Exchange, which are designed to detect violations of Exchange rules and applicable federal securities laws and that these procedures are adequate to properly monitor Exchange trading of the Shares in all trading sessions and to deter and detect violations of Exchange rules and applicable federal securities laws.

(4) Prior to the commencement of trading, the Exchange will inform its Equity Trading Permit (''ETP'') Holders in an Information Bulletin of the special characteristics and risks associated with trading the Shares. Specifically, the Information Bulletin will discuss the following: (a) The procedures for purchases and redemptions of Shares in Creation Units (and that Shares are not individually redeemable); (b) NYSE Arca Equities Rule 9.2(a), which imposes a duty of due diligence on its ETP Holders to learn the essential facts relating to every customer prior to trading the Shares; (c) the risks involved in trading the Shares during the Opening and Late Trading Sessions when an updated Portfolio Indicative Value will not be calculated or publicly disseminated; (d) how information regarding the Portfolio Indicative Value will be disseminated; (e) the requirement that ETP Holders deliver a prospectus to investors purchasing newly issued Shares prior to or concurrently with the confirmation of a transaction; and (f) trading information.

(5) For initial and/or continued listing, the Fund will be in compliance with Rule 10A–3 under the Exchange Act,[30] as provided by NYSE Arca Equities Rule 5.3.

(6) The Fund will not invest in any non-U.S. equity securities (other than shares of the Subsidiary and Underlying ETFs listed on HKSE), to the extent that the Fund may not invest directly in China A-Shares. To the extent that the Fund invests directly in China A-Shares, not more than 10% of the weight of the Fund's portfolio in the aggregate shall consist of such China A-Shares whose principal trading market is not a member of ISG or is a market with which the Exchange does not have a comprehensive surveillance sharing agreement.

(7) The Fund will invest solely in SGX-listed futures contracts on the Benchmark. It is possible that the futures contracts on the Benchmark may become listed on other exchanges that are members of ISG or with which the Exchange has in place a comprehensive surveillance sharing agreement, at which time the Fund may invest in those futures contracts listed on such exchanges. To the extent that the Fund or the Subsidiary were to invest in futures contracts on the Benchmark that were traded on exchanges other than SGX, not more than 10% of the weight of such futures contracts held by the Fund or the Subsidiary in the aggregate would consist of components whose principal trading market is not a member of ISG or is a market with which the Exchange does not have a comprehensive surveillance sharing agreement. The Fund will not invest in options or swaps. The Fund's investments will be consistent with its investment objective and will not be used to enhance leverage.

(8) The Fund may hold up to an aggregate amount of 15% of its net assets in illiquid securities (calculated at the time of investment).

(9) Should the Fund invest in the Subsidiary, that investment may not exceed 25% of the Fund's total assets at each quarter end of the Fund's fiscal year.

(10) A minimum of 100,000 Shares of the Fund will be outstanding at the commencement of trading on the Exchange.

This approval order is based on all of the Exchange's representations and description of the Fund, including those set forth above and in the Notice.[31]

For the foregoing reasons, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act [32] and the rules and regulations thereunder applicable to a national securities exchange.

IV. Conclusion

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,[33] that the proposed rule change (SR–NYSEArca–2013–56) be, and it hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[34]

Elizabeth M. Murphy,

Secretary.

[FR Doc. 2013–16382 Filed 7–8–13; 8:45 am]

BILLING CODE 8011–01–P

[30] 17 CFR 240.10A–3.

[31] The Commission notes that it does not regulate the market for futures in which the Fund plans to take positions. Limits on the positions that any person may take in futures may be directly set by the CFTC or by the markets on which the futures are traded. The Commission has no role in establishing position limits on futures even though such limits could impact an exchange-traded product that is under the jurisdiction of the Commission.

[32] 15 U.S.C. 78f(b)(5).

[33] 15 U.S.C. 78s(b)(2).

[34] 17 CFR 200.30–3(a)(12).

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–69913; File No. SR–FINRA–2013–027]

Self-Regulatory Organizations; Financial Industry Regulatory Authority, Inc.; Notice of Filing of a Proposed Rule Change Relating to Amendments to FINRA Rules 2360 and 4210 in Connection With OCC Cleared Over-the-Counter Options

July 2, 2013.

