Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly.

All submissions should refer to File Number SR–NYSE–2018–03 and should be submitted on or before February 16, 2018.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.18

Eduardo A. Aleman, Assistant Secretary.

[FR Doc. 2018–01417 Filed 1–25–18; 8:45 am]
BILLING CODE 8011–01–P

SECURITIES AND EXCHANGE COMMISSION


Self-Regulatory Organizations; National Securities Clearing Corporation; Order Approving Proposed Rule Change To Enhance the Process for Submitting and Accepting ETF Creations and Redemptions


The proposed rule change was published for comment in the Federal Register on December 7, 2017.3 The Commission did not receive any comment letters on the proposed rule change. For the reasons discussed below, the Commission approves the proposed rule change.

I. Description of the Proposed Rule Change

This proposed rule change would modify NSCC’s Rules & Procedures (‘‘Rules’’)4 to add two new time frames during which exchange traded fund (‘‘ETF’’) agents may submit creation and redemption instructions, including as-of instructions, reversals, and corrections (‘‘ETF Instructions’’).5 to NSCC on behalf of ETF sponsors and ETF authorized participants.6 The existing time frame during which ETF agents can submit ETF Instructions to NSCC extends from 2:00 p.m. to 8:00 p.m. (the ‘‘Primary Cycle’’).7 The two proposed time frames would extend from 12:30 a.m. to 2:00 p.m. (the ‘‘Intraday Cycle’’) and from 9:00 p.m. to 11:30 p.m. (the ‘‘Supplemental Cycle’’).8

The two proposed cycles would enable ETF agents to submit ETF Instructions to NSCC later in the day, or earlier on the following day than currently possible, in order to make corrections to prior submissions.9 The ability to make such new submission would help to avoid a situation where the NSCC member (‘‘Member’’) would need to post margin10 to cover exposures from the prior erroneous submission.11 Specifically, the proposed Intraday Cycle would enable NSCC to receive, on an intraday basis, (1) ETF Instructions that are marked as-of a prior trade date,12 and (2) ETF Instructions for same-day settlement until the designated cut-off time of 11:30 a.m.13Meanwhile, the proposed Supplemental Cycle would enable ETF agents to submit ETF Instructions later than the Primary Cycle cut-off of 8:00 p.m.14

In connection with the two proposed cycles, NSCC also proposes to revise the standardized input files, which are submitted by ETF agents to NSCC, and the output files, which are sent by NSCC to ETF agents and ETF authorized participants, to include additional information, such as a reversal/correction indicator and transaction time.15

NSCC also proposes an ‘‘automated threshold value reasonability check.’’ This check would hold any ETF Instructions in a ‘‘pending’’ status if such instructions exceed certain thresholds established by NSCC when compared to the most recent closing price.16

Finally, NSCC proposes a technical correction to the Rules to clarify that next-day settling ETF Instructions are no longer processed differently than other ETF Instructions when submitted to NSCC.17

A. Current ETF Submission Processes

According to NSCC, ETF sponsors have processes outside of NSCC that allow the sponsors to create or redeem ETF shares with ETF authorized participants intraday. The details of the creations or redemptions are then recorded by ETF agents.18 The processes conducted outside of NSCC are not uniformly automated and may involve manual data entry that the ETF agent eventually submits to NSCC using the standardized ETF create-and-redeem input file.19

Currently, the Primary Cycle is the only time in which ETF agents can submit the input file to NSCC.20 However, according to NSCC, a risk exists that the manually entered data may contain errors that could result in incorrectly valued transactions.21 NSCC states that any errors in the manually entered data contained in the input file may result in NSCC recording ETF Instructions that may be materially different than the value upon which the ETF sponsor and ETF authorized participant agreed.22 Nevertheless, NSCC uses that information when calculating both the ETF agent’s and the ETF authorized participant’s daily

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Required Deposit.\textsuperscript{23} If the input file contained incorrect information, then the applicable Member’s Required Deposit may reflect the error.\textsuperscript{24} ETF agents currently do not have an opportunity to submit correcting ETF Instructions to NSCC until the next Primary Cycle, which is after the deadline for Members to satisfy their Required Deposit.\textsuperscript{25}

