III. Discussion and Commission Findings

After careful consideration, 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 association. In particular, the Commission finds that the proposed rule change is consistent with Section 15A(b)(6) of the Act, which requires, among other things, that FINRA 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.

The Commission previously found that the earliest iteration of FINRA’s publication protocols for ATS OTC trade data were consistent with the Act. Several commenters on that initial proposal urged FINRA to broaden its publication protocols to include non-ATS OTC trading centers, not only ATSs. FINRA responded that “it considered various alternatives and concluded that ATS trade information was an appropriate first step toward increased transparency in the off-exchange OTC market. FINRA stated further that it would consider additional steps, including those suggested by the commenters, in the future.”

Subsequently, in 2015, FINRA proposed to expand transparency of OTC equity trading data by publishing certain information regarding non-ATS OTC trading. At that time, however, FINRA did not believe that publishing volume information for each firm that executed only a small number of trades or shares in any given period would provide meaningful information to the marketplace. Therefore, FINRA proposed to combine volume from all members that did not meet a specified minimum threshold and publish such information for those members on an aggregated basis. The Commission approved the proposed rule change because publishing this data, even though not to the same degree of granularity as ATS OTC trade data, would facilitate better understanding of the OTC equity market.

FINRA is now proposing to apply to non-ATS OTC trade data more of the publication protocols that it currently applies to ATS OTC trade data. Specifically, FINRA will publish new monthly aggregate block-size trading data for non-ATS OTC trades in NMS stocks, on the same terms as FINRA currently publishes aggregate block-size trading data for ATS trades in NMS stocks. Second, FINRA will eliminate the de minimis exception for publication of aggregate non-ATS trading volume across all NMS stocks and OTC Equity Securities, and publish each firm’s aggregate non-ATS volume on an attributed basis. The Commission believes that the proposal will enhance transparency in the OTC equity market by making additional trading volume data available on FINRA’s website in a manner reasonably designed to avoid adverse market impact, and without imposing any new requirements, on FINRA members. Therefore, the Commission finds that the proposal is consistent with the Act and the rules and regulations thereunder applicable to a national securities association. The Commission notes that it received no comments objecting to the proposal.

IV. Conclusion

It is therefore ordered, pursuant to Section 19(b)(2) of the Act, that the proposed rule change (SR–FINRA–2019–019) is approved.
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 proposed functionality in this filing is similar to functionality that has already been approved by the Commission and is operational on NYSE Arca, Inc. (“Arca”) (the “Arca Rule”), as well as was approved for Bats BZX Exchange, Inc.6 Currently, the NOCP is derived from the Closing Cross7 on Nasdaq if the security has a closing cross and reflects actual sale prices at one of the most liquid times of the day.8 The Exchange notes that it is not proposing to make changes to the process for determining the price level at which the Closing Cross will occur. Nasdaq believes its Closing Cross has proven to be a valuable pricing tool for issuers, traders, and investors alike; and Nasdaq continually works to enhance the experience for those that rely upon it.

The Exchange proposes to amend Nasdaq Rule 4754(b) to amend how the NOCP for a Nasdaq-listed security that is an ETP will be determined if the security does not have a Closing cross. Thinline-traded ETPs are less likely to have a Closing Cross, which can result in a closing price that is based on a stale price that is no longer reflective of the value of the security. Specifically, if an ETP is thinly-traded, it is inherently possible that the NOCP for it will be based on a Nasdaq Last Sale price that may not necessarily reflect the current value of the security. Providing an updated price aligned with the current market value based on quotations in an ETP that is thinly-traded will provide investors and issuers with a more accurate price to mark performance of their funds and portfolios.