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 June 28, 2013, Financial Industry Regulatory Authority, Inc. (''FINRA'') filed with the Securities and Exchange Commission (''SEC'' or ''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 the Substance of the Proposed Rule Change

FINRA is proposing to amend: (1) FINRA Rule 2360 (Options) to treat over-the-counter (''OTC'') options cleared by The Options Clearing Corporation (''OCC'') as conventional options for purposes of the rule; and (2) FINRA Rule 4210 (Margin Requirements) to treat OTC options cleared by the OCC as listed options with respect to applicable margin requirements.

The text of the proposed rule change is available on FINRA's Web site 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.

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

[2] 17 CFR 240.19b–4.

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

1. Purpose

FINRA proposes amendments to its rules on options and margin requirements to address new rules established by The Options Clearing Corporation (''OCC'') to clear and guarantee OTC options on the S&P 500 index.[3] Given the expansion of the OCC's business to include clearing and guaranteeing certain OTC options, FINRA is proposing amendments to FINRA Rule 2360 (Options) and FINRA Rule 4210 (Margin Requirements), as discussed below, to provide for the proper application of existing rules to OTC options cleared by the OCC.

Amendments to Rule 2360

FINRA Rule 2360 generally classifies options as either standardized or conventional. A standardized equity option is ''any equity options contract issued, or subject to issuance, by The [OCC] that is not a FLEX Equity Option.''[4] A conventional option is ''any option contract not issued, or subject to issuance, by The [OCC].''[5] Historically, all standardized options have been traded on an exchange, and all conventional options have been traded OTC. In addition, FINRA Rule 2360 recognizes FLEX Equity Options, which are options contracts ''issued, or subject to issuance, by The [OCC] whereby the parties to the transaction have the ability to negotiate the terms of the contract consistent with the rules of the exchange on which the options contract is traded.''[6] The OCC's proposal to clear and guarantee OTC options on the S&P 500 index (and thereby become the issuer of such options) raises interpretive issues under FINRA Rule 2360. For the reasons discussed more fully below, FINRA proposes to amend FINRA Rule 2360 to treat OCC cleared OTC options as conventional options for purposes of the rule.

Background

FINRA Rule 2360 was adopted to address the specific risks that pertain to trading in options and implement provisions of the federal securities laws and SEC rules. The rule includes, among other things, provisions requiring specific disclosure documents, additional diligence in approving the opening of accounts, and specific requirements for confirmations, account statements, suitability, supervision, recordkeeping and reporting. The rule also contains provisions imposing limits on the size of an options position and on the number of contracts that can be exercised during a fixed period. The rule generally treats the categories of options (*i.e.,* standardized, conventional or FLEX Equity options) the same, except in the case of position limits,[7] reporting, and the delivery of disclosure documents.

Position Limits

Position limits are intended to prevent the establishment of options positions that can be used or might create incentives to manipulate or disrupt the underlying market so as to benefit the options position. They are designed to minimize the potential for mini-manipulation and for corners or squeezes of the underlying market.[8] In addition, position limits serve to reduce the possibility for disruption of the options market itself, especially in illiquid options classes.[9]

With respect to conventional and standardized equity options, FINRA Rule 2360(b)(3)(A) imposes a position limit on the number of options contracts in each class on the same side of the market (*i.e.,* aggregating long calls and short puts, or long puts and short calls) that can be held or written by a member, a person associated with a member, a customer or a group of customers acting in concert. In general, position limits for standardized equity options are determined according to a five-tiered system in which more actively traded stocks with larger public floats are subject to higher position limits.[10] FINRA Rule 2360 does not specifically govern how a particular equity option falls within one of the tiers. Rather, the position-limit provision provides that the position limit established by the rules of an options exchange for a particular equity option is the applicable position limit for purposes of FINRA Rule 2360.

In general, position limits for conventional equity options are the same as the limits for the applicable standardized equity options.[11] In instances where an equity security is not subject to a standardized option, the applicable position limit for the conventional option is the lowest tier (25,000 contracts) unless the security is in an index designated by FINRA that meets the volume and float criteria specified by FINRA[12] or the member can otherwise demonstrate to FINRA's Market Regulation Department that the underlying security meets the standards for a higher position limit.[13] Conventional index options are not subject to position limits[14] while standardized index options are subject to the position limit as specified on the exchange on which the option trades.[15] Position limits for FLEX Equity Options are governed by the rules of the exchange on which such options trade as specified in FINRA Rule 2360(b)(2).

The position limits for standardized equity options and conventional equity options are calculated separately.