B. Proposed New Cycles

NSCC proposes to add two new cycles during which ETF agents may submit ETF Instructions to NSCC: The Intraday Cycle and the Supplemental Cycle.\textsuperscript{26} These proposed cycles would enable ETF agents to submit (1) creation and redemption instructions that would either reverse or correct creation and redemption instructions previously processed by NSCC that day (\textit{i.e.}, reversals and corrections), or (2) as-of instructions (\textit{e.g.}, as-of reversal instructions and as-of correction instructions) intended to correct as-of instructions processed by NSCC on an earlier day. In either case, ETF agents would have an opportunity to submit the applicable ETF Instruction prior to the 10:00 a.m. deadline for satisfying any Required Deposit.\textsuperscript{27}

NSCC would continue to maintain its current deadline of 8:00 p.m. for the submission of the input files during the Primary Cycle on trade date ("T").\textsuperscript{28} Any late ETF Instructions that are submitted to NSCC between 8:00 p.m. and 9:00 p.m. would be held until 9:00 p.m. and then processed at 9:00 p.m. during the Supplemental Cycle.\textsuperscript{29} The Supplemental Cycle would remove the need for manual extensions to the existing deadline of 8:00 p.m. for the Primary Cycle because ETF Instructions received by NSCC after 8:00 p.m. would be held and processed during the Supplemental Cycle, which would begin at 9:00 p.m.\textsuperscript{30}

The proposed Intraday Cycle would enable NSCC to receive, on an intraday basis, ETF Instructions that are marked as-of a prior trade date.\textsuperscript{31} Furthermore, ETF agents would be able to submit ETF Instructions (corrections or otherwise) to NSCC for same-day settlement during the Intraday Cycle until the designated cut-off time of 11:30 a.m.\textsuperscript{32} However, ETF agents would not be able to submit ETF Instructions to NSCC for same-day settlement during the Primary Cycle because NSCC lacks the functionality to process such same-day transactions.\textsuperscript{33} Upon implementation of the two proposed cycles, NSCC would be able to receive ETF Instructions in the standardized input file from 12:30 a.m. to 11:30 p.m. each business day.\textsuperscript{34}

According to NSCC, ETF agents currently submit ETF Instructions to NSCC using a standardized electronic input file.\textsuperscript{35} NSCC states that adding the Intraday Cycle and Supplemental Cycle would require some coding changes to the existing standardized input file and the output files distributed by NSCC to ETF agents and ETF authorized participants.\textsuperscript{36} Specifically, NSCC proposes to add additional information to the input file, such as the reversal/correction indicator and transaction time.\textsuperscript{37} NSCC would also revise the format of the input file to accommodate the additional information.\textsuperscript{38}

As a result of these changes, ETF agents, ETF sponsors, and any third party service providers they may use would be required to make coding changes to their systems to submit the standardized input file during any of the cycles.\textsuperscript{39} Although ETF agents would not be required to submit input files during all of the cycles, they would still be required to make coding changes to their systems because one standardized input file would be submitted to NSCC.\textsuperscript{40} The additional information that would be included in the output files, such as the reversal/correction indicator and transaction time, would either be appended to the output files or would appear in fields in the output files that are currently reserved and do not contain any information.\textsuperscript{41} ETF agents would be responsible for communicating these changes to their clients (\textit{i.e.}, ETF sponsors) or any third party service providers that they utilize.\textsuperscript{42} NSCC would continue to distribute all existing output files during the Primary Cycle and would also distribute output files during the two proposed cycles.\textsuperscript{43}

