

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 website 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 Exchange. All comments received will be posted without change. 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 No. SR-CboeEDGX-2018-034, and should be submitted on or before September 13, 2018.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>11</sup>

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

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-83879; File No. SR-CboeBZX-2018-063]

### Self-Regulatory Organizations; Cboe BZX Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change To Amend the Options Regulatory Fee

August 17, 2018.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the "Act"),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on August 10, 2018, Cboe BZX Exchange, Inc. (the "Exchange" or "BZX") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I, II and III below, which Items have been prepared by the Exchange. The Exchange has designated the proposed rule change as one establishing or changing a member due, fee, or other charge imposed by the Exchange under Section 19(b)(3)(A)(ii) of the Act<sup>3</sup> and Rule 19b-4(f)(2) thereunder,<sup>4</sup> which renders the

proposed rule change effective upon filing with the Commission. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The Exchange filed a proposal to amend its fee schedule related to the Options Regulatory Fee.

The text of the proposed rule change is available at the Exchange's website at [www.markets.cboe.com](http://www.markets.cboe.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 parts of such statements.

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

##### 1. Purpose

The Exchange proposes to modify the fee schedule applicable to the Exchange's options platform ("BZX Options") to amend the rate of its Options Regulatory Fee ("ORF").<sup>5</sup> Currently, the Exchange charges an ORF in the amount of \$0.0005 per contract side. The Exchange proposes to decrease the amount of ORF from \$0.0005 per contract side to \$0.0002 per contract side. The proposed change to ORF should continue to balance the Exchange's regulatory expenses against the anticipated revenue.

The ORF is assessed by the Exchange on each Member for options transactions cleared by the Member that are cleared by the Options Clearing Corporation (OCC) in the customer range, regardless of the exchange on which the transaction occurs. In other

words, the Exchange imposes the ORF on all customer-range transactions cleared by a Member, even if the transactions do not take place on the Exchange. The ORF is collected by OCC on behalf of the Exchange from the Clearing Member or non-Clearing Member that ultimately clears the transaction. With respect to linkage transactions, the Exchange reimburses its routing broker providing Routing Services for options regulatory fees it incurs in connection with the Routing Services it provides.

Revenue generated from ORF, when combined with all of the Exchange's other regulatory fees and fines, is designed to recover a material portion of the regulatory costs to the Exchange of the supervision and regulation of Member customer options business. Regulatory costs include direct regulatory expenses and certain indirect expenses for work allocated in support of the regulatory function. The direct expenses include in-house and third party service provider costs to support the day to day regulatory work such as surveillances, investigations and examinations. The indirect expenses include support from such areas as human resources, legal, information technology and accounting. These indirect expenses are estimated to be approximately 10% of BZX Options' total regulatory costs for 2018. Thus, direct expenses are estimated to be approximately 90% of total regulatory costs for 2018. In addition, it is BZX Options' practice that revenue generated from ORF not exceed more than 75% of total annual regulatory costs. These expectations are estimated, preliminary and may change. There can be no assurance that our final costs for 2018 will not differ materially from these expectations and prior practice; however, the Exchange believes that revenue generated from the ORF, when combined with all of the Exchange's other regulatory fees and fines, will cover a material portion, but not all, of the Exchange's regulatory costs.<sup>6</sup>

The Exchange will continue to monitor the amount of revenue collected from the ORF to ensure that it, in combination with its other regulatory fees and fines, does not exceed the Exchange's total regulatory costs. The Exchange monitors its regulatory costs and revenues at a minimum on a semi-annual basis. If the Exchange

<sup>5</sup> The Exchange initially filed the proposed fee change on August 1, 2018 (SR-CboeEDGX-2018-028) for August 1, 2018 effectiveness. On business date August 9, 2018, the Exchange withdrew that SR-CboeBZX-2018-055 and submitted SR-CboeBZX-2018-062 in its place. On business date August 10, 2018 the Exchange withdrew SR-CboeBZX-2018-062 and submitted this filing.

<sup>6</sup> The Exchange notes that its regulatory responsibilities with respect to compliance with options sales practice rules has been allocated to the Financial Industry Regulatory Authority, Inc. ("FINRA") under a 17d-2 Agreement. The ORF is not designed to cover the cost of options sales practice regulation.

<sup>11</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> 15 U.S.C. 78s(b)(3)(A)(ii).

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

determines regulatory revenues exceed or are insufficient to cover a material portion of its regulatory costs, the Exchange will adjust the ORF by submitting a fee change filing to the Commission. The Exchange notifies Members of adjustments to the ORF via regulatory circular. The Exchange provides Members with such notice at least 30 calendar days prior to the effective date of the change.

