

• Send an email to [rule-comment@sec.gov](mailto:rule-comment@sec.gov). Please include File No. SR–CME–2014–06 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–CME–2014–06. 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 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 such filing also will be available for inspection and copying at the principal office of CME and on CME's Web site at <http://www.cmegroup.com/market-regulation/rule-filings.html>.

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–CME–2014–06 and should be submitted on or before April 4, 2014.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>12</sup>

**Kevin M. O'Neill,**  
*Deputy Secretary.*

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## **SECURITIES AND EXCHANGE COMMISSION**

[Release No. 34–71671; File No. SR–NYSE–2014–08]

### **Self-Regulatory Organizations; New York Stock Exchange LLC; Notice of Filing of Proposed Rule Change To Adopt the Bond Trading License and the Bond Liquidity Provider Programs Pursuant to NYSE Rules 87 and 88**

March 10, 2014.

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 27, 2014, New York Stock Exchange LLC (“NYSE” or “Exchange”) 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 self-regulatory organization. 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 [sic] proposes to make permanent its pilot program (“Pilot Program”) regarding its bond trading license (“BTL”) and the Bond Liquidity Provider (“BLP”) programs pursuant to Rules 87 and 88. The text of the proposed rule change is available on the Exchange's Web site at [www.nyse.com](http://www.nyse.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 self-regulatory organization 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 those 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**

On January 19, 2011, the Exchange established a 12-month pilot program to (1) adopt new Rule 87 to create a BTL for member organizations that desire to trade only debt securities on the Exchange,<sup>3</sup> and (2) adopt new Rule 88 to establish BLPs, a new class of debt market participants.<sup>4</sup> The Pilot Program was extended through January 19, 2014<sup>5</sup> and the Exchange provided the Commission with written notice of its intent to extend the Pilot Program beyond such date.<sup>6</sup> The Exchange has since determined that it is more appropriate at this time to seek the Commission's approval to make the Pilot Program permanent. Accordingly, the Exchange is proposing to make permanent the Pilot Program and adopt Rules 87 and 88 on a permanent basis.

The purpose of Pilot Program is to encourage market participants to bring additional liquidity to the Exchange's bond marketplace by providing incentives for quoting and adding liquidity to the market and to offer investors an alternative to over-the-counter trading for debt securities. Under Rule 87, a member organization that chooses to trade only bonds, or a new member organization that desires to trade only bonds, may apply for a BTL, which is available to any approved member organization. A BTL license is not transferable and may not, in whole or in part, be transferred, assigned, sublicensed or leased. However, the holder of the BTL could, with the prior written consent of the Exchange, transfer a BTL to a qualified and approved member organization (i) that is an affiliate or (ii) that continues

<sup>3</sup> Debt securities are traded on the Exchange pursuant to Rules 86, 1400, and 1401. Bonds eligible to trade on the NYSE Bonds platform include any debt instrument that is listed on the NYSE and any corporate debt of a listed company of the Exchange.

<sup>4</sup> See Securities Exchange Act Release No. 63736 (January 19, 2011), 76 FR 4959 (January 27, 2011) (order approving SR–NYSE–2010–74). See also Securities Exchange Act Release No. 63444 (December 6, 2010), 75 FR 77024 (December 10, 2010) (notice of filing of SR–NYSE–2010–74).

<sup>5</sup> See Securities Exchange Act Release No. 68533 (December 21, 2012), 77 FR 77166 (December 31, 2012) (SR–NYSE–2012–74).

<sup>6</sup> On January 10, 2014, pursuant to Rule 19b–4(f)(6)(iii), the Exchange submitted NYSE–2014–1P through the Commission's Electronic Form 19b–4 Filing System (“EFFS”), which provided the Commission with written notice of the Exchange's intent to file a rule change to extend the Pilot Period. See 17 CFR 240.19b–4(f)(6)(iii). On January 16, 2014, NYSE–2014–1P was marked acceptable in the EFFS.