C. Automated Threshold Value Reasonability Check

NSCC proposes an “automated threshold value reasonability check” that would hold in a “pending” status certain potentially mis-valued ETF Instructions (whether due to mistakes in manual entry or otherwise) that exceed certain thresholds established by NSCC.\textsuperscript{44} The automated threshold value reasonability check would apply to all submissions of ETF Instructions.\textsuperscript{45} NSCC would perform automated threshold value reasonability checks using the most recently available closing price from the primary listing marketplace compared to the per-share value for every individual ETF Instruction submitted.\textsuperscript{46} NSCC would mark and assign a pended status to an ETF Instruction in which the per-share values exceed established thresholds compared to the most recently available closing price.\textsuperscript{47} NSCC would automatically notify the ETF agent of a pended ETF Instruction via email and through the output files.\textsuperscript{48} NSCC would also notify NSCC’s internal operations of the pended ETF Instruction.\textsuperscript{49} The ETF Instruction would remain in a pended status while awaiting confirmation for reinstatement (or rejection) by the submitting ETF agent.\textsuperscript{50} A submitting ETF agent could authorize NSCC to process a pended ETF Instruction by affirmatively confirming the ETF Instruction.\textsuperscript{51} The ETF Instruction would then be processed as long as NSCC received the confirmation by the end of the Supplemental Cycle.\textsuperscript{52} If the submitting ETF agent does not respond by the specified time or responds that the ETF Instruction should be rejected, then...
NSCC would reject the ETF Instruction.\(^{53}\)

NSCC proposes to establish the following threshold values initially:
- **For ETFs with a Current Market Price equal to or greater than $3.00:** The ETF contract value (i.e., the calculated effective price per share) is greater than or equal to a 98 percent variance from the market closing price from the trade date provided on the order; and
- **For ETFs with a Current Market Price less than $3.00:** The ETF contract value (i.e., the calculated effective price per share) is greater than or equal to a 98 percent variance from the market closing price from the trade date provided on the order.\(^ {54}\)

NSCC believes that setting the initial threshold value at 98 percent would capture overvalued and undervalued ETF Instructions while not being an excessively narrow control.\(^ {55}\) NSCC would retain the flexibility and discretion to adjust the price range and the threshold values described above.\(^ {56}\) NSCC may consider market conditions and feedback from Members and internal NSCC stakeholders (i.e., product management, risk management, and operations management) when considering threshold adjustments.\(^ {57}\)

NSCC believes that threshold adjustments might be warranted under specific scenarios: (1) If requested by Members and/or internal NSCC stakeholders, or (2) in response to a future market event.\(^ {58}\) In the first scenario, NSCC could make threshold adjustments upon the request of Members and/or internal NSCC stakeholders to set thresholds closer to an ETF’s closing market price than the initial setting.\(^ {59}\) Such threshold adjustments may prevent unnecessary reversals and margining on orders that contain errors because the threshold check would be triggered at smaller value differences.\(^ {60}\) Internal NSCC stakeholders would discuss the necessity of a threshold adjustment, with the final decision left to NSCC product management.\(^ {61}\)

In the second scenario, NSCC could make threshold adjustments in response to a future market event that results in a significant number of ETFs trading at market prices below the initial price range setting of $3.00.\(^ {62}\) NSCC would notify Members of any adjustment via Important Notice.\(^ {63}\) NSCC expects that changes to either setting would be rare.\(^ {64}\)

### D. Technical Correction

NSCC proposes to make a technical correction to clarify how NSCC processes next-day settling instructions.\(^ {65}\) Since implementation of NSCC’s accelerated trade guaranty,\(^ {66}\) NSCC no longer processes next-day settling instructions differently than other instructions when submitted to NSCC.\(^ {67}\) As such, next-day settling index receipts (with a Settlement Date of T+1) are no longer treated differently than regular-way instructions (i.e., those with a Settlement Date of T+2).\(^ {68}\) The proposed correction would remove repetitive language regarding such instructions.\(^ {69}\)

### II. Discussion and Commission Findings

Section 19(b)(2)(C) of the Act\(^ {70}\) directs the Commission to approve a proposed rule change of a self-regulatory organization if it finds that such proposed rule change is consistent with the requirements of the Act and rules and regulations thereunder applicable to such organization. The Commission believes the proposal is consistent with Act, specifically Section 17A(b)(3)(F) of the Act and Rules 17Ad–22(e)(6) and (21) under the Act.\(^ {71}\) Section 17A(b)(3)(F) of the Act requires, in part, that the Rules be designed to promote the prompt and accurate clearance and settlement of securities transactions.\(^ {72}\) As discussed above, under NSCC’s current processes, ETF agents may submit ETF Instructions to NSCC only during the Primary Cycle. Therefore, in the event that an ETF Instruction was incorrectly entered, the ETF agent must wait until the Primary Cycle on the following day to submit a new ETF Instruction to correct the error. In the meantime, the erroneous instruction might affect the amount of

\(^{53}\) Id.

