

protection of investors and the public interest, in the context of the limited permitted activities of CABs. Although FINRA is providing flexibility to CABs, we note that FINRA states that a CAB's supervisory procedures must be appropriate for the member's business, size, structure and customers, and that FINRA will monitor, as part of its examination and surveillance process, the development and operation of CABs' business to identify emergency or business disruptions at CABs that affect the ability of the members to meet their existing obligations to investors and issuers. Accordingly, the Commission believes that the proposed rule change is reasonably designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, and, in general, to protect investors and the public interest consistent with Section 15A(b)(6) of the Exchange Act.

#### IV. Conclusion

For the reasons discussed above, the Commission finds that the rule change, as modified by Amendment Nos. 1 and 2, is consistent with the Exchange Act and the rules and regulations thereunder, in particular with Section 15A(b)(6) of the Exchange Act, which requires in part that FINRA's rules be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, and, in general, to protect investors and the public interest.<sup>121</sup>

*It Is Therefore Ordered*, pursuant to Section 19(b)(2) of the Act,<sup>122</sup> that the rule change, SR-FINRA-2015-054, as modified by Amendment Nos. 1 and 2, be, and hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>123</sup>

**Robert Errett,**

*Deputy Secretary.*

[FR Doc. 2016-20211 Filed 8-23-16; 8:45 am]

**BILLING CODE 8011-01-P**

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-78610; File No. SR-NYSEArca-2016-82]

### Self-Regulatory Organizations; NYSE Arca, Inc.; Notice of Designation of a Longer Period for Commission Action on a Proposed Rule Change To List and Trade Shares of the JPMorgan Diversified Event Driven ETF Under NYSE Arca Equities Rule 8.600

August 18, 2016.

On June 20, 2016, NYSE Arca, Inc. 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 list and trade shares of the JPMorgan Diversified Event Driven ETF under NYSE Arca Equities Rule 8.600. The proposed rule change was published for comment in the **Federal Register** on July 7, 2016.<sup>3</sup> The Commission received no comment letters on the proposed rule change.

Section 19(b)(2) of the Act<sup>4</sup> provides that, within 45 days of the publication of notice of the filing of a proposed rule change, or within such longer period up to 90 days as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or as to which the self-regulatory organization consents, the Commission shall either approve the proposed rule change, disapprove the proposed rule change, or institute proceedings to determine whether the proposed rule change should be disapproved. The 45th day after publication of the notice for this proposed rule change is August 21, 2016. The Commission is extending this 45-day time period.

The Commission finds that it is appropriate to designate a longer period within which to take action on the proposed rule change so that it has sufficient time to consider the proposed rule change. Accordingly, the Commission, pursuant to Section 19(b)(2) of the Act,<sup>5</sup> designates October 5, 2016, as the date by which the Commission should either approve or disapprove or institute proceedings to determine whether to disapprove the proposed rule change (File Number SR-NYSEArca-2016-82).

<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. 78218 (Jul. 1, 2016), 81 FR 44339.

<sup>4</sup> 15 U.S.C. 78s(b)(2).

<sup>5</sup> *Id.*

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

**Robert W. Errett,**

*Deputy Secretary.*

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**BILLING CODE 8011-01-P**

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-78611; File No. SR-MSRB-2016-07]

### Self-Regulatory Organizations; Municipal Securities Rulemaking Board; Notice of Filing of Amendment No. 1 and Order Granting Accelerated Approval of a Proposed Rule Change, as Modified by Amendment No. 1, Consisting of Proposed Amendments to Rule G-12, on Uniform Practice, Regarding Close-Out Procedures for Municipal Securities

August 18, 2016.

#### I. Introduction

On May 11, 2016, 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-12, on uniform practice, regarding close-out procedures for municipal securities. The proposed rule change was published for comment in the **Federal Register** on June 1, 2016.<sup>3</sup>

The Commission received three comment letters on the proposal.<sup>4</sup> On July 25, 2016, the MSRB responded to the comments<sup>5</sup> and filed Amendment No. 1 to the proposed rule change.<sup>6</sup> The

<sup>6</sup> 17 CFR 200.30-3(a)(31).

<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. 77903 (May 25, 2016) (the "Proposing Release"), 81 FR 35111 (June 1, 2016).