<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b–4.

<sup>12</sup> 17 CFR 200.30–3(a)(12).

substantially the same business of such BTL holder without regard to the form of the transaction used to achieve such continuation, *e.g.*, merger, sale of substantially all assets, reincorporation, reorganization or the like. The Exchange currently has one member organization operating under a BTL, but has been notified that additional market participants are interested in applying for a BTL.

Under Rule 88, the Exchange provides incentives for quoting and adding liquidity to the bond market in the form of rebates to BLPs that provide liquidity to the Exchange's bond market. The Exchange believes that the rebates encourage the additional utilization of, and interaction with, the Exchange, improve price discovery and liquidity, and encourage competitive quotes and price improvement opportunities. These incentives encourage BLPs to make more liquid and competitive markets. In return, BLPs must meet certain qualification and quoting obligations under the Rule.

Specifically, pursuant to Rule 88(a), a BLP is required to maintain: (1) A bid at least seventy percent (70%) of the trading day for a bond; (2) an offer at least seventy percent (70%) of the trading day for a bond; and (3) a bid or offer at the Exchange's Best Bid ("BB") or Exchange's Best Offer ("BO") at least five percent (5%) of the trading day in each of its bonds in the aggregate. To create a financial incentive to serve as a BLP, Rule 88(b) provides that a BLP that meets the quoting requirement for a bond as described in paragraph (a) would receive the liquidity provider rebate set forth in the Exchange's Price List.

To qualify as a BLP pursuant to Rule 88(c), a member organization is required to: (1) Demonstrate an ability to meet the quoting requirements of a BLP; (2) have mnemonics that identify to the Exchange BLP trading activity in assigned BLP bonds; (3) have adequate trading infrastructure and technology to support electronic trading.

Because a BLP is only permitted to trade electronically from off the Floor of the Exchange, a member organization's off-Floor technology must be fully automated to accommodate the Exchange's trading and reporting systems that are relevant to operating as a BLP. If a member organization were unable to support the relevant electronic trading and reporting systems of the Exchange for BLP trading activity, it would not qualify as a BLP.

Pursuant to Rule 88(d), to become a BLP, a member organization is required to submit a BLP application form with all supporting documentation to the

Exchange. The Exchange determines whether an applicant is qualified to become a BLP as set forth above. After an applicant submits a BLP application to the Exchange, with supporting documentation, the Exchange notifies the applicant member organization of its decision. If an applicant is approved by the Exchange to act as a BLP, the applicant is required to establish connectivity with relevant Exchange systems before the applicant is permitted to trade as a BLP on the Exchange. In the event an applicant is disapproved or disqualified under proposed Rule 88(d)(4) or (i)(2) by the Exchange, such applicant may request an appeal of such disapproval or disqualification by the Exchange as provided in Rule 88(j), and/or reapply for BLP status three (3) months after the month in which the applicant received disapproval or disqualification notice from the Exchange.

Pursuant to Rule 88(e), a BLP is permitted to withdraw from the status of a BLP by providing notice to the Exchange. Such withdrawal is effective when those bonds assigned to the withdrawing BLP are reassigned to another BLP. After the Exchange receives the notice of withdrawal from the withdrawing BLP, the Exchange reassigns such bonds as soon as practicable, but no later than 30 days of the date the notice was received by the Exchange. If the reassignment of bonds takes longer than the 30-day period, the withdrawing BLP has no further obligations and is not held responsible for any matters concerning its previously assigned BLP bonds.