The Exchange lastly proposes a couple of minor clean up changes to the Fees Schedule. Particularly, the ORF is listed as being \$0.0009 per contract through January 31, 2018 and \$0.0005 per contract effective February 1, 2018. As these dates have passed and the ORF is now simply \$0.0002 per contract, the Exchange proposes to delete the reference to the ORF being \$0.0009 per contract through January 31, 2018 and the February 1, 2018 effective date of the \$0.0005 per contract ORF.

## 2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder that are applicable to a national securities exchange, and, in particular, with the requirements of Section 6 of the Act.<sup>7</sup> Specifically, the Exchange believes that the proposed rule change is consistent with Section 6(b)(4) of the Act,<sup>8</sup> in that it provides for the equitable allocation of reasonable dues, fees and other charges among members and other persons using its facilities. The Exchange notes that it operates in a highly competitive market in which market participants can readily direct order flow to competing venues or providers of routing services if they deem fee levels to be excessive.

The Exchange believes the decreased ORF is equitable and not unfairly discriminatory because it would be objectively allocated to Members in that it would be charged to all Members on all their transactions that clear as customer transactions at the OCC. The Exchange believes that decreasing the ORF is reasonable because the Exchange's collection of ORF needs to be balanced against the amount of regulatory revenue collected by the Exchange. The Exchange believes that the proposed adjustment noted herein will serve to continue to balance the Exchange's regulatory revenue against its anticipated regulatory costs.

The Exchange has designed the ORF to generate revenues that, when combined with all of the Exchange's

other regulatory fees, will be less than or equal to the Exchange's regulatory costs, which is consistent with the Commission's view that regulatory fees be used for regulatory purposes and not to support the Exchange's business side. In this regard, the Exchange believes that the decreased level of the fee is reasonable and appropriate.

The Exchange believes the proposal to eliminate obsolete language with respect to past ORF rates maintains clarity in the rules and alleviates potential confusion, thereby protecting investors and the public interest.

### *B. Self-Regulatory Organization's Statement on Burden on Competition*

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. This proposal does not create an unnecessary or inappropriate intra-market burden on competition because the ORF applies to all customer activity, thereby raising regulatory revenue to offset regulatory expenses. It also supplements the regulatory revenue derived from non-customer activity. This proposal does not create an unnecessary or inappropriate inter-market burden on competition because it is a regulatory fee that supports regulation in furtherance of the purposes of the Act. The Exchange is obligated to ensure that the amount of regulatory revenue collected from the ORF, in combination with its other regulatory fees and fines, does not exceed regulatory costs.

### *C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received From Members, Participants, or Others*

The Exchange has not solicited, and does not intend to solicit, comments on this proposed rule change. The Exchange has not received any written comments from members or other interested parties.

## **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) of the Act<sup>9</sup> and paragraph (f) of Rule 19b-4 thereunder.<sup>10</sup> 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:

### *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 No. SR-CboeBZX-2018-063 on the subject line.

### *Paper Comments*

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street NE, Washington, DC 20549-1090.

All submissions should refer to File No. SR-CboeBZX-2018-063. 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 website (<http://www.sec.gov/rules/sro.shtml>). Copies of the 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 website 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 Exchange. All comments received will be posted without change. 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 No. SR-CboeBZX-2018-063, and should be submitted on or before September 13, 2018.

<sup>7</sup> 15 U.S.C. 78f.

<sup>8</sup> 15 U.S.C. 78f(b)(4).

<sup>9</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>10</sup> 17 CFR 240.19b-4(f).

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>11</sup>

**Eduardo A. Aleman,**

*Assistant Secretary.*

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–83868; File No. SR–FINRA–2018–030]

### Self-Regulatory Organizations; Financial Industry Regulatory Authority, Inc.; Notice of Filing of a Proposed Rule Change To Amend FINRA Rule 7730 (Trade Reporting and Compliance Engine (TRACE)) To Remove Computer-to-Computer Interface as a Technological Option for TRACE Reporting

August 17, 2018.

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 August 15, 2018, Financial Industry Regulatory Authority, Inc. (“FINRA”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared by FINRA. 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

FINRA is proposing to amend FINRA Rule 7730 to modify the technological connectivity options available to members for reporting transactions to TRACE.

