

of 1934 (“Act”)<sup>1</sup> and Rule 19b–4 thereunder,<sup>2</sup> a proposed rule change to amend its rules to require that market makers quoting certain in-the-money options series maintain quotes that are no wider than the spread between the national best bid and offer (“NBBO”) in the underlying security. The proposed rule change was published for comment in the **Federal Register** on June 20, 2014.<sup>3</sup> The Commission received no comment letters on the proposed rule change. This order approves the proposed rule change.

## II. Description

ISE Gemini Rule 803(b)(4)(i) presently permits market makers to submit quotes with wider bid/offer differentials for in-the-money options series where the market for the underlying security is wider than the market maker’s regular quotation requirements. In particular, a market maker quoting an in-the-money options series may submit quotes that are as wide as the quotation on the primary market of the underlying security.

ISE Gemini proposes to change this obligation to instead require that market makers quoting these in-the-money options series maintain quotes that are no wider than the spread between the NBBO in the underlying security. ISE Gemini believes that measuring the permissible width of a market maker’s quote against the NBBO more accurately reflects the current trading environment where multiple trading venues contribute to the prevailing market price of a security underlying an options series traded on ISE Gemini. Further, ISE Gemini explains that a market maker quoting an in-the-money options series can hedge its position by trading in the underlying security at the NBBO, which may be narrower than the quotation on the primary market. In addition, ISE Gemini believes that requiring market makers to post tighter quotes will improve market quality.

## III. Discussion and Commission Findings

After carefully considering the proposal, 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.<sup>4</sup> In particular, the

Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act,<sup>5</sup> which requires, among other things, that the rules of a national securities exchange be designed to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating transactions in securities, 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 notes that the proposal should improve market quality by narrowing spreads to the benefit of investors.

## IV. Conclusion

*It is therefore ordered*, pursuant to Section 19(b)(2) of the Act, that the proposed rule change (SR–ISEGemini–2014–15), be, and hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>6</sup>

**Kevin M. O’Neill**,

*Deputy Secretary.*

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–72740; File No. SR–ISE–2014–31]

### Self-Regulatory Organizations; International Securities Exchange, LLC; Order Approving Proposed Rule Change on Bid/Offer Differentials for In-The-Money Option Series

August 1, 2014.

#### I. Introduction

On June 4, 2014, the International Securities Exchange, LLC (“ISE”) 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 amend its rules to require that market makers quoting certain in-the-money options series maintain quotes that are no wider than the spread between the national best bid and offer (“NBBO”) in the underlying security. The proposed rule change was published for comment in the **Federal**

**Register** on June 20, 2014.<sup>3</sup> The Commission received no comment letters on the proposed rule change. This order approves the proposed rule change.

## II. Description

ISE Rule 803(b)(4)(i) presently permits market makers to submit quotes with wider bid/offer differentials for in-the-money options series where the market for the underlying security is wider than the market maker’s regular quotation requirements. In particular, a market maker quoting an in-the-money options series may submit quotes that are as wide as the quotation on the primary market of the underlying security.

ISE proposes to change this obligation to instead require that market makers quoting these in-the-money options series maintain quotes that are no wider than the spread between the NBBO in the underlying security. ISE believes that measuring the permissible width of a market maker’s quote against the NBBO more accurately reflects the current trading environment where multiple trading venues contribute to the prevailing market price of a security underlying an options series traded on the ISE. Further, ISE explains that a market maker quoting an in-the-money options series can hedge its position by trading in the underlying security at the NBBO, which may be narrower than the quotation on the primary market. In addition, ISE believes that requiring market makers to post tighter quotes will improve market quality.

## III. Discussion and Commission Findings

After carefully considering the proposal, 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.<sup>4</sup> In particular, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act,<sup>5</sup> which requires, among other things, that the rules of a national securities exchange be designed to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating transactions in securities, to remove impediments to and perfect the mechanism of a free and open

<sup>3</sup> See Securities Exchange Act Release No. 72399 (June 16, 2014), 79 FR 35396 (June 20, 2014) (“Notice”).

<sup>4</sup> In approving this proposed rule change, the Commission has considered the proposed rule’s impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

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

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

<sup>2</sup> 17 CFR 240.19b–4.

<sup>3</sup> See Securities Exchange Act Release No. 72399 (June 16, 2014), 79 FR 35397 (June 20, 2014) (“Notice”).

<sup>4</sup> In approving this proposed rule change, the Commission has considered the proposed rule’s

impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

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

<sup>6</sup> 17 CFR 200.30–3(a)(12).

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

<sup>2</sup> 17 CFR 240.19b–4.

market and a national market system and, in general, to protect investors and the public interest. The Commission notes that the proposal should improve market quality by narrowing spreads to the benefit of investors.

#### IV. Conclusion

*It is therefore ordered*, pursuant to Section 19(b)(2) of the Act, that the proposed rule change (SR-ISE-2014-31), be, and hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>6</sup>

Kevin M. O'Neill,

*Deputy Secretary.*

[FR Doc. 2014-18635 Filed 8-6-14; 8:45 am]

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### SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-72743; File No. SR-MSRB-2014-04]

#### Self-Regulatory Organizations; Municipal Securities Rulemaking Board; Order Granting Approval of a Proposed Rule Change Consisting of Proposed Amendments to Rule G-3, on Classification of Principals and Representatives, Numerical Requirements, Testing, Continuing Education Requirements; Rule G-7, on Information Concerning Associated Persons; and Rule G-27, on Supervision

August 1, 2014.