Nasdaq Rule 4754(b) outlines the process for determining the price level at which the Closing Cross will occur.9

2. Change

Nasdaq Rule 4754(b) details the processing of the Nasdaq Closing Cross, including how the Exchange determines the NOCP. The Exchange proposes to amend Nasdaq Rule 4754 to amend how the NOCP will be determined for an Exchange-listed security that is an exchange-traded product (“ETP”) if the Exchange does not conduct a closing cross (“Closing Cross”).10 ETP for purposes of the proposed rule change means a series of Portfolio Depository Receipts, Index Fund Shares, Managed Fund Shares, or Trust Issued Receipts (as defined in Nasdaq Rules 5705(a), 5705(b), 5735, and 5720, respectively), securities linked to the performance of indexes and commodities (including currencies) (as defined in Nasdaq Rule 5710), Index-Linked Exchangeable Notes, Equity Gold Shares, Trust Certificates, Commodity-Based Trust Shares, Currency Trust Shares, Commodity Index Trust Shares, Commodity Futures Trust Shares, Partnership Units, Trust Units, Managed Trust Securities, or Currency Warrants (as defined in Rule 5711(a)–(k)).

The proposed functionality in this filing is similar to functionality that has already been approved by the Commission and is operational on NYSE Arca, Inc. (“Arca”) (the “Arca Rule”), as well as was approved for Bats BZX Exchange, Inc.6

If a Nasdaq-listed security that is an ETP has a Closing Cross, it will continue to be priced using the current process for calculating the closing price. However, if a Nasdaq-listed security that is an ETP does not have a Closing Cross, then the Exchange believes that a time-weighted average based on the midpoint (“T–WAM”) of the NBBO11 leading into the close is likely to be more indicative of the current value of the security. Nasdaq believes the midpoint of current quotations is more reflective of the current value of the ETP than a price that was last sale.

The T–WAM price will be a time-weighted average midquote value calculation11 that uses eligible quotes during the time period 3:58:00 p.m.–3:59:55 p.m. based on quoted prices observed each second.12 For example, NBBO = 19.99 x 20.01 (midpoint = $20.00) starting at 3:58:00 p.m. through 3:58:59 p.m. and then the NBBO is updated to 19.95 x 19.97 (midpoint = $19.96) from 3:59:00 p.m. through 3:59:55 p.m., the T–WAM calculation will be $19.98 (19.9801).

In cases where the T–WAM is reflected as the ETP’s NOCP, the T–WAM calculation will only use eligible quotes that meet the following validation logic: An eligible quote is defined as a quote whose spread is no greater than a value of 10% of the midpoint price. All quoted spreads within the T–WAM’s stated time period in proposed Nasdaq Rule 4754(b)(4)(A)(i) that are greater than 10% of the midpoint would be excluded from the T–WAM calculation. For example: If the NBBO = 19.99 x 20.01 (midpoint = $20.00) validation would allow a maximum quote width up to $2 to be used as part of the calculation

3. As set forth in Nasdaq Rule 4754(b)(4), the NOCP will be the Closing Cross price for stocks that participate in the Closing Cross.

4. The proposed rule change does not apply to Nasdaq Rule 5745 Exchange-Traded Managed Fund Shares (“NextShares”) or corporate securities. Additionally, it is unnecessary to apply this rule change to NextShares because its reference trading price is reset to $100 every day for quoting purposes around which markets are made. The actual NAV price does not correspond to this reference price and therefore the midpoints of the reference prices are not applicable in determining a more accurate fair value of the basket. Nasdaq is not proposing this change for corporate securities because unlike ETPs they do not have a known NAV along with an arbitrage component that allows for convergence in price and keeps the prices in line. Corporate securities are priced based upon supply demand factors at moments in time, which result in executed transactions. These transactions are generally recognized as the most relevant current pricing valuation. Feedback from industry participants has not shown any desire to alter closing price valuation processes for common stocks.


7. All orders executed in the Closing Cross will be executed at the Closing Cross price, trade reported anonymously, and disseminated via the consolidated tape. The Closing Cross price will be the NOCP for stocks that participate in the Closing Cross. Fifteen minutes after the close of trading, Nasdaq will disseminate the consolidated tape a trade message setting the NOCP as the official Consolidated Last Sale price in each Nasdaq-listed ETP in which one round lot or more is executed in the Closing Cross where the closing price differs from the Consolidated Last Sale price.

8. The Closing Cross is designed to gather the maximum liquidity available for execution at the time of trading and to maximize the number of shares executed at a single price at the close of the trading day. The Closing Cross is made highly transparent to all investors through the widespread dissemination of stock-by-stock information about the Closing Cross, including the potential price and size of the Closing Cross.

9. The Exchange notes that it is not proposing to make changes to the process for determining the price level at which the Closing Cross will occur.