The text of the proposed rule change is available on FINRA’s website at <http://www.finra.org>, at the principal office of FINRA 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, FINRA 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. FINRA 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 the Statutory Basis for, the Proposed Rule Change

##### 1. Purpose

FINRA is proposing to amend Rule 7730 (Trade Reporting and Compliance Engine (TRACE)) to remove Computer-to-Computer Interface (“CTCI”) as a technological means of connectivity for use in reporting transactions to TRACE.

Technology and connectivity options have evolved since the inception of the TRACE system (at which time CTCI, rather than Financial Information eXchange (“FIX”), was made available for TRACE reporting purposes).<sup>3</sup> FINRA has determined that it is now appropriate to remove CTCI—a Nasdaq proprietary protocol—as a means of connectivity. Accordingly, firms would be required to report transactions to TRACE using one of the remaining currently available options: (i) Web browser access; (ii) FIX line access; or (iii) indirectly via third-party intermediaries (e.g., service bureaus).<sup>4</sup>

FINRA notes that FIX—an industry standard protocol—is an immediately available and viable alternative to CTCI that already is widely used by members. Since adding FIX as a protocol for transaction reporting to TRACE in 2011 for Securitized Products (and for corporates and Agency Debt Securities in 2012), approximately two thirds of firms with direct connections, and half of the service bureaus, have opted to migrate from CTCI to FIX. In fact, the majority of members that report trades to TRACE currently connect via FIX,<sup>5</sup> and FINRA believes that an increasing

<sup>3</sup> See Securities Exchange Act Release No. 42201 (December 3, 1999), 64 FR 69305 (December 10, 1999) (Notice of Filing of File No. SR–NASD–99–65).

<sup>4</sup> See Rule 7730.

<sup>5</sup> Currently, 61 members have direct FIX connections for TRACE reporting, 32 have direct CTCI connections, and 709 members have web browser access (the 709 firms with web browser access also may have CTCI or FIX access for connecting to TRACE). The top five members that connect through CTCI for reporting transactions to TRACE represent 63% of all TRACE reports submitted directly using a CTCI connection. In addition, five service bureaus report to TRACE through CTCI connections and five report through FIX connections. The five service bureaus that use CTCI report transactions to TRACE on behalf of 191 members in aggregate, with over 95% of these transaction reports received from one service bureau. For all TRACE-eligible securities, approximately 33% of all transaction reports are received via CTCI, which consists of 23% submitted by members with direct CTCI connections and 10% by service bureaus connected via CTCI.

amount of firms and service bureaus will continue to migrate to FIX.<sup>6</sup> FINRA also believes that removing CTCI as a means of connectivity will reduce operational overhead and risk for FINRA.

Accordingly, FINRA is proposing to amend Rule 7730 to remove CTCI as a means of connectivity for members to report transactions to TRACE.<sup>7</sup> FINRA intends to provide ample time, until February 3, 2020, to allow firms that still use CTCI as a means of connectivity to migrate, and will permit members to migrate at any point throughout the implementation period. During that timeframe, FINRA also will engage in extensive outreach with the industry to assist in migration awareness and efforts.<sup>8</sup>

If the Commission approves the proposed rule change, the effective date of the proposed rule change will be February 3, 2020.

##### 2. Statutory Basis

FINRA believes that the proposed rule change is consistent with the provisions of Section 15A(b)(6) of the Act,<sup>9</sup> which requires, among other things, that FINRA rules must 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.

FINRA is proposing to amend Rule 7730 to remove CTCI as a means of connectivity for members to report transactions to TRACE. FINRA does not believe the proposed rule change will have a significant impact, as a majority of members already use FIX as a means of connectivity to report trades to TRACE, and FINRA believes that an increasing amount of members and service providers are migrating to exclusive use of FIX. FIX is an industry standard protocol that is an immediately available and viable alternative for the minority of members who directly use CTCI as a means of connectivity to report transactions to TRACE.

<sup>6</sup> For example, members may report trades to the recently approved second FINRA/Nasdaq Trade Reporting Facility via FIX but firms will not have the option to report trades via CTCI. See Securities Exchange Act Release No. 83082 (April 20, 2018), 83 FR 18379 (April 26, 2018) (Notice of Filing of File No. SR–FINRA–2018–013).

<sup>7</sup> FINRA will be eliminating CTCI as a means of connectivity for reporting to all FINRA trade reporting facilities.

<sup>8</sup> In addition to general outreach (industry-wide calls and a Technical Notice), FINRA will contact each individual firm that directly reports to TRACE via CTCI by email and telephone to provide information and assistance in connection with the migration.

<sup>9</sup> 15 U.S.C. 78o–3(b)(6).

<sup>11</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.