[3] *See* Securities Exchange Act Release No. 68434 (December 14, 2012), 77 FR 75243 (December 19, 2012) (Order Approving Proposed Rule Change, as Modified by Amendment No. 1 Thereto, and Notice of No Objection to Advance Notice, Modified by Amendment No. 1 Thereto, Relating to the Clearance and Settlement of Over-the-Counter Options; File No. SR–OCC–2012–14). The OCC has not yet implemented clearing of OTC options on the S&P 500 index.

[4] *See* FINRA Rule 2360(a)(31). *See also* FINRA Rule 2360(a)(32) for the definition of standardized index option.

[5] *See* FINRA Rule 2360(a)(9). *See also* FINRA Rule 2360(a)(8) for the definition of conventional index option.

[6] *See* FINRA Rule 2360(a)(16).

[7] FINRA Rule 2360(b)(4) specifies exercise limits through incorporating by reference options position limits under the rule; the provision does not further differentiate by category of option. Accordingly, the treatment of an option with respect to its position limit is the same with respect to exercise limits. For example, if an option (regardless of category—standardized, conventional or FLEX Equity Option) is subject to a 25,000 contract position limit, then a member may not exercise within five consecutive business days more than 25,000 contracts.

[8] *See* Securities Exchange Act Release No. 40087 (June 12, 1998), 63 FR 33746, 33748 (June 19, 1998) (Order Granting Approval and Notice of Filing and Order Granting Accelerated Approval to Amendment No.1 and Amendment No. 2 to Proposed Rule Change Relating to an Amendment to the NASD's Options Position Limit Rule File No. SR–NASD–98–23).

Note 16 defined mini manipulation as an attempt to influence, over a relatively small range, the price movement in a stock to benefit a previously established derivatives position.

[9] *See* note 8.

[10] However, the position limits for standardized and conventional options overlying specified exchange-traded funds are established in FINRA Rule 2360, Supplemental Material .03.

[11] *See* FINRA Rule 2360(b)(3)(A)(vii) for the available equity option hedge exemptions. For specified hedge strategies (for example, conversions and reverse conversions), standardized options are exempt from position limits. However, if one of the options components in the hedge strategy consists of a conventional option, the position limit is five times that of the established position limit. For the same specified hedge strategies (for example, conversions and reverse conversions), conventional options are subject to a position limit five times that of the established limits.

[12] *See e.g., Notice to Members* 07–03 (January 2007), which provides that the FTSE All-World Index Series is a designated index for this purpose and *Regulatory Notice* 13–20 (May 2013), which provides that, effective June 27, 2013, the NASDAQ Global Large Mid Cap Index is an additional designated index for this purpose.

[13] *See* FINRA Rule 2360(b)(3)(A)(viii)b.

[14] *See Notice to Members* 94–46 (June 1994).

[15] *See* FINRA Rule 2360(b)(3)(B).

Standardized equity options contracts of the put class and call class on the same side of the market overlying the same security are not aggregated [16] with the conventional equity options contracts or FLEX Equity Options contracts overlying the same security on the same side of the market.[17]

In considering the proper categorization for OCC cleared OTC options for position limit purposes, FINRA notes that it previously determined that FLEX Equity Options were economically equivalent to conventional options because they are non-uniform and individually negotiated.[18] FINRA believes that OCC cleared OTC options are similar to FLEX Equity Options in that they are cleared by the OCC, are non-uniform and give investors the ability to designate certain terms of the option. Unlike FLEX Equity Options, OCC cleared OTC options are not traded on an exchange, which FINRA believes makes such options even more analogous to conventional options (also not traded on an exchange). FINRA also notes, as discussed below, that the counterparties to OCC cleared OTC options must be ''eligible contract participants'' as defined in the Act and thus are more sophisticated investors likely to be aware of the risk of options trading. FINRA believes it is appropriate to treat OCC cleared OTC options as conventional options for position limit purposes to ensure that any OCC cleared OTC option would be subject to appropriate position limits, consistent with other OTC options. At this time, the OCC has only been approved by the SEC to clear OTC options on the S&P 500 index. Options on S&P 500 index, whether standardized or conventional are not subject to a position limit.[19] The proposed rule change is intended to cover any OCC cleared OTC option.[20] Accordingly, an OCC cleared OTC option on an equity security would be subject to the position limit of the greater of: (1) 25,000 contracts or (2) any standardized equity options position limit for which the underlying security qualifies,[21] and would not be aggregated with any standardized option counterpart. An OCC cleared OTC option on an index would not be subject to position limits, consistent with conventional index options.

