For the Commission, by the Division of Investment Management, under delegated authority.
Kevin M. O'Neill,
Deputy Secretary.
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SECURITIES AND EXCHANGE COMMISSION


June 19, 2014.

I. Introduction

On April 17, 2014, BATS Exchange, Inc. ("BATS"), BATS–Y Exchange, Inc. ("BATS–Y"), NASDAQ OMX BX, Inc. ("BX"), EDGA Exchange, Inc. ("EDGA"), EDGX Exchange, Inc. ("EDGX"), Financial Industry Regulatory Authority, Inc. ("FINRA"), International Securities Exchange LLC ("ISE"), The NASDAQ Stock Market LLC ("Nasdaq"), National Stock Exchange, Inc. ("NSX"), and NASDAQ OMX PHLX LLC ("Phlx") filed with the Securities and Exchange Commission ("Commission") pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")\(^1\) and Rule 19b–4 thereunder,\(^2\) proposed rule changes to amend certain of their respective rules relating to clearly erroneous transactions. On April 22, 2014, Chicago Stock Exchange, Inc. ("CHX") filed with the Commission pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")\(^3\) and Rule 19b–4 thereunder,\(^4\) proposed rule changes to amend certain of its respective rules relating to clearly erroneous transactions. The proposed rule changes were published for comment in the Federal Register on May 6, 2014.\(^5\) The Commission received no comments on the proposed changes. This order approves the proposed rule changes.

II. Description of the Proposal

A. Background

The U.S. equity markets experienced a severe disruption on May 6, 2010.\(^6\) Severe price volatility led to a large number of trades being executed at temporarily depressed prices, including many that occurred at prices dramatically away from pre-decline levels. BATS, BX, CHX, EDGA, EDGX, ISE, Nasdaq, NSX, NYSE, NYSE Arca, NYSE MKT (collectively, and, together with BATS–Y and Phlx, the "Exchanges") and FINRA (collectively, the "self-regulatory organizations" or the "SROs") exercised their authority under their clearly erroneous executions rules to break trades that were effected at prices 60% or more away from pre-decline prices, using a process that was not sufficiently clear or transparent to market participants. To clarify the clearly erroneous execution review process across all SROs, and reduce the discretion of the Exchanges and FINRA to deviate from the objective standards in their respective rules when dealing with clearly erroneous transactions, the Exchanges and FINRA filed proposed rule changes to, among other things, establish clear thresholds for when proposed rule changes to amend certain of their respective rules relating to clearly erroneous transactions. On April 22, 2014, Chicago Stock Exchange, Inc. ("CHX") filed with the Commission pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")\(^3\) and Rule 19b–4 thereunder,\(^4\) proposed rule changes to amend certain of its respective rules relating to clearly erroneous transactions. The proposed rule changes were published for comment in the Federal Register on May 6, 2014.\(^5\) The Commission received no comments on the proposed changes. This order approves the proposed rule changes.

\(^{18}\) The events of May 6, 2010 are described more fully in the report of the staffs of the Commodity Futures Trading Commission ("CFTC") and the Commission, titled Report of the CFTC and SEC to the Joint Advisory Committee on Emerging Regulatory Issues, "Preliminary Findings Regarding the Market Events of May 6, 2010," dated May 18, 2010.
trades should be broken and to limit the discretion to deviate from specified percentage thresholds at which trades would be broken in many situations, including those where the single-stock circuit breakers are applicable and in other larger “Multi-Stock Events” involving five or more securities. These proposed rule changes were approved on a pilot basis by the Commission.10

In January 2013, the Exchanges and FINRA adopted a provision in their clearly erroneous executions rules designed to address the operation of the Plan to Address Extraordinary Market Volatility Pursuant to Rule 608 of Regulation NMS under the Act (the “Limit Up-Limit Down Plan”).11

Subsequently, the Exchanges and FINRA removed the specific provisions related to individual stock trading pauses,12 and recently extended the pilot program to coincide with the pilot period for the Limit Up-Limit Down Plan, including any extensions to the pilot period for the Limit Up-Limit Down Plan.13

B. The Proposed Rule Changes

The Exchanges and FINRA now propose to adopt two new provisions in their respective clearly erroneous executions rules, as discussed below. Additionally, the SROs propose to update certain cross-references in their clearly erroneous executions rules to reflect the final version of the proposed rules. The proposals of each of the Exchanges and FINRA are substantially similar.14