10. As defined in Nasdaq Rule 4701(j), the term “NBBO” shall mean the “National Best Bid and National Best Offer Last Sale.”

11. The T–WAM calculation will take the midpoint of the NBBO on a 1-second basis and weight according to time-frequency during the time period 3:58:00 p.m.–3:59:55 p.m.

12. Nasdaq’s current process accepts limits on close (“LOC”) orders for participation in the Closing Cross until 3:58:00 p.m., this is the last opportunity for market participants to enter an on-close order that can contribute to price discovery. In instances when there is no Closing Cross at 4:00:00 p.m., internal research by the Exchange has shown that using the T–WAM of the time period between 3:58:00 p.m.–3:59:55 p.m. results in a price that reflects a fair current valuation. Nasdaq’s decision to use this time period included an evaluation of the T–WAM calculation price compared against the historical data of the prior day’s actual ETP Closing Cross prices. Nasdaq’s internal research data demonstrated that the calculated T–WAM price was reflective of the price that was similarly calculated by the Closing Cross. Nasdaq’s analysis provided confidence that for thinly-traded ETPs the 3:58:00 p.m.–3:59:55 p.m. time period for the T–WAM, will result in an improved valuation methodology versus using the Nasdaq Last Sale.
impediments to, and perfect the equitable principles of trade, to remove acts and practices, to promote just and prevent fraudulent and manipulative

($20.00 \times 10\% = $2). If the NBBO was 17.00 \times 23.00 \text{ (midpoint) } = $20.00) \text{ the midpoint would not be used in the } T-WAM \text{ calculation because it violates the maximum quote width }$20.00 \times 10\% = $2). The T-WAM also will exclude crossed NBBO markets. The Exchange believes that the proposed methodology will result in a NOCP that is more reflective of the current market value of the ETP on that trading day.

If there are no eligible quotes to determine a T-WAM within the time period or if the ETP is halted, then Nasdaq will use the Consolidated Last Sale price prior to 4:00:00 p.m. as the NOCP. For an ETP that is already listed on Nasdaq and does not have any eligible quotes for the T-WAM methodology or any Consolidated Last Sale prices that day, the NOCP will be the prior day’s NOCP. For an ETP that has transferred its listing to Nasdaq and does not have any eligible quotes for the T-WAM methodology or any Consolidated Last Sale prices that day, the NOCP will be the prior day’s closing price as disseminated by the primary listing market that previously listed it. For an ETP that is a new listing to Nasdaq and does not have any eligible quotes for the T-WAM methodology or any Consolidated Last Sale prices that day, the NOCP will not be disseminated.

In order to implement these proposed changes, the Exchange is proposing to amend Nasdaq Rule 4754(b)4) by adding subsection (A) to this rule. Nasdaq Rule 4754(b)(4), as amended, will define the term “Exchange-Traded Product” and provide that in the event that a Nasdaq listed ETP does not have a closing cross then the T-WAM of the NBBO will be used.

Implementation

The Exchange will implement the proposed rule change for determining the NOCP as soon as is practicable after the approval date of this proposed rule change, which may be as early as during the third quarter of 2019, and will announce the implementation date via Nasdaq Equity Trader Alert.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,13 in general, and furthers the objectives of Section 6(b)(5) of the Act,14 in particular, because it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to remove impediments to, and perfect the mechanisms of, a free and open market and a national market system and, in general, to protect investors and the public interest.

The Exchange believes that the proposed rule change would remove impediments to and perfect the mechanism of a free and open market and a national market system because it would provide for a method of determining the NOCP in an Exchange-listed security that is an ETP if there is no Closing Cross, as well add a definition of “Exchange-Traded Product” to the rule that will aid market participants in understanding the rule.15 The Exchange believes that the proposed methodology provides for a more up-to-date indication of the value of such ETP if there have not been Nasdaq last sale trades leading into the close of trading. Specifically, this is consistent with the Act because when there is no Closing Cross at 4:00:00 p.m., the Exchange’s internal research has shown that using the T-WAM of the time period between 3:58:00 p.m.–3:59:55 p.m. results in a price that reflects a fair current valuation and is reflective of the price that was similarly calculated by the Closing Cross.16 This results in an improved valuation methodology versus using the Nasdaq Last Sale to the benefit of market participants since it will provide a closing price that more accurately reflects the most recent and reliable market information possible.

