

Gemini's functionality prevents Immediate-or-Cancel ("IOC") orders entered by a market maker from trading with the market maker's own quote.<sup>62</sup> The Exchange proposes to replace this self-trade protection with anti-internalization functionality currently offered on Phlx.<sup>63</sup> The Exchange proposes to provide that quotes and orders entered by market makers using the same member identifier will not be executed against quotes and orders entered on the opposite side of the market by the same market maker using the same member identifier. In such a case, the system will cancel the resting quote or order back to the entering party prior to execution. The proposed anti-internalization functionality will not apply in any auction. The Exchange states that this proposed functionality does not modify the duty of best execution owed to public customer orders.<sup>64</sup>

The Exchange represents that the proposal is designed to assist market makers in reducing trading costs from unwanted executions potentially resulting from the interaction of executable interest from the same firm performing the same market making function.<sup>65</sup> The Commission believes that the proposed rule is reasonably designed to prevent the unwanted execution of quotes and orders entered by market makers using the same member identifier.

#### H. Minimum Execution Quantity Orders

The Exchange proposes to amend ISE Gemini Rule 715 (Types of Orders) to remove minimum quantity orders in subpart (q).<sup>66</sup> The Exchange states that the utilization of minimum quantity orders by its members has been very limited, and therefore proposes to remove this order type.<sup>67</sup> Furthermore, the Exchange proposes to remove two references to minimum quantity orders in Supplementary Material .02 to ISE Gemini Rule 713 and in Supplementary Material .04 to ISE Gemini Rule 717.

The Exchange states that the removing the minimum quantity order type would

simplify functionality available on the Exchange and reduce the complexity of its order types.<sup>68</sup> The Exchange further represents that the utilization of minimum quantity orders by its members has been very limited and is currently being utilized to transact less than 1% of the Exchange's volume.<sup>69</sup> Accordingly, the Commission believes it is appropriate for the Exchange to remove references to the minimum quantity order type.

#### I. Delay of Implementation of Directed Orders and Qualified Contingent Cross Orders

Currently, ISE Gemini rules provide for the use of Directed Orders<sup>70</sup> and Qualified Contingent Cross Orders.<sup>71</sup> The Exchange proposes to amend ISE Gemini Rules 721 (Crossing Orders) and 811 (Directed Orders) to note that these functionalities will not be available as of a certain date in the first quarter of 2017 to be announced in a notice. The Exchange represents that it will recommence the Directed Orders and Qualified Contingent Cross functionalities on ISE Gemini within one year from the date of the filing of the proposed rule change. Otherwise, the Exchange will file a rule proposal with the Commission to remove these rules.

The Exchange represents that it proposes to delay the implementation of the Directed Order and Qualified Contingent Cross Order functionalities on ISE Gemini to provide the Exchange additional time to rebuild the required technology on the new platform.<sup>72</sup> The Exchange further represents that members have been given adequate notice of the implementation dates and that the Exchange will provide further notifications to members to ensure clarity about the delay of implementation of these functionalities.<sup>73</sup> The Commission believes that the proposed rule change helps ensure clarity about the delay of implementation of this functionality.

For these reasons, the Commission believes that the proposed rule change, as modified by Amendment Nos. 1 and 2, is consistent with the Act.

#### IV. Conclusion

*It is therefore ordered*, pursuant to Section 19(b)(2) of the Act,<sup>74</sup> that the proposed rule change (SR-ISEGemini-2016-17), 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>75</sup>

**Eduardo A. Aleman,**  
Assistant Secretary.

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-80021; File No. SR-NYSE-2016-87]

### Self-Regulatory Organizations; New York Stock Exchange LLC; Order Granting Approval of a Proposed Rule Change To Conform to Proposed Amendment to Rule 15c6-1(a) Under the Securities Exchange Act of 1934 To Shorten the Standard Settlement Cycle for Most Broker-Dealer Transactions From Three Business Days After the Trade Date ("T+3") to Two Business Days After the Trade Date ("T+2")

February 10, 2017.

#### I. Introduction

On December 15, 2016, New York Stock Exchange LLC ("NYSE" or "Exchange") 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 conform its rules to an amendment proposed by the Commission to Rule 15c6-1(a) under the Act to shorten the standard settlement cycle for most broker-dealer transactions from three business days after the trade date ("T+3") to two business days after the trade date ("T+2").<sup>3</sup> The proposed rule change was published for comment in the **Federal Register** on December 29, 2016.<sup>4</sup> The Commission received two comments on the proposal, each of which supports the proposed rule change.<sup>5</sup> This order approves the proposed rule change.

