For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[11]

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[11] 17 CFR 200.30–3(a)(12).

## 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''),[1] and Rule 19b–4 thereunder,[2] 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).[3] 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).[4]

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,[5] and FINRA believes that an increasing amount of firms and service bureaus will continue to migrate to FIX.[6] 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.[7] 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.[8]

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,[9] 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.

[1] 15 U.S.C. 78s(b)(1).

[2] 17 CFR 240.19b–4.

[3] *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).

[4] *See* Rule 7730.

[5] 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.

[6] 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).

[7] FINRA will be eliminating CTCI as a means of connectivity for reporting to all FINRA trade reporting facilities.

[8] 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.

[9] 15 U.S.C. 78*o*–3(b)(6).

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

FINRA does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

Economic Impact Assessment

FINRA has undertaken an economic impact assessment, as set forth below, to further analyze the regulatory need for the proposed rule change, the economic baseline, the economic impact, and the alternatives considered.

Regulatory Need

Rule 7730 provides that members may report transactions to TRACE via CTCI protocol. Due to technological advances, FINRA is proposing to discontinue supporting CTCI as means of connectivity for members to report transactions. Therefore, FINRA is proposing to amend Rule 7730 to reflect this change.

Economic Baseline

The baseline for the proposed amendment is current Rule 7730, which allows members to report to TRACE via (1) CTCI, (2) FIX, (3) web browser, or (4) indirectly via a third party intermediary. Presently, 32 members directly report transactions to TRACE via CTCI and 61 members directly report transactions to TRACE via FIX. In addition, five service bureaus report transactions to TRACE via FIX (on behalf of 25 members), and five service bureaus report transactions to TRACE via CTCI (on behalf of 191 members).[10] Firms reporting via either CTCI or FIX are charged $25/month to do so. Firms that report via a web browser are charged $20/month per user ID. 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.

Economic Impact

The proposal would apply equally to all members who report transactions to TRACE. However, there is no impact to firms that currently report via FIX or a web browser. Only firms reporting via CTCI would incur additional costs as a result of the proposed rule change.

There are 223 members that use CTCI (either directly or indirectly) for TRACE reporting purposes.[11] However, the majority of these members (191) are indirectly impacted—*i.e.,* those who report through a service bureau—since most of the work to migrate to the FIX protocol will be performed by the service bureaus. Although the service bureaus may choose to pass some or all of the cost of reprogramming on to the member firms, the costs would be spread across these firms.

The 32 members reporting directly via their own CTCI connection would incur costs associated with reporting via a new method. These members would face a tradeoff between greater upfront costs and on-going efficiencies. The development of a compliant FIX submission protocol would require up-front investment, but could provide cost-saving efficiency over time.[12] A firm that chooses not to replace CTCI with FIX, but instead chooses to submit their trades via web browser access, will require a more limited initial investment, but relatively more on-going cost. Presumably, firms will choose a new reporting method that minimizes their overall costs or maximizes their efficiency. Anecdotally, FINRA understands that some firms are contemplating discontinuing use of CTCI and migrating to FIX. For these firms, however, the proposal may result in them incurring certain costs sooner than planned.

For FINRA, each protocol type requires maintenance and support, and maintaining two protocols increases operational risk.[13] There is inherent risk associated with supporting any information technology system, including risk of an operational failure. Since CTCI currently is used to collect transaction information, an operational event could negatively impact any market stakeholder that uses disseminated transaction information. Thus, a benefit of this proposal would be to eliminate risk associated with supporting CTCI. Since an operational event could harm the integrity of the market (by resulting in information asymmetry), this benefit should accrue to all market stakeholders. Thus, it is FINRA's view that the benefits of the amendment outweigh any associated cost.

Alternatives Considered

FINRA considered maintaining the status quo and continuing to support CTCI. However, given the decreased reliance on the protocol and that the owner of the protocol does not intend to support it for its new facility,[14] FINRA determined that it is now appropriate to retire the protocol for the purpose of reporting transactions to FINRA facilities.

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

Written comments were neither solicited nor 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 (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 such 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–FINRA–2018–030 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–FINRA–2018–030. 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

[10] *See supra* note 5.

[11] At the time of this filing, 309 members report to TRACE via CTCI or FIX (either directly or indirectly).

[12] The programming costs that these firms incur would vary due to a number of factors, including existing expertise.

[13] FINRA also should realize cost savings as a result of the proposal, since it no longer would need to maintain a CTCI protocol.

[14] *See supra* note 6.