Reporting

FINRA Rule 2360(b)(5) outlines members' options position reporting requirements. FINRA's Market Regulation staff uses the options position information reported to FINRA as part of its ongoing market surveillance operations and this information supports FINRA's monitoring efforts for any market manipulation or disruption related to the accumulation or disposition of large options positions. It also enables FINRA to identify large positions held or written by a member that could pose a financial risk to the member or its clearing firm. Currently, firms satisfy the reporting obligation by reporting positions to the Large Options Position Reporting (''LOPR'') system that is operated by the OCC. This system allows firms to submit their LOPR files to OCC to maintain compliance with FINRA Rule 2360(b)(5) and the corresponding exchanges' rules. FINRA receives the LOPR reports on a daily basis.

FINRA Rule 2360(b)(5)(A)(i)a. requires that members report to FINRA with respect to each account that has established an aggregate position of 200 or more conventional option contacts (whether long or short) of the put class and the call class on the same side of the market covering the same underlying security or index, provided, that such reporting with respect to positions in conventional index options shall apply only to an option that is based on an index that underlies, or is substantially similar to an index that underlies, a standardized index option.[22] In addition, FINRA Rule 2360(b)(5)(A)(i)b. has a similar reporting requirement with respect to standardized options, but the requirement to report standardized options positions to FINRA only applies to members that are not members of the options exchange on which the standardized options are listed and traded. Because there is not a comparable exchange regulatory regime that applies to members trading OCC cleared OTC options as exists with standardized options, FINRA believes that it is appropriate and straightforward to categorize these options as conventional options such that all members must report positions of 200 or more contracts on the same side of the market covering the same underlying security or index to FINRA as is the case for all conventional options.

Disclosure Documents

FINRA Rule 2360(b)(11)(A)(i) requires members to deliver to customers the Characteristics and Risks of Standardized Options, which is also known as the Options Disclosure Document (''ODD''), if the customer engages in transactions in options issued by the OCC (as noted above such options have historically been traded on an exchange). This provision implements Rule 9b–1 under the Act, which applies only to standardized options and further defines standardized options to include options that trade on an exchange.[23] Accordingly, standardized options and FLEX Equity Options are described in the ODD and if a customer engages in transactions in such options, a member is subject to the requirement to deliver the ODD. In contrast, the ODD does not address conventional options (historically OTC options), and members are not required to deliver the

[16] *See* FINRA Rule 2360(b)(3)(A)(viii)a. FINRA Rule 2360 does not address aggregation of index options because, as noted above, conventional index options are not subject to position limits.

[17] The SEC approved disaggregating conventional equity options from standardized equity options and FLEX Equity Options to allow market participants in the OTC options market to compete effectively with the participants using standardized options or with entities not subject to position limit rules. *See* note 8 at 33748.

[18] *See* note 8 at 33747.

[19] *See* CBOE Rule 24.4. *See also* Securities Exchange Act Release No. 40969 (January 22, 1999), 64 FR 4911 (February 1, 1999) (Order Granting Approval to Proposed Rule Change and Notice of Filing and Order Granting Accelerated Approval to Amendment Nos. 1, 2 and 3 Relating to An Elimination of Position and Exercise Limits for Certain Broad Based Index Options File No. SR–CBOE–98–23) and Securities Exchange Act Release No. 44994 (October 26, 2001), 66 FR 55722 (November 2, 2001) (Order Approving Proposed Rule Change by the Chicago Board Options Exchange, Incorporated Relating to Permanent Approval of the Pilot Program To Eliminate Position and Exercise Limits for OEX, SPX, and DJX Index Options and Flex Options on These Indexes File No. SR–CBOE–2001–22).

[20] In this regard, FINRA notes that the definition of ''options contract'' in FINRA Rule 2360(a)(22) provides that ''[i]f a stock option is granted covering some other number of shares, then for purposes of paragraphs (b)(3) through (12), it shall be deemed to constitute as many option contracts as that other number of shares divided by 100 (*e.g.,* an option to buy or sell five hundred shares of common stock shall be considered as five option contracts).''

[21] As noted above, if the equity security is not subject to a standardized option, the applicable position limit is 25,000 contracts unless the security is in an index designated by FINRA that meets the volume and float criteria specified by FINRA or the member can demonstrate to FINRA that the underlying security meets the standards for a higher position limit.