<sup>75</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> See Securities Exchange Act Release No. 78962 (Sept. 28, 2016), 81 FR 69240 (Oct. 5, 2016) (File No. S7-22-16) ("T+2 Proposing Release").

<sup>4</sup> See Securities Exchange Act Release No. 79659 (Dec. 22, 2016), 81 FR 84635 (Dec. 29, 2016).

<sup>5</sup> See Letters from Manisha Kimmel, Chief Regulatory Officer, Wealth Management, Thomson Reuters, dated January 19, 2017; and Thomas F. Price, Managing Director, Operations, Technology & BCP, Securities Industry and Financial Markets Association ("SIFMA"), dated January 19, 2017.

<sup>62</sup> See *id.*

<sup>63</sup> See Phlx Rule 1080(p)(2).

<sup>64</sup> See Notice, *supra* note 3, at 96120.

<sup>65</sup> See Notice, *supra* note 3, at 96123.

<sup>66</sup> A Minimum Quantity Order is an order type that is available for partial execution only for a specified number of contracts or greater. A member may specify whether any subsequent executions of the order must also be for the specified number of contracts or greater, or if the balance may be executed as a regular order. If all executions are to be for a specified number of contracts or greater and the balance of the order after one or more partial execution(s) is less than the minimum, such balance is treated as all-or-none. See ISE Gemini Rule 715(q).

<sup>67</sup> See Notice, *supra* note 3, at 96120.

<sup>68</sup> See Notice, *supra* note 3, at 96123.

<sup>69</sup> See Notice, *supra* note 3, at 96120 n.35.

<sup>70</sup> See ISE Gemini Rule 811.

<sup>71</sup> See ISE Gemini Rule 715(j).

<sup>72</sup> See Notice, *supra* note 3, at 96123.

<sup>73</sup> See *id.*

<sup>74</sup> 15 U.S.C. 78s(b)(2).

## II. Description of the Proposal

The Exchange proposes to adopt Rules 14T (Non-Regular Way Settlement Instructions for Orders); Dealings and SettlementsT (Rules 45–299C); 64T (Bonds, Rights and 100-Share-Unit Stocks); 235T (Ex-Dividend, Ex-Rights); 236T (Ex-Warrants); 257T (Deliveries After “Ex” Date); 282.65T (Failure to Deliver and Liability Notice Procedures); and Section 703.02T (part 2) of the Listed Company Manual (Stock Split/Stock Rights/Stock Dividend Listing Process) in order to conform the Exchange’s rulebook to the Commission’s proposed amendment to Rule 15c6–1(a) under the Act, which would shorten the standard settlement cycle from T+3 to T+2 for most broker-dealer transactions.

Exchange Rule 14 defines “non-regular way” settlement instructions as instructions that allow for settlement other than “regular way” (*i.e.*, other than settlement on the third business day following trade date for securities other than U.S. Government Securities). Proposed Exchange Rule 14T would amend this definition to replace “third business day” with “second business day.”

The Exchange proposes similar changes to Exchange rules related to Dealing and Settlements. Exchange rules related to Dealing and Settlements define “regular way” as “due on the third business day following the day of the contract.” Proposed Exchange Rule Dealing and SettlementsT would replace “third business day” with “second business day.”

Similarly, Exchange Rule 64(a) defines “regular way” as “for delivery on the third business day following the day of the contract.” Proposed Exchange Rule 64T(a) would replace “third business day” with “second business day.” Exchange Rule 64(a)(ii) currently provides that on the second and third business days preceding the final day for subscription, bids and offers in rights to subscribe shall be made only “next day.” To conform with the move to a T+2 settlement cycle, proposed Exchange Rule 64T(a)(ii) would delete the reference to the third business day preceding the final day for subscription, because in a T+2 settlement cycle, bids and offers in rights to subscribe on that day would simply be subject to “regular way” settlement. Under Current Rule 64(c), all “seller’s option” trades, for delivery between 2 and 60 business days, should be reported to the tape only in calendar days. The Exchange proposes to amend Exchange Rule 64T(c) to replace the reference to “two” with a reference to “three.”

Exchange Rule 235 provides that transactions in stocks, except those made for “cash” as prescribed in Exchange Rule 14, shall be ex-dividend or ex-rights on the second business day preceding the record date fixed by the corporation or the date of the closing of transfer books. The Exchange proposes in Exchange Rule 235T to change “second business day preceding” to “business day preceding.” The current Exchange Rule 235 further provides that, if the record date or closing of transfer books occurs upon a day other than a business day, Exchange Rule 235 shall apply for the third preceding business day. The Exchange proposes to change “third preceding business day” to “second preceding business day” in proposed Exchange Rule 235T.