Rule 88(f) sets forth how the Exchange calculates a BLP's quoting requirements. Beginning with the first month of operation as a BLP, the BLP must satisfy the 70% quoting requirement for each of its assigned BLP bonds. The Exchange determines whether a BLP met its 70% quoting requirement by determining the average percentage of time a BLP was at a bid (offer) in each of its BLP bonds during the regular trading day<sup>7</sup> on a daily and monthly basis. The Exchange determines whether a BLP has met this requirement by calculating the following:

- A "Daily Bid Quoting Percentage" is calculated by determining the percentage of time a BLP had at least 10 displayed BLP bonds at a single price level in an Exchange bid during each trading day for a calendar month;

- A "Daily Offer Quoting Percentage" is calculated by determining the percentage of time a BLP had at least 10 displayed BLP bonds at a single price level in an Exchange offer during each trading day for a calendar month;

- A "Monthly Average Bid Quoting Percentage" is calculated for each BLP bond by summing the bond's "Daily Bid Quoting Percentages" for each trading day in a calendar month then dividing the resulting sum by the total number of trading days in such calendar month; and

- A "Monthly Average Offer Quoting Percentage" is calculated for each BLP bond by summing the bond's "Daily Offer Quoting Percentage" for each trading day in a calendar month then dividing the resulting sum by the total number of trading days in such calendar month.

Only displayed orders entered throughout the trading day are used when calculating whether a BLP is in compliance with its 70% average quoting requirements.

The BLP's 5% quoting requirements is not in effect during the first two months of operation as a BLP in order to allow the BLP time to achieve this quoting metric. The 5% quoting requirement takes effect in the third month of a BLP's operation. At that time, a BLP is required to satisfy the 5% quoting requirement for each assigned BLP bond. The Exchange determines whether a BLP had met its 5% quoting requirement by determining the average percentage of time a BLP was at the BB or BO in each of its assigned BLP bonds during the regular trading day on a daily and monthly basis, as follows:

- A "Daily BB Quoting Percentage" is calculated by determining the percentage of time a BLP had at least one displayed BLP bond in an Exchange bid at the BB during each trading day for a calendar month;

- A "Daily BO Quoting Percentage" is calculated by determining the percentage of time a BLP had at least one displayed BLP bond in an Exchange offer at the BO during each trading day for a calendar month;

- A "Daily BBO Quoting Percentage" is calculated for each trading day by summing the "Daily BB Quoting Percentage" and the "Daily BO Quoting Percentage" in each BLP bond; and

- A "Monthly Average BBO Quoting Percentage" would be calculated for each BLP bond by summing the bond's "Daily BBO Quoting Percentages" for each trading day in a calendar month then dividing the resulting sum by the total number of trading days in such calendar month.

<sup>7</sup> "Trading day" means any day on which the Exchange is scheduled to be open for business. Days on which the Exchange closes prior to 4 p.m. (Eastern Time) for any reason, which may include any regulatory halt or trading halt, are considered a trading day.

Only displayed orders at the BB and BO throughout the trading day are used when calculating whether a BLP is in compliance with its 5% average quoting requirement.

Rule 88(g) sets forth how BLPs are matched to issuers. The Exchange matches BLPs to issuers with one or more debt issues, each of which has a current outstanding principal of less than \$500 million. Each BLP would submit a list of the issuers and the issuer's bonds it would be willing to represent. The BLP willing to represent the most bonds for a given issuer would be matched to that issuer. In the event of a tie (i.e., two or more BLPs seeking to represent the same issuer and the same number of that issuer's bonds), the BLP with the highest lottery number from the first round would be matched with the issuer. On a monthly basis, BLPs are permitted to apply for unrepresented issuers. The BLP willing to represent the most debt issuances of an issuer is awarded status as a BLP for such issuer, with ties resolved by lottery.

A BLP must represent each debt issuance of an issuer that has an outstanding principal of \$500 million or more. A BLP also may represent any debt issuance below such level, but would not be required to do so. If a BLP is representing a debt issuance that was above \$500 million but falls below such level, or has voluntarily been representing an issuance below the \$500 million level where the outstanding principal amount has since been reduced, the BLP may cease representing such issue by notifying the Exchange in writing by the 15th day of the month, in which case the BLP may cease acting as such on the 1st day of the following month.