1. Multi-Day Event Based on Fundamentally Incorrect or Grossly Misinterpreted Issuance Information

The Exchanges and FINRA propose to adopt a new paragraph in their respective clearly erroneous executions rules that would provide that a series of transactions in a particular security on other days could be viewed as one event if all such transactions were effected based on the same fundamentally incorrect or grossly misinterpreted issuance information (e.g., with respect to a stock split or corporate dividend) resulting in a severe valuation error for all such transactions (the “Multi-Day Event”).15

The Exchanges and FINRA propose that to the extent transactions related to a Multi-Day Event involve one or more other SROs, the affected SROs would be required to promptly communicate with each other to ensure consistent treatment of the transactions related to the Multi-Day Event, if practicable. The Exchanges and FINRA also propose that any action taken in connection with the proposed paragraph would be required to be taken without regard to the numerical guidelines set forth in the clearly erroneous executions rules of each Exchange and FINRA.16

The Exchanges and FINRA also propose to include a provision stating that each party involved in a transaction subject to the proposed paragraph and that such party aggrieved by such action may appeal in accordance with the applicable appeals provision of each exchange.

Notes refer to a specific event involving an exchange offer made by U.S. Bancorp on the NYSE in 2010, in which depositary shares of U.S. Bancorp traded over the course of a period of days at a price approximately one-tenth the actual value of the security (the “U.S. Bancorp Event”). The NYSE filed an emergency rule filing to nullify all trades occurring after the exchange offer at severely discounted prices. See Notices, supra note 7 (describing Securities Exchange Act Release No. 62609 (July 30, 2010), 75 FR 47327 (August 5, 2010)).

10 See e.g., BATS Rule 11.5(c)(3); Nasdaq Rule 11890(d)(2)(C)(1); FINRA Rule 11892(b)(1). For example, an Officer would have the authority to nullify transactions resulting from a stock split that were based on fundamentally incorrect or grossly misinterpreted issuance information, even if such transactions were effected at prices consistent with the price at which the security was previously trading. The transactions in this particular example would not meet the applicable numerical guidelines, but would be considered clearly erroneous for purposes of the proposed paragraph because they should have been effectuated at prices well away from the actual execution prices.

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8 See Securities Exchange Act Release Nos. 62330 (June 21, 2010), 75 FR 36732 (June 28, 2010); 62331 (June 21, 2010), 75 FR 36746 (June 28, 2010); 62332 (June 21, 2010), 75 FR 36749 (June 28, 2010); 62333 (June 21, 2010), 75 FR 36759 (June 28, 2010); 62334 (June 21, 2010), 75 FR 36765 (June 28, 2010); 62335 (June 21, 2010), 75 FR 37494 (June 29, 2010); 62336 (June 21, 2010), 75 FR 37475 (June 29, 2010); 62337 (June 21, 2010), 75 FR 37494 (June 29, 2010); 62338 (June 21, 2010), 75 FR 37475 (June 29, 2010); 62339 (June 21, 2010), 75 FR 36759 (June 28, 2010); 62340 (June 21, 2010), 75 FR 37494 (June 29, 2010); 62341 (June 21, 2010), 75 FR 37475 (June 29, 2010); and 62342 (June 21, 2010), 75 FR 36759 (June 28, 2010).


12 See Securities Exchange Act Release Nos. 68797 (January 31, 2013), 78 FR 8635 (February 6, 2013); 68798 (January 31, 2013), 78 FR 8628 (February 6, 2013); 68801 (February 1, 2013), 78 FR 8630 (February 6, 2013); 68802 (February 1, 2013), 78 FR 8633 (February 6, 2013); 69092 (February 7, 2013), 78 FR 8637 (February 6, 2013); 70692 (February 1, 2013), 78 FR 8675 (February 6, 2013); 68808 (February 7, 2013), 78 FR 8677 (February 6, 2013); 68803 (February 1, 2013), 78 FR 8679 (February 7, 2013); 68805 (February 1, 2013), 78 FR 8680 (February 7, 2013); 68809 (February 1, 2013), 78 FR 8681 (February 1, 2013), 78 FR 9100 (February 7, 2013); 68812 (February 1, 2013), 78 FR 9073 (February 7, 2013); 68814 (February 1, 2013), 78 FR 9073 (February 7, 2013); 68818 (February 1, 2013), 78 FR 9438 (February 8, 2013); 68682 (February 1, 2013), 78 FR 9440 (February 8, 2013).