The Exchange further believes that since the proposed T-WAM methodology, described herein, will result in a NOCP that is more reflective of the current market value of the ETP on that trading day and it will serve to remove impediments to and perfect the mechanism of a free and open market and a national market system because it will provide for a more robust mechanism to determine the value of an affected ETP for purposes of determining a NOCP.

The Exchange also believes that the proposed methodology for determining a NOCP would be appropriate for ETPs because if they are thinly-traded, the price of the Nasdaq Last Sale trade that occurred earlier in a trading day or even from a prior trading day may no longer be reflective of the value of such product, which should be priced relative to the value of the components of such ETP. As such, the Exchange believes recent quoting activity likely will be more reflective of the current value of the ETP. Furthermore, the Exchange is proposing to use the T-WAM of the NBBO to measure such quoting activity in order to avoid overly weighting a potentially stale quote that may occur leading into the close.

Currently, the NOCP is derived from the Closing Cross on Nasdaq if the security has a closing cross and reflects actual sale prices. If a Nasdaq-listed security that is an ETP has a Closing Cross, it will continue to be priced using the current process for calculating the closing price. Under the proposed rule change, if a Nasdaq-listed security that is an ETP does not have a Closing Cross, then the T-WAM of the NBBO will be used as the NOCP. If there are no eligible quotes to determine a T-WAM within the time period or if the ETP is halted, then Nasdaq will use the Consolidated Last Sale price prior to 4:00:00 p.m. as the NOCP. For an ETP that is already listed on Nasdaq and does not have any eligible quotes for the T-WAM methodology or any Consolidated Last Sale prices that day, the NOCP will be the prior day’s NOCP .For an ETP that has transferred its listing to Nasdaq and does not have any eligible quotes for the T-WAM methodology or any Consolidated Last Sale prices that day, the NOCP will be the prior day’s closing price as disseminated by the primary listing market that previously listed it. For an ETP that is a new listing to Nasdaq and does not have any eligible quotes for the T-WAM methodology or any Consolidated Last Sale prices that day, the NOCP will not be disseminated.

The proposed functionality in this filing is similar to functionality that has already been approved by the Commission and is operational on other exchanges. The Exchange believes that the proposed pricing methodology will promote just and equitable principles of trade, remove impediments to, and perfect the mechanisms of, a free and open market and a national market system and, in general, protect investors and the public interest by enhancing how the NOCP will be determined for a Nasdaq-listed security that is an ETP and will be to the benefit of issuers, traders, and investors alike.

For the above reasons, the Exchange believes that the proposal is consistent
with the requirements of Section 6(b)(5) of the Act.

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, as amended. The proposed rule change is consistent with the rules of the other exchanges and is designed to provide for how the Exchange would determine the NOCP for an Exchange-listed security that is an ETP if there is no Closing Cross, which will help it better compete as a listing venue.

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

No written comments were either solicited or received.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period up to 90 days (i) as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

(A) By order approve or disapprove the proposed rule change, or

(B) institute proceedings to determine whether the proposed rule change should be disapproved.

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. Please include File Number SR–NASDAQ–2019–061 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 Number SR–NASDAQ–2019–061. 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 a.m. and 3 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 Number SR–NASDAQ–2019–061, and should be submitted on or before September 13, 2019.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.17

Jill M. Peterson,
Assistant Secretary.

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BILLING CODE 8011–01–P

SMALL BUSINESS ADMINISTRATION

Surrender of License of Small Business Investment Company

Pursuant to the authority granted to the United States Small Business Administration under the Small Business Investment Act of 1958, as amended, under Section 309 of the Act and Section 107.1900 of the Small Business Administration Rules and Regulations (13 CFR 107.1900) to function as a small business investment company under the Small Business Investment Company License No. 06/06–0341 issued to Parallel Investment Opportunity Partners II, LP, said license is hereby declared null and void.

United States Small Business Administration


A. Joseph Shepard,
Associate Administrator for Investment and Innovation.

[FR Doc. 2019–18222 Filed 8–22–19; 8:45 am]
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