The Exchange believes that this matching process is fair to approved BLPs and beneficial to issuers. In light of the unique nature of the debt market, the matching process gives BLPs the opportunity to select the issuers they want to represent and thereby take into account the BLP's expertise in particular issuers and sectors. The matching process for the largest issuers is determined on a random basis, while the matching process for smaller issuers is determined in favor of those BLPs willing to offer the broadest coverage to such issuers.

Rule 88(i) sets forth what happens if a BLP fails to meet its quoting requirements. If, in any given calendar month after the first two months a BLP acted as a BLP, a BLP fails to meet any of the quoting requirements set forth in Rule 88(a), the BLP would no longer be eligible for the rebate for the affected

bond. If a BLP's failure to meet the quoting requirements continues for three consecutive calendar months in any assigned BLP bond, the Exchange could, in its discretion, take one or more of the following actions: (i) Revoke the assignment of all of the affected issuer's bonds from the BLP; (ii) revoke the assignment of an additional unaffected issuer from a BLP; or (iii) disqualify a member organization from its status as a BLP.

The Exchange, in its sole discretion, would determine if and when a member organization is disqualified from its status as a BLP. One calendar month prior to any such determination, the Exchange would notify a BLP of such impending disqualification in writing. When disqualification determinations are made, the Exchange would provide a disqualification notice to the member organization.

If a member organization were disapproved pursuant to Rule 88(d)(2) or disqualified from its status as a BLP pursuant to Rule 88(i)(1)(C), such member organization could re-apply for BLP status three calendar months after the month in which the member organization received its disqualification notice.

Pursuant to Rule 88(j), in the event a member organization disputes the Exchange's decision to disapprove or disqualify it under Rule 88(d)(4) or (i)(2), such member organization ("appellant") may request, within five (5) business days of receiving notice of the decision, the Bond Liquidity Provider Panel ("BLP Panel") to review all such decisions to determine if such decisions were correct. In the event a member organization is disqualified from its status as a BLP pursuant to Rule 88(i)(2), the Exchange will not reassign the appellant's bonds to a different BLP until the BLP Panel has informed the appellant of its ruling.

The BLP Panel consists of the NYSE's Chief Regulatory Officer ("CRO"), or a designee of the CRO, and two (2) officers of the Exchange designated by the Co-Head of U.S. Listings and Cash Execution. The BLP Panel will review the facts and render a decision within the time frame prescribed by the Exchange. The BLP Panel may overturn or modify an action taken by the Exchange and all determinations by the BLP Panel will constitute final action by the Exchange on the matter at issue.

The Exchange believes that the Pilot Program has provided value to the bonds marketplace as the Exchange is the only marketplace that offers pre-trade transparency and real-time reporting of trading in debt securities. The Exchange believes that making the

Pilot Program permanent will continue to encourage trading of debt securities on a transparent market and reduce the opportunities for anti-competitive practices.<sup>8</sup> The Exchange therefore believes it is appropriate for it to maintain its BTL and BLP Programs on a permanent basis in order to continue to compete in the retail bond market, thereby encouraging market participants to bring additional liquidity to the Exchange's transparent bond marketplace.

The proposed change is not otherwise intended to address any other issues or make any other amendments to Rules 87 and 88 and the Exchange is not aware of any problems that member organizations would have in complying with the proposed change.

## 2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Act,<sup>9</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act,<sup>10</sup> 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 the proposed rule change is designed to prevent fraudulent and manipulative acts and practices and to promote just and equitable principles of trade because it seeks to make permanent a Pilot Program that is designed to encourage market participants to bring additional liquidity to the only transparent bond market. The Exchange believes the proposed rule change is designed to facilitate transactions in securities and to remove impediments to, and perfect the mechanisms of, a free and open market and a national market system because making the Pilot Program permanent would expand the number of member organizations that can trade debt securities on the Exchange and enable the Exchange to continue to create incentives for BLPs to provide additional liquidity to the only transparent bond market. The Exchange believes that making the Pilot Program

<sup>8</sup> Commissioner Michael S. Piwowar recently noted the need to improve how the fixed-income market operates, including how more transparency could benefit investors. See "Advancing and Defending SEC's Core Mission," Remarks by Commissioner Piwowar to the U.S. Chamber of Commerce, Washington, DC (Jan 27, 2014), <http://www.sec.gov/News/Speech/Detail/Speech/1370540671978>.