<sup>4</sup> See Letters to Secretary, Commission, from Leslie M. Norwood, Managing Director and Associate General Counsel, Securities Industry and Financial Markets Association ("SIFMA"), dated June 22, 2016 (the "SIFMA Letter"); Michael Nicholas, Chief Executive Officer, Bond Dealers of America ("BDA"), dated June 22, 2016 (the "BDA Letter"); and David T. Bellaire, Esq., Executive Vice president and General Counsel, Financial Services Institute ("FSI"), dated June 22, 2016 (the "FSI Letter").

<sup>5</sup> See Letter to Secretary, Commission, from Michael Cowart, Deputy Director, Professional Qualifications and Assistant General Counsel, MSRB, dated July 25, 2016 (the "MSRB Response and Amendment Letter"), available at <https://www.sec.gov/comments/sr-msrb-2016-07/msrb201607-4.pdf>.

<sup>6</sup> *Id.* In Amendment No. 1, the MSRB partially amended the text of the original proposed rule

<sup>121</sup> See 15 U.S.C. 78o-3(b)(6).

<sup>122</sup> 15 U.S.C. 78s(b)(2).

<sup>123</sup> 17 CFR 200.30-3(a)(12).

Commission is publishing this notice to solicit comments on Amendment No. 1 to the proposed rule change from interested persons and is approving the proposed rule change, as modified by Amendment No. 1, on an accelerated basis.

## II. Description of the Proposed Rule Change

In the Proposing Release, the MSRB stated that a more timely resolution of inter-dealer fails would ultimately benefit customers by providing greater certainty that their fully paid for securities are in fact owned in their account, not allocated to a firm short, and would benefit dealers by reducing the risk and costs associated with inter-dealer fails.

As further described in the Proposing Release and the MSRB Response and Amendment Letter, the MSRB states that the purpose of the proposed rule change is to significantly compress the timing to initiate and complete a close-out by allowing a close-out notice to be issued the day after the purchaser's original settlement date, with the last day by which the purchasing dealer must complete a close-out on an open transaction being reduced to 10 calendar days, with an option for the buyer to grant the seller a one-time 10 calendar day extension.<sup>7</sup>

With the vast majority of municipal securities in book entry form and the Depository Trust & Clearing Corporation's ("DTCC") continued efforts to promote dematerialization, the MSRB proposed that firms should no longer have to provide a 10-day delivery window before implementing an execution period. The MSRB believes a three-day delivery window would be sufficient as the majority of inter-dealer fails are resolved within days of the original settlement and/or a fail situation is known prior to the original settlement date.

Additionally, the current rule requires that the earliest day that can be specified as the execution date is 11 days after telephonic notice. The proposed amendments would amend the current allowable execution time frame from 11 days to four days after electronic notification. Accelerating the execution date could improve a firm's likelihood of finding a security for a

<sup>7</sup> change to shorten the period in which firms are required to resolve an inter-dealer fail from 20 calendar days to 10 calendar days, and to permit the buyer to grant the seller a one-time 10 calendar day extension.

<sup>8</sup> See *supra* notes 3 and 5. The rule as initially proposed in the Proposing Release provided for a period of 20 days in which a close-out must be completed.

buy-in, lower overall counter-party risk and may further reduce accrual, capital and other expenses.

Under the proposed rule change, a purchasing dealer notifying the selling dealer of an intent to close out an inter-dealer fail would continue to prompt DTCC to "exit" the position from DTCC's continuous net settlement ("CNS") and the two parties are responsible for effecting the close-out. Because a municipal security may not be available for purchase, incorporating the buy-in procedures of a registered clearing agency will often not solve the inter-dealer fail. The MSRB expects firms to not solely rely upon the CNS system or the services of a registered clearing agency to resolve inter-dealer fails and take prompt action to close out inter-dealer fails in a timely manner. Under the proposed rule change, regardless of the date the positions are exited from CNS, the inter-dealer fail must be resolved within 20 calendar days of the purchasing dealer's original settlement date. The MSRB is also proposing to retire the Manual on Close-Out Procedures.<sup>8</sup>

### *Proposed Amendments to MSRB Rule G-12(h)*

Rule G-12, on uniform practice, establishes uniform industry practices for processing, clearance and settlement of transactions in municipal securities between a broker, dealer or municipal securities dealer and any other broker, dealer or municipal securities dealer. The proposed amendments would amend Rule G-12(h) by requiring close-outs to be settled no later than 20 calendar days after the settlement date. The proposed amendments to G-12(h)(i)(B) would allow for the close-out process to continue to provide three options to the purchasing dealer. The three options include: (1) Purchase ("buy-in") at the current market all or any part of the securities necessary to complete the transaction for the account and liability of the seller; (2) accept from the seller in satisfaction of the seller's obligation under the original contract (which shall be concurrently cancelled) the delivery of municipal securities that are comparable to those originally bought in quantity, quality, yield or price, and maturity, with any additional expenses or any additional cost of acquiring such substituted securities being borne by the seller; or (3) require the seller to repurchase the