13 See Securities Exchange Act Release Nos. 70510 (September 26, 2013), 78 FR 60991 (October 2, 2013); 70511 (September 26, 2013), 78 FR 60991 (October 2, 2013); 70512 (September 26, 2013), 78 FR 60995 (October 2, 2013); 70513 (September 26, 2013), 78 FR 60973 (October 2, 2013); 70514 (September 26, 2013), 78 FR 60963 (October 2, 2013); 70515 (September 26, 2013), 78 FR 60995 (October 2, 2013); 70516 (September 26, 2013), 78 FR 60952 (October 2, 2013); 70517 (September 26, 2013), 78 FR 60961 (October 2, 2013); 70518 (September 26, 2013), 78 FR 60950 (October 2, 2013); 70519 (September 26, 2013), 78 FR 60969 (October 2, 2013); 70520 (September 26, 2013), 78 FR 60957 (October 2, 2013); 70521 (September 27, 2013), 78 FR 61431 (October 3, 2013); 70542 (September 27, 2013), 78 FR 61427 (October 3, 2013); and 70569 (October 1, 2013), 78 FR 62782 (October 22, 2013).
Exchange or FINRA’s clearly erroneous executions rules.17

2. Trading Halts

The Exchanges and FINRA also propose to adopt an additional paragraph in their respective clearly erroneous executions rules relating to transactions resulting from certain disruptions or malfunctions in connection with a regulatory trading halt, suspension or pause (“trading halt”) in a security. Specifically, in the event of any disruption or malfunction in the operation of the electronic communications and trading facilities of an Exchange, another SRO, or responsible single plan processor in connection with the transmittal or receipt of a trading halt, an Officer, acting on his or her own motion, shall nullify any transaction that occurs after a trading halt has been declared by the primary listing market for a security and before such trading halt has officially ended according to the primary listing market. In addition, the Exchanges and FINRA propose that, in the event a trading halt is declared, then prematurely lifted in error, and then re-instituted, an Officer, acting on his or her own motion shall nullify transactions that occur before the official, final end of the trading halt according to the primary listing market.

The Exchanges and FINRA propose that any action taken in connection with the proposed paragraph would be required to be notified as soon as practicable of a determination to nullify such transaction, and that the party aggrieved by such action may appeal in accordance with the applicable appeals provision of each Exchange or FINRA’s clearly erroneous executions rules.19

III. Discussion and Commission Findings

After careful review, the Commission finds that the proposed rule changes are consistent with the requirements of the Act and the rules and regulations thereunder applicable to national securities exchanges and national securities associations.20 In particular, the Commission finds that the proposed rule changes submitted by the Exchanges and FINRA are consistent with the requirements of Section 6(b)(5) of the Act21 (in the case of the Exchanges) and Section 15A(b)(6) of the Act22 (in the case of FINRA) which require, among other things, that the rules of national securities exchanges and FINRA, respectively, must be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, remove impediments to and perfect the mechanism of a free and open market and a national market system and, in general, to protect investors and the public interest.

In the Commission’s view, the proposed rule changes will continue to help assure that the determination of whether a clearly erroneous trade has occurred will be based on clear and objective criteria, and that the resolution of the incident will occur promptly through a transparent process. The proposed rule changes also should help continue to assure consistent results in handling erroneous trades across the U.S. markets, thus furthering fair and orderly markets and the protection of investors and the public interest.

Specifically, the Commission believes that the provision relating to the handling of Multi-Day Events effected based on the same fundamentally incorrect or grossly misinterpreted issuance information that results in a severe valuation error should contribute to a more transparent process, and help achieve a fair and equitable result, on the very rare occasions such events occur. The Commission believes that the proposed trading halt provision should help to increase certainty and transparency with respect to transactions that inadvertently occur during trading halts due to a technology failure. The Commission notes that these transactions should not have occurred in the first place, and that the proposed rule change provides certainty to market participants that these transactions will be nullified promptly through an objective and transparent process.

IV. Conclusion


For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.24

Kevin M. O’Neill,
Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION


Self-Regulatory Organizations; ICE Clear Credit LLC; Order Approving Proposed Rule Change To Provide for the Clearance of Additional Non-Investment Grade Instruments on Standard North American Corporate Single Name Reference Entities

June 19, 2014.

I. Introduction

On April 25, 2014, ICE Clear Credit LLC (“ICC”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change SR–ICC–2014–06 pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)1 and Rule 19b–4 thereunder.2 The proposed rule change was published for comment in

17 See e.g., BATS Rule 11.17(e)[2]; Nasdaq Rule 11890(b)[c]; FINRA Rule 11894.
18 See supra note 16.
19 See supra note 17.
20 In approving this proposed rule change, the Commission has considered the proposed rule’s impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).