC, DTC does not recognize (and is not required by its Rules and Procedures or applicable law to recognize) a distinction between proprietary and customer Securities.

\(^5\) 17 CFR 240.17Ad–22(e)(23).


SECURITIES AND EXCHANGE COMMISSION


Self-Regulatory Organizations; Financial Industry Regulatory Authority, Inc.: Order Approving Proposed Rule Change To Adopt Consolidated Registration Rules, Restructure the Representative-Level Qualification Examination Program, Allow Permissive Registration, Establish Exam Waiver Process for Persons Working for Financial Services Affiliate of Member, and Amend the Continuing Education Requirements


I. Introduction

On March 28, 2017, Financial Industry Regulatory Authority, Inc. (“FINRA”) filed with the Securities and Exchange Commission (“Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Exchange Act") and Rule 19b-4 thereunder, a proposed rule change to adopt rules relating to qualification and registration requirements in the Consolidated FINRA Rulebook. FINRA proposes to restructure the current representative-level qualification examinations, create a general knowledge examination and specialized knowledge examinations, allow permissive registration, establish an exam waiver process for persons working for a financial services affiliate of a member, and amend certain Continuing Education (“CE”) requirements. The proposed rule change was published for comment in the Federal Register on April 10, 2017. The Commission received 18 comments in response to the proposed rule change. On May 12, 2017, FINRA extended the time period for the Commission to act on the proposal to July 7, 2017. On June 26, 2017, FINRA submitted a response to the commenter letters. This order approves the proposed rule change.

II. Description of the Proposal

FINRA proposes to adopt with amendments the NASD and Incorporated NYSE rules relating to qualification and registration as FINRA rules in the Consolidated FINRA Rulebook. In addition, FINRA proposes to restructure the current representative-level qualification examinations, create a general knowledge examination and specialized knowledge examinations and amend the CE requirements, among other changes.

A. Registration Requirements

Proposed Rule 1210 provides that each person engaged in the investment business for an incorporated FINRA member who is not a FINRA member shall be registered with FINRA. In order to engage in the investment business, an applicant must meet certain qualifications and meet certain continuing education requirements. Proposed Rule 1210, as amended, consists of the proposed rule change for FINRA to adopt, with amendments, certain NASD and Incorporated NYSE rules. FINRA has also proposed certain amendments to proposed Rule 1210 to restructure the current representative-level qualification examinations, create a general knowledge examination and specialized knowledge examinations and amend the CE requirements.

This order approves the proposed rule change.