<sup>8</sup> See Manual on Close-Out Procedures. The Manual on Close-Out Procedures will be retired because such procedures would be outdated and, given the proposed rule change's overall simplicity, developing an updated version of the manual is not warranted.

securities on terms which provide that the seller pay an amount which includes accrued interest and bear the burden of any change in market price or yield.

Firms must coordinate internally to determine which of the three close-out options are appropriate for any given fail-to-deliver situation. While a buy-in may be the most preferred method, Rule G-12(h) provides two other options to a purchaser in the event a buy-in is not feasible. Firms are reminded that, regardless of the option agreed upon by the counterparties, including a cancellation of the original transaction, the close-out transaction is reportable to the Real-time Transaction Reporting System ("RTRS") as currently required pursuant to Rule G-14.

Additionally, the proposed amendments to Rule G-12(h)(i)(A) would allow a purchaser to notify the seller of the purchaser's intent to close-out the transaction the first business day following the purchaser's original transaction settlement date, instead of waiting five business days as currently required in Rule G-12(h)(i)(A).

Currently Rule G-12(h) references use of the telephone and mail as part of the notification process. The proposed amendments would update Rule G-12(h) throughout, to reflect modern communication methods and widely-used industry practices that would facilitate more timely and efficient close-outs. For example, DTCC's SMART/Track is available for use by any existing NSCC clearing firm or DTCC settling member, allowing users to create, retransmit, respond, update, cancel and view a notice.

The proposed amendments to Rule G-12(h)(i)(D) would require sellers to use their best efforts to locate the securities that are subject to a close-out notice from a purchaser. The proposed amendments to Rule G-12(h)(i)(E)(1) would also require the seller to bear any burden in the market price, with any benefit from any change in the market price remaining with the purchaser.

The proposed amendments would also require a purchasing dealer that has multiple counterparties, to utilize the FIFO (first-in-first-out) method for determining the contract date for the failing quantity. Amendments to Rule G-12(h)(iv) would require dealers to maintain all records regarding the close-out transaction as part of the firm's books and records.

## III. Summary of Comments Received and the MSRB's Response

As noted previously, the Commission received three comment letters on the proposed rule change and a response

letter from the MSRB.<sup>9</sup> The commenters generally support the proposed rule change.<sup>10</sup> However, some commenters asked for further clarification and provided suggested amendments to the proposed rule change.<sup>11</sup> The MSRB has responded to the commenters, as discussed below.<sup>12</sup>

### 1. Shorter Close-Out Deadline

As noted above, the original proposed rule change provided for a close-out deadline of 20 calendar days. Both BDA and SIFMA commented that they would support an even shorter close-out period, with both suggesting a period of 10 calendar days, with an option for the buyer to consent to a 10-day extension, for a maximum aggregate total of 20 days.<sup>13</sup>

In response to comments, the MSRB proposed, in Amendment No. 1, to amend the original proposed rule change to require firms to resolve an inter-dealer fail from 20 calendar days to 10 calendar days and permit the buyer to grant the seller a one-time 10 calendar day extension, which would allow the buyer flexibility, while still ensuring that inter-dealer fails would be closed-out in a maximum of 20 calendar days. The MSRB stated in the Proposing Release that “a more timely resolution of inter-dealer fails would ultimately benefit customers by providing greater certainty that their fully paid for securities are in fact owned in their account and not allocated to a firm short, and would also benefit dealers by reducing the risk and costs associated with inter-dealer fails.”<sup>14</sup> The MSRB states in the MSRB Response and Amendment Letter that shortening the close-out period from 20 calendar days, as stated in the original proposed rule change, to 10 calendar days will further reduce the risk and cost associated with inter-dealer fails.