<sup>9</sup> 15 U.S.C. 78f(b).

<sup>10</sup> 15 U.S.C. 78f(b)(5).

permanent protects investors and the public interest because investors benefit from the availability of a transparent market for bonds trading, as well as the increased competition and liquidity in the bonds marketplace that the Pilot Program has offered. Finally, the Exchange believes that it is subject to significant competitive forces, as described below in the Exchange's statement regarding the burden on competition, and making the Pilot Program permanent will support the continued availability of a transparent market in this highly competitive environment. For these reasons, the Exchange believes that the proposal to make the Pilot Program permanent is consistent with the Act.

Finally, recognizing the statements of Commissioners who have expressed concern about the state of the U.S. corporate and municipal bond markets as well as recommendations outlined in the Commission's release of its Report on the Municipal Securities Market (Report), the Exchange believes that BLPs, by meeting their quoting requirements, will be an important participant in the democratization of the fixed income market.<sup>11</sup> As highlighted in SEC Chair White's statement during the SEC's 2013 Roundtable on Fixed Income Markets, the Report makes recommendations that include (1) improving pre- and post-trade transparency; (2) promoting the use of transparent and open trading venues, and (3) requiring dealers to seek "best execution" for customers and to provide customers with relevant pricing information in connection with their transactions.<sup>12</sup> Achieving these recommendations and applying them to both the municipal and corporate bond markets would, in our view, assist in lowering the systemic risk that is anticipated to increase as interest rates rise and the closed network of bond trading comes under pressure as retirement and pension managers seek to adjust their positions.

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

In accordance with Section 6(b)(8) of the Act,<sup>13</sup> the Exchange believes that the

proposed rule change would not impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The Exchange believes that the Pilot Program has promoted liquidity and competition in the marketplace and is designed to improve market quality and making the Pilot Program permanent would continue these benefits.

The Exchange notes that it operates in a highly competitive market in which market participants can readily favor competing venues that are not transparent. In such an environment, the Exchange must continually review, and consider adjusting the services it offers and the requirements it imposes to remain competitive with other U.S. bond trading platforms. For the reasons described above, the Exchange believes that the proposed rule change reflects this competitive environment by making permanent a program that promotes transparency, competition, and liquidity in the bond marketplace.

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

No written comments were solicited or received with respect to the proposed rule change.

#### **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 (i) as the Commission may designate up to 90 days of such date 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](mailto:rule-comments@sec.gov). Please include File Number SR-NYSE-2014-08 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.

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For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>14</sup>

**Kevin M. O'Neill,**

*Deputy Secretary.*

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<sup>11</sup> See SEC Report on the Municipal Securities Market, July 2012, <http://www.sec.gov/news/studies/2012/munireport073112.pdf>; "SEC's Gallagher Says Retail Bond Investors Fighting 'Headwinds'", Jesse Hamilton, Bloomberg News, Sep 20, 2012. See <http://www.bloomberg.com/news/2012-09-19/sec-s-gallagher-says-retail-bond-investors-fighting-headwinds-.html>.

<sup>12</sup> See Opening remarks of Chairman Mary Jo White at SEC Roundtable on Fixed Income Markets, <http://www.sec.gov/News/Speech/Detail/Speech/1365171515300>.

<sup>13</sup> 15 U.S.C. 78f(b)(8).

<sup>14</sup> 17 CFR 200.30-3(a)(12).