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 such filing also will be available for inspection and copying at the principal office of FINRA. 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–FINRA–2018–030, and should be submitted on or before September 13, 2018.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[15]

**Eduardo A. Aleman,**

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## SECURITIES AND EXCHANGE COMMISSION

**[Release No. 34–83871; File No. SR–DTC–2018–007]**

## Self-Regulatory Organizations; The Depository Trust Company; Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Amend the Process of the Reduction of Dividend or Interest Payments to a Participant on Treasury Shares or Repurchased Debt Securities

August 17, 2018.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (''Act'') [1] and Rule 19b–4 thereunder,[2] notice is hereby given that on August 9, 2018, The Depository Trust Company (''DTC'') 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 clearing agency. DTC filed the proposed rule change pursuant to Section 19(b)(3)(A) of the Act [3] and Rule 19b–4(f)(6) [4] thereunder. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

### I. Clearing Agency's Statement of the Terms of Substance of the Proposed Rule Change

The proposed rule change of DTC would amend the Operational Arrangements and the Distributions Guide'' [5] to streamline the process for reducing payment to a Participant of a dividend or interest payment with respect to an equity or debt security, when such Participant held, on the record date for the distribution: (i) Shares of the security that had been repurchased by the issuer of the security (''Treasury Shares'') or (ii) debt that had been repurchased by the issuer of the debt (''Repurchased Debt Securities''). Specifically, DTC proposes to provide functionality to Participants so that a Participant that held Treasury Shares or Repurchased Debt Securities on the record date would use the Corporate Actions Web (''CA Web'') to reduce its entitlement to the distribution by the amount attributable to the Treasury Shares or Repurchased Debt Securities. The proposed rule change would also amend the Fee Guide to modify and clarify the fees associated with Treasury Shares or Repurchased Debt Securities adjustments.[6] In addition, DTC would make ministerial and clarifying changes to the Operational Arrangements and the Fee Guide, as discussed below.

### II. Clearing Agency's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

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

*(A) Clearing Agency's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change*

1. Purpose

The proposed rule change would amend the Operational Arrangements and the Distributions Guide to streamline the process for reducing payment to a Participant of a dividend or interest payment with respect to an equity or debt security, when such Participant held, on the record date for the distribution, Treasury Shares or Repurchased Debt Securities. Specifically, DTC proposes to provide functionality to Participants so that a Participant that held Treasury Shares or Repurchased Debt Securities on the record date would use the CA Web to reduce its entitlement to the distribution by the amount attributable to the Treasury Shares or Repurchased Debt Securities. The proposed rule change would also amend the Fee Guide to modify and clarify the fees associated with Treasury Shares or Repurchased Debt Securities adjustments. In addition, DTC would make ministerial and clarifying changes to the Operational Arrangements and the Fee Guide, as discussed below.

(i) Background

A. Dividend and Interest Payments

DTC receives information on dividend and interest payment distributions (each, an ''announcement'') from the issuer, the transfer agent or paying agent of the issuer (each, an ''Agent''), exchanges, trustees, and various other industry sources.[7] An announcement of a distribution typically includes, among other things, a security description and CUSIP, record date, payable date, and either the rate per share for a dividend or the interest rate per $1,000 principal amount. DTC uses the information to

[15] 17 CFR 200.30–3(a)(12).

[1] 15 U.S.C. 78s(b)(1).

[2] 17 CFR 240.19b–4.

[3] 15 U.S.C. 78s(b)(3)(A).

[4] 17 CFR 240.19b–4(f)(6).

[5] Each capitalized term not otherwise defined herein has its respective meaning as set forth in the Rules, By-Laws and Organization Certificate of DTC (the ''Rules''), *available at http://www.dtcc.com/legal/rules-and-procedures.aspx;* the DTC Operational Arrangements (Necessary for Securities to Become and Remain Eligible for DTC Services) (''Operational Arrangements''), *available at http://www.dtcc.com/~/media/Files/Downloads/legal/issue-eligibility/eligibility/operational-arrangements.pdf;* the Distributions Service Guide (the ''Distributions Guide''), *available at http://www.dtcc.com/~/media/Files/Downloads/legal/service-guides/Service%20Guide%20Distributions.pdf;* and the Guide to the 2018 DTC Fee Schedule (''Fee Guide''), *available at http://www.dtcc.com/~/media/Files/Downloads/legal/fee-guides/dtcfeeguide.pdf.*

[6] The proposed rule changes with respect to the Fee Guide would apply to Treasury Shares or Repurchased Debt Securities position adjustments in connection with distributions with a record date as well as to distributions with an effective date (*i.e.,* mandatory corporate actions). For information on the process for reducing payment on Treasury Shares or Repurchased Debt Securities in connection with an effective date distribution, *see* Operational Arrangements, *supra* note 5, at 42–43.

[7] DTC also maintains internal records for scheduled fixed rate interest and principal payments.