### 2. Requests for Clarification and Guidance

BDA commented that its member firms still have outstanding questions about how the proposed rule change would impact close-out processes related to accounts transferred to a broker-dealer via the Automated Customer Account Transfer Service (“ACATS”), and requested additional guidance from the MSRB regarding close-outs through ACATS.<sup>15</sup> SIFMA requested further guidance from the

MSRB regarding close-outs with respect to self-directed customer accounts, in which broker-dealers are not allowed to use discretion.<sup>16</sup>

The MSRB responded that both of these requests for guidance are beyond the scope of the proposed rule change, both as originally proposed and as amended by Amendment No. 1.<sup>17</sup>

### IV. Discussion and Commission Findings

The Commission has carefully considered the proposed rule change, as modified by Amendment No. 1, as well as the three comment letters received and the MSRB’s response. The Commission finds that the proposed rule change, as amended by Amendment No. 1, is consistent with the requirements of the Act and the rules and regulations thereunder applicable to the MSRB.

In particular, the proposed rule change is consistent with Section 15B(b)(2)(C) of the Act. Section 15B(b)(2)(C) of the Act requires that the MSRB’s rules be designed 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 municipal securities and municipal financial products, to remove impediments to and perfect the mechanism of a free and open market in municipal securities and municipal financial products, in general, to protect investors, municipal entities, obligated persons, and the public interest.<sup>18</sup>

The MSRB states that the proposed rule change would benefit investors, dealers and issuers. Specifically, the MSRB states that dealers may benefit from clarifications and revisions that more closely reflect actual market practices. In addition, dealers may be able to more quickly and efficiently resolve inter-dealer fails, which may reduce dealer risk, reduce the likelihood and duration that dealers are required to pay “substitute interest” to customers and reduce systemic risk. The MSRB further states that the proposed rule change may also reduce the likelihood and duration of firm short positions that allocate to customer long positions, reduce investor tax exposure and increase investor confidence in the market. According to the MSRB, issuers and the market as a whole may benefit from increased investor confidence.

In approving the proposed rule change, the Commission has considered the proposed rule’s impact on efficiency, competition, and capital formation.<sup>19</sup> The Commission believes the proposed rule change will improve efficiency in the municipal securities market. The Commission notes that all of the commenters stated that the proposed rule change would have positive effects on municipal market efficiency.<sup>20</sup> The Commission does not believe that the proposed rule change would impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act.

As noted above, the Commission received three comment letters on the filing. The Commission believes that the MSRB, through its responses and through proposed changes in Amendment No. 1, has addressed commenters’ concerns.

For the reasons noted above, including those discussed in the MSRB Response and Amendment Letter, the Commission believes that the proposed rule change, as amended by Amendment No. 1, is consistent with the Act.

### V. Solicitation of Comments on Amendment No. 1

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether Amendment No. 1 to the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

#### 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](mailto:rule-comments@sec.gov). Please include File Number SR-MSRB-2016-07 on the subject line.

#### Paper Comments

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street NE., Washington, DC 20549.

All submissions should refer to File Number SR-MSRB-2016-07. This file number should be included on the subject line if email is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission’s Internet Web site (<http://www.sec.gov/rules/sro.shtml>). Copies of the

<sup>9</sup> See *supra* notes 4 and 5.

<sup>10</sup> *Id.*

<sup>11</sup> *Id.*

<sup>12</sup> See MSRB Response and Amendment Letter.

<sup>13</sup> See BDA Letter and SIFMA Letter.

<sup>14</sup> See *supra* note 3.

<sup>15</sup> See BDA Letter.

<sup>16</sup> See SIFMA Letter.

<sup>17</sup> See MSRB Response and Amendment Letter.

<sup>18</sup> See 15 U.S.C. 78o-4(b)(2)(C).

<sup>19</sup> 15 U.S.C. 78c(f).

<sup>20</sup> See *supra* note 4.

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 the filing also will be available for inspection and copying at the principal office of the MSRB. 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-MSRB-2016-07 and should be submitted on or before September 14, 2016.

#### VI. Accelerated Approval of Proposed Rule Change as Modified by Amendment No. 1

The Commission finds good cause for approving the proposed rule change, as amended by Amendment No. 1, prior to the 30th day after the date of publication of notice in the **Federal Register**. As discussed above, Amendment No. 1 amends the proposed rule change by shortening the required time frame for firms to resolve an inter-dealer fail from 20 calendar days to 10 calendar days, and permitting the buyer to grant the seller a one-time 10 calendar day extension.