Exchange Rule 236 pertaining to ex-warrants similarly provides that transactions in securities that have subscription warrants attached, except those made for cash, shall be ex-warrants on the second business day preceding the date of expiration of the warrants, except that when the date of expiration occurs on a day other than a business day, the transactions shall be ex-warrants on the third business day preceding the date of expiration. The Exchange proposes to adopt proposed Exchange Rule 236T and change the warrant period to the business day preceding expiration of the warrants instead of the second business day. Under proposed Exchange Rule 236T, when warrant expiration does not occur on a business day, the ex-warrant period will begin on the second business day preceding the expiration date instead of on the third business day.

Exchange Rule 257 prescribes that the time frame for delivery of dividends or rights for securities sold before the “ex” date but delivered after the record date must occur within three days after the record date. Proposed Exchange Rule 257T would shorten the time frame to two days.

Subdivision (1)(A) of Supplementary Material .65 to current Exchange Rule 282 provides that, when a liability notice is sent by parties to a contract who are not both participants in a Qualified Clearing Agency that has an automated service for notifying a failing party of the liability that will be attendant to a failure to deliver, that notice must be issued no later than one business day prior to the latest time and the date of the offer or other event in order to obtain the protection provided under Exchange Rule 282. The Exchange proposes to amend the Supplementary Material so that Exchange Rule 282.65T(1)(A) would provide that, to obtain the protection

provided by Exchange Rule 282, the receiving member organization must send the liability notice to the delivering member organization as soon as practicable but not later than two hours prior to the cutoff time set forth in the instructions on a specific offer or other event.

Finally, Section 703.02 (part 2) of the Listed Company Manual prescribes that a distribution of less than 25% of a company’s common stock is traded “ex” on or after the second business day after the record date. This procedure is based on the Exchange’s current three-day delivery rule in which contracts made on the Exchange for the purchase and sale of securities are settled by delivery on the third business day after the contract is made, unless other terms of settlement are specified at the time the contract is made. The Exchange proposes to adopt Section 703.02T (part 2) to provide that a distribution of less than 25% of a company’s common stock is traded “ex” on and after the business day prior to the record date.

The Exchange proposes to adopt the rules but delay making the rules operative until the compliance date of any amendment to Rule 15c6–1(a) under the Act that the Commission adopts. The Exchange proposes to add preambles to each amended rule, and to the rule it would replace, to provide that (1) the existing rule will remain operative until the Exchange files separate proposed rule changes as necessary to establish the operative date of the revised rule, to delete the current rule and proposed preamble, and to remove the preamble text from the revised rule; and (2) in addition to filing the necessary proposed rule changes, the Exchange will announce via Information Memo the operative date of the deletion of the current rule and implementation of the proposed rule designated with a T.

## III. Discussion and Commission’s Findings

After careful review of the proposed rule change and the comments, the Commission finds that the proposal is consistent with the requirements of the Act and the rules and regulations thereunder that are applicable to a national securities exchange.<sup>6</sup> Specifically, the Commission finds that the rule change is consistent with Section 6(b)(5) of the Act,<sup>7</sup> which requires that the rules of a national securities exchange be designed, among

<sup>6</sup> In approving this proposed rule change, the Commission has considered the rule’s impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

<sup>7</sup> 15 U.S.C. 78f(b)(5).

other things, 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 securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and to protect investors and the public interest.

As noted above, the Commission received two comment letters on the proposed rule change.<sup>8</sup> Both comment letters express support for Commission approval of the proposed rule change.

The Commission notes that the proposal would amend the Exchange's rules to conform to the amendment that the Commission has proposed to Rule 15c6-1(a) under the Act<sup>9</sup> and support a move to a T+2 standard settlement cycle. In the T+2 Proposing Release the Commission stated its preliminary belief that shortening the standard settlement cycle from T+3 to T+2 will result in a reduction of credit, market, and liquidity risk,<sup>10</sup> and as a result a reduction in systemic risk for U.S. market participants.<sup>11</sup> The Commission also notes that it has not yet adopted the proposed amendment to Rule 15c6-1(a) under the Act and that the Exchange has, accordingly, not proposed to make its amended rules operative at present. Instead, the Exchange has proposed to announce the operative date of the Exchange's proposal via Information Memo and by filing a separate proposed rule change. The Commission expects that the operative date of the proposed rule change would correspond with the compliance date of any amendment to Rule 15c6-1(a) that is adopted by the Commission. The Commission notes that, in October 2014, Depository Trust and Clearing Corporation, in collaboration with the Investment Company Institute, SIFMA, and other market participants, formed an Industry Steering Group ("ISC") and an industry working group to facilitate the transition

to a T+2 settlement cycle for U.S. trades in equities, corporate and municipal bonds, and unit investment trusts.<sup>12</sup> The ISC has identified September 5, 2017, as the target date for the transition to a T+2 settlement cycle to occur.<sup>13</sup>