\(^{54}\) Id.

\(^{55}\) Id. at 57796.

\(^{56}\) Id.

\(^{57}\) Id.

\(^{58}\) Id.

\(^{59}\) Id.

\(^{60}\) Id.

\(^{61}\) Id.

\(^{62}\) Id.

\(^{63}\) Id. at 57794–95.

\(^{64}\) See Securities Exchange Act Release No. 79598 (December 19, 2016), 81 FR 94462 (December 23, 2016) (SR–NSCC–2016–005). NSCC’s accelerated trade guaranty, among other things, accelerates NSCC’s trade guaranty from midnight of trade date plus one day (“T+1”) to the point of trade comparison and validation for bilateral submissions or to the point of trade validation for locked-in submissions.

\(^{65}\) Id.

\(^{66}\) Notice, 82 FR at 57794–95.


\(^{68}\) 15 U.S.C. 78q–1(b)(3)(F); 17 CFR 240.17Ad–22(e)(6) and (21).


\(^{70}\) Id.

\(^{71}\) Id.

\(^{72}\) Id.

\(^{73}\) Id.

\(^{74}\) Id.

\(^{75}\) Id.
produces margin levels commensurate that, at a minimum considers, and exposures to its Members by requires NSCC to cover its credit 17A(b)(3)(F) of the Act. 77 Removing clearance and settlement of securities transactions, consistent with Section 17A of the Act. 78 According to the proposal, the Commission finds that the proposed change to add the automated threshold value reasonability check would help promote the prompt and accurate clearance and settlement of securities transactions. 

Finally, the Commission finds that NSCC’s proposal to remove the repetitive language regarding next-day settling creates and redeems would promote the prompt and accurate clearance and settlement of securities transactions, consistent with Section 17A(b)(3)(F) of the Act. 77 Removing such repetitive language would help make the Rules more accurate and clear. Maintaining accurate and clear Rules would enable Members and other stakeholders to better understand their respective rights and obligations regarding NSCC’s clearance and settlement of securities transactions. Accordingly, the Commission finds that the proposed change to remove repetitive language from the Rules would promote the prompt and accurate clearance and settlement of securities transactions, consistent with the requirements of Section 17A(b)(3)(F) of the Act. 77 Rule 17Ad–22(e)(6)(i) under the Act requires NSCC to be efficient and effective in meeting the requirements of its Members, as well as the efficiency and effectiveness of NSCC’s related operating structure, and NSCC’s communications with ETF agents and authorized participants via the input and output reports. The proposal would enhance the efficiency and effectiveness of NSCC’s provision of ETF-related services by (1) enabling ETF agents to correct previously submitted errors before additional Required Deposits are required, (2) preventing potentially erroneous ETF Instructions from being processed until confirmed, and (3) enabling same-day settling ETF Instructions to receive the benefits of NSCC processing. Accordingly, the Commission finds that the proposal would enhance NSCC’s efficiency and effectiveness in meeting the requirements of its Members, as well as the efficiency and effectiveness of NSCC’s ETF-related clearing and settlement arrangements, operating structure, and communication procedures, consistent with Rule 17Ad–22(e)(21). 82

III. Conclusion

On the basis of the foregoing, the Commission finds that the proposal is consistent with the requirements of the Act, in particular the requirements of Section 17A of the Act 83 and the rules and regulations thereunder. It is therefore ordered, pursuant to Section 19(b)(2) of the Act, that proposed rule change SR–NSCC–2017–019 be, and hereby is, approved. 84 For the Commission, by the Division of Trading and Markets, pursuant to delegated authority. 85

Eduardo A. Aleman, Assistant Secretary.

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–82538; File No. SR–CboeBZX–2018–005]

Self-Regulatory Organizations; Cboe BZX Exchange, Inc.; Notice of Filing of a Proposed Rule Change To List and Trade Shares of the Cboe Vest S&P 500® Premium Income ETF Under Rule 14.11(c)(5)


Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the 86


84 In approving the proposed rule change, the Commission considered the proposals’ impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).