The MSRB has proposed the revisions included in Amendment No. 1 to further reduce the risk and cost associated with inter-dealer fails. As noted by the MSRB, the only substantive change to the proposed amendment, the shortening of the close-out period, was made to address concerns raised during the comment period. The MSRB has further noted that, in light of the stated goal of the original proposal to compress the timing for initiating and completing a close-out, the revisions are consistent with the original proposal and are unlikely to be controversial.

For the foregoing reasons, the Commission finds good cause for approving the proposed rule change, as modified by Amendment No. 1, on an accelerated basis, pursuant to Section 19(b)(2) of the Act.

#### VII. Conclusion

*It Is Therefore Ordered*, pursuant to Section 19(b)(2) of the Act,<sup>21</sup> that the proposed rule change (SR-MSRB-2016-07), as modified by Amendment No. 1, be, and hereby is, approved on an accelerated basis.

For the Commission, pursuant to delegated authority.<sup>22</sup>

**Robert W. Errett,**  
Deputy Secretary.

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**BILLING CODE 8011-01-P**

#### SECURITIES AND EXCHANGE COMMISSION

##### Proposed Collection; Comment Request

Upon Written Request, Copies Available From: Securities and Exchange Commission, Office of FOIA Services, 100 F Street NE., Washington, DC 20549-2736.

##### Extension:

Rule 17a-3, SEC File No. 270-026, OMB Control No. 3235-0033.

Notice is hereby given that pursuant to the Paperwork Reduction Act of 1995 ("PRA") (44 U.S.C. 3501 *et seq.*) the Securities and Exchange Commission ("Commission") is soliciting comments on the existing collection of information provided for in Rule 17a-3 (17 CFR 240.17a-3), under the Securities Exchange Act of 1934 (15 U.S.C. 78a *et seq.*). The Commission plans to submit this existing collection of information to the Office of Management and Budget ("OMB") for extension and approval.

Rule 17a-3 under the Securities Exchange Act of 1934 establishes minimum standards with respect to business records that broker-dealers registered with the Commission must make and keep current. These records are maintained by the broker-dealer (in accordance with a separate rule), so they can be used by the broker-dealer and reviewed by Commission examiners, as well as other regulatory authority examiners, during inspections of the broker-dealer.

The collections of information included in Rule 17a-3 are necessary to provide Commission, self-regulatory organization ("SRO") and state examiners to conduct effective and efficient examinations to determine whether broker-dealers are complying with relevant laws, rules, and regulations. If broker-dealers were not required to create these baseline,

standardized records, Commission, SRO and state examiners could be unable to determine whether broker-dealers are in compliance with the Commission's antifraud and anti-manipulation rules, financial responsibility program, and other Commission, SRO, and State laws, rules, and regulations.

As of April 1, 2016 there were 4,104 broker-dealers registered with the Commission. The Commission estimates that these broker-dealer respondents incur a total burden of 2,763,566 hours per year to comply with Rule 17a-3.

In addition, Rule 17a-3 contains ongoing operation and maintenance costs for broker-dealers, including the cost of postage to provide customers with account information, and costs for equipment and systems development. The Commission estimates that under Rule 17a-3(a)(17), approximately 41,143,233 customers will need to be provided with information regarding their account on a yearly basis. The Commission estimates that the postage costs associated with providing those customers with copies of their account record information would be approximately \$13,577,267 per year (41,143,233 × \$0.33).<sup>1</sup> The staff estimates that broker-dealers establishing liquidity, credit, and market risk management controls pursuant to Rule 17a-3(a)(23) incur one-time startup costs of \$924,000, or \$308,000 amortized over a three-year approval period, to hire outside counsel to review the controls. The staff further estimates that the ongoing equipment and systems development costs relating to Rule 17a-3 for the industry would be about \$30,677,094 per year.

Consequently, the total cost burden associated with Rule 17a-3 would be approximately \$44,562,361 per year.

Written comments are invited on: (a) Whether the proposed collection of information is necessary for the proper performance of the functions of the Commission, including whether the information shall have practical utility; (b) the accuracy of the Commission's estimate of the burden of the proposed collection of information; (c) ways to enhance the quality, utility, and clarity of the information to be collected; and (d) ways to minimize the burden of the collection of information on respondents, including through the use of automated collection techniques or other forms of information technology. Consideration will be given to comments and suggestions submitted in

<sup>1</sup> Estimates of postage costs are derived from past conversations with industry representatives and have been adjusted to account for inflation and increases in postage costs.

<sup>21</sup> 15 U.S.C. 78s(b)(2).

<sup>22</sup> 17 CFR 200.30-3(a)(12).