#### I. Introduction

On June 6, 2014, the Municipal Securities Rulemaking Board (the "MSRB" or "Board") filed with the Securities and Exchange Commission (the "SEC" or "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 consisting of proposed amendments to Rule G-3, on classification of principals and representatives, numerical requirements, testing, continuing education requirements; Rule G-7, on information concerning associated persons; and Rule G-27, on supervision. The proposed rule change was published for comment in the **Federal Register** on June 24, 2014.<sup>3</sup> The Commission received one comment

letter on the proposal.<sup>4</sup> This order approves the proposed rule change.

#### II. Description of the Proposed Rule Change

The MSRB states that the proposed rule change would: (1) Amend MSRB Rule G-3(a) to limit the scope of permitted activities of a limited representative—investment company and variable contracts products ("Limited Representative") to sales to and purchases from customers of municipal fund securities; (2) eliminate the Financial and Operations Principal ("FINOP") classification, qualification and numerical requirements in MSRB Rule G-3(d); (3) clarify in Supplementary Material .01 to Rule G-3 that references to sales include the solicitation of sales of municipal securities; and (4) make certain technical amendments to (i) re-title Rule G-3 and its subparagraph (a) and define the Limited Representative classification, (ii) reorganize Rules G-3 and G-7(a), and (iii) remove references to the FINOP in Rules G-7 and G-27.<sup>5</sup>

##### 1. Proposed Changes to Rule G-3(a)—Limited Representative

According to the MSRB, the proposed rule change will better align the activities permitted of Limited Representatives with the competencies tested in the Limited Representative—Investment Company and Variable Contracts Products Examination ("Series 6 examination") administered by the Financial Industry Regulatory Authority ("FINRA").<sup>6</sup> Currently, Limited Representatives are individuals whose activities, with respect to municipal fund securities,<sup>7</sup> may include (1) underwriting or sales; (2) research or investment advice with regard to underwriting or sales; or (3) any other activities that involve communication, directly or indirectly, with public investors with regard to underwriting or sales. According to the MSRB, Limited Representatives qualify as such by, among other requirements, passing the Series 6 examination.<sup>8</sup>

<sup>4</sup> See Letter to Elizabeth M. Murphy, Secretary, Commission, from David L. Cohen, Managing Director and Associate General Counsel, Securities Industry and Financial Markets Association, dated July 15, 2014 ("SIFMA Letter").

<sup>5</sup> See *supra* note 3.

<sup>6</sup> *Id.*

<sup>7</sup> Under MSRB Rule D-12, "municipal fund security shall mean a municipal security issued by an issuer that, but for the application of Section 2(b) of the Investment Company Act of 1940, would constitute an investment company within the meaning of Section 3 of the Investment Company Act of 1940."

<sup>8</sup> See *supra* note 3.

The MSRB has represented that the proposed rule change would narrow the activities permitted of Limited Representatives exclusively to sales to and purchases from customers of municipal fund securities.<sup>9</sup> The MSRB stated that the proposed rule change is appropriate because the Series 6 examination focuses on purchases and sales activities, commensurate with the scope of permissible activities under NASD Rule 1032(b).<sup>10</sup> The MSRB believes that individuals engaging in activities other than sales of municipal fund securities should be required to take and pass the Municipal Securities Representative Qualification Examination ("Series 52 exam"), which tests the basic competency to perform the activities described in MSRB Rule G-3(a)(i)(A).<sup>11</sup> According to the MSRB, the proposed rule change would harmonize MSRB and FINRA rules by limiting the activities of individuals solely qualified by having passed the Series 6 examination to sales-related activities and, under MSRB rules, exclusively to municipal fund securities sales-related activities.<sup>12</sup>

##### 2. Elimination of MSRB's FINOP Requirement

According to the MSRB, the proposed rule change also would eliminate the MSRB FINOP classification and the requirement that certain dealers designate at least one such principal (collectively referred to herein as the "FINOP requirement").<sup>13</sup> The MSRB conducted a review of the professional qualification requirements in Rule G-3 and determined that the FINOP requirement in Rule G-3(d) is unnecessary and duplicative of other regulations, such as NASD Rule 1022(b).<sup>14</sup> According to the MSRB, the responsibilities and duties of FINOPs pertaining to municipal securities are not unique, and FINRA rules establish general responsibilities and duties for such individuals.<sup>15</sup> The MSRB believes that FINRA's regulation of FINOPs is more appropriate in that the core responsibilities of a FINOP pertain to the dealer's financial reports and supervision of the dealer's activities

<sup>9</sup> *Id.*

<sup>10</sup> NASD Rule 1032(b) has been incorporated in the FINRA Manual and continues to be referred to as an NASD rule.

<sup>11</sup> See *supra* note 3.

<sup>12</sup> Under NASD Rule 1032(b), individuals who have taken and passed the Series 6 examination may only engage in sales activity related to investment company and variable contracts products.

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

<sup>14</sup> *Id.*

<sup>15</sup> *Id.*

<sup>6</sup> 17 CFR 200.30-3(a)(12).

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

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

<sup>3</sup> Securities Exchange Act Release No. 34-72425 (June 18, 2014), 79 FR 35829 (June 24, 2014) (the "Notice").