For the reasons noted above, the Commission finds that the proposal is consistent with the requirements of the Act and would foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and to protect investors and the public interest.

#### IV. Conclusion

*It is therefore ordered*, pursuant to Section 19(b)(2) of the Act,<sup>14</sup> that the proposed rule change (SR-NYSE-2016-87), be and hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>15</sup>

**Eduardo A. Aleman,**  
Assistant Secretary.

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-80008; File No. SR-Phlx-2017-09]

### Self-Regulatory Organizations; NASDAQ PHLX LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Amend Sections I and II of the Pricing Schedule

February 10, 2017.

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> notice is hereby given that, on February 1, 2017, NASDAQ PHLX LLC ("Phlx" or "Exchange") filed with the Securities and Exchange Commission ("SEC" or "Commission") the proposed rule change as described in Items I, II, and III below, which Items have been

<sup>12</sup> See Press Release, DTCC, Industry Steering Committee and Working Group Formed to Drive Implementation of T+2 in the U.S. (Oct. 2014), <http://www.dtcc.com/news/2014/october/16/ust2.aspx>.

<sup>13</sup> See Press Release, ISC, US T+2 ISC Recommends Move to Shorter Settlement Cycle On September 5, 2017 (Mar. 7, 2016), <http://www.ust2.com/pdfs/T2-ISC-recommends-shorter-settlement-030716.pdf>.

<sup>14</sup> 15 U.S.C. 78s(b)(2).

<sup>15</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.

prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

### I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

The Exchange proposes to amend the Exchange's Pricing Schedule at Section I, entitled "Rebates and Fees for Adding and Removing Liquidity in SPY," and Section II, entitled "Multiply Listed Options Fees"<sup>3</sup> to amend various transaction fees and rebates.

The text of the proposed rule change is available on the Exchange's Web site at <http://nasdaqphlx.cchwallstreet.com/>, at the principal office of the Exchange, and at the Commission's Public Reference Room.

### II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

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

#### A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

##### 1. Purpose

The purpose of the proposed rule change is to amend the Exchange's Pricing Schedule at Section I, entitled "Rebates and Fees for Adding and Removing Liquidity in SPY," to (i) amend the Simple Order Rebate for Adding Liquidity which is paid to Specialists<sup>4</sup> and Market Makers;<sup>5</sup>

<sup>3</sup> Multiply Listed Options includes options overlying equities, ETFs, ETNs and indexes which are Multiply Listed.

<sup>4</sup> The term "Specialist" applies to transactions for the account of a Specialist (as defined in Exchange Rule 1020(a)).

<sup>5</sup> The term "Market Maker" describes fees and rebates applicable to Registered Options Traders ("ROT"), Streaming Quote Traders ("SQT") and Remote Streaming Quote Traders ("RSQT"). A ROT is defined in Exchange Rule 1014(b) as a regular member of the Exchange located on the trading floor who has received permission from the Exchange to trade in options for his own account. A ROT includes SQTs and RSQTs as well as on and off-floor ROTs. An SQT is defined in Exchange Rule 1014(b)(ii)(A) as an ROT who has received permission from the Exchange to generate and

Continued

<sup>8</sup> See *supra* note 5.

<sup>9</sup> See *supra* note 3.

<sup>10</sup> Credit risk refers to the risk that the credit quality of one party to a transaction will deteriorate to the extent that it is unable to fulfill its obligations to its counterparty on settlement date. Market risk refers to the risk that the value of securities bought and sold will change between trade execution and settlement such that the completion of the trade would result in a financial loss. Liquidity risk describes the risk that an entity will be unable to meet financial obligations on time due to an inability to deliver funds or securities in the form required though it may possess sufficient financial resources in other forms. See T+2 Proposing Release, *supra* note 3, 81 FR at 69241 n. 3.

<sup>11</sup> See T+2 Proposing Release, *supra* note 3, 81 FR at 69241.