[22] FINRA's reporting requirements do not currently apply to FLEX Equity Options; however, the LOPR reports contain members' FLEX Equity Options position reports.

[23] Rule 9b–1(a)(4) under the Act defines a ''standardized option'' as ''options contracts trading on a national securities exchange, an automated quotation system of a registered securities association, or a foreign securities exchange which relate to options classes the terms of which are limited to specific expiration dates and exercise prices, or such other securities as the Commission may, by order, designate.'' The SEC has not designated OCC cleared OTC options as standardized options under Rule 9b–1 under the Act.

ODD with respect to transactions in such options. FINRA believes it is consistent to treat transactions in OCC cleared OTC options, which are similarly not addressed in the ODD, the same as transactions in conventional options, and not subject members to the requirement to deliver the ODD for such transactions. FINRA also believes that the ODD delivery requirement is not necessary because the OCC requires that the counterparties to OCC cleared OTC options must be ''eligible contract participants'' as defined in the Act and thus are more sophisticated investors likely to be aware of the risks of OTC options.[24]

In addition, FINRA Rule 2360(b)(11)(A)(ii) requires members to deliver to customers that are approved to write uncovered short option transactions the Special Statement for Uncovered Option Writers (the ''Special Written Statement'') that describes the risk related to writing uncovered short options. Similar to the ODD delivery requirements, the requirement to deliver the Special Written Statement applies with respect to transactions in options issued by the OCC (listed options). Accordingly, FINRA believes it is consistent to treat transactions in OCC cleared OTC options with transactions in conventional options, and not require members to deliver the Special Written Statement for such transactions. FINRA believes that the Special Written Statement delivery requirement is unnecessary in light of the OCC requirement that the counterparties to OCC cleared OTC options must be ''eligible contract participants'' as defined in the Act and thus are more sophisticated investors likely to be aware of the risks of writing uncovered short options.[25]

Proposal

As noted above, FINRA Rule 2360 generally treats the categories of options the same, except in the case of position limits, reporting, and the delivery of disclosure documents. FINRA believes that in these enumerated areas it is appropriate to treat OCC cleared OTC options as conventional options for the reasons discussed above. FINRA believes that OCC cleared OTC options should otherwise be subject to the same sales practice and other requirements that apply to transactions in any category of options (including, among other requirements, suitability, approval of account opening and supervision). FINRA proposes a series of definition changes to explain this treatment. Specifically, FINRA proposes to define an ''OCC Cleared OTC Option'' as ''any put, call, straddle or other option or privilege that meets the definition of an 'option' under Rule 2360(a)(21) and is cleared by The Options Clearing Corporation, is entered into other than on or through the facilities of a national securities exchange, and is entered into exclusively by persons who are 'eligible contract participants' as defined in the Exchange Act.'' [26] In addition, FINRA proposes to clarify that the definitions of ''conventional option'' and ''conventional index option'' would include ''OCC Cleared OTC Options'' in amended FINRA Rule 2360(a)(8) and (a)(9), respectively. FINRA would further amend the definitions of ''standardized equity option,'' ''standardized index option'' and ''FLEX Equity Option'' in FINRA re-numbered Rule 2360(a)(32), (a)(33) and (a)(16), respectively, to specifically exclude OCC Cleared OTC Options. Finally, FINRA proposes minor amendments to the definition of ''expiration date'' in Rule 2360(a)(14) to reflect that the expiration date of OCC Cleared OTC Options may be customized by the parties to the trade in accordance with the rules of the OCC, and not fixed by the OCC's rules.[27]

FINRA also proposes minor amendments to paragraphs (b)(11)(A)(i) and (ii) and paragraph (b)(16) of FINRA Rule 2360 to provide, as noted above, that the ODD and Special Written Statement are not required to be delivered by members effecting a transaction in OCC Cleared OTC Options. As noted above, the OCC Cleared OTC Options would otherwise be subject to the same sales practice and other requirements that apply to transactions in conventional options (including, among other requirements, suitability, approval of account opening and supervision). In addition, the proposed rule change would make technical, non-substantive changes to FINRA Rule 2360(b)(11)(A) to reflect FINRA Manual style convention.

Amendments to FINRA Rule 4210

For purposes of margin treatment, FINRA proposes to treat OCC Cleared OTC Options as it treats other cleared and guaranteed options, which to date have always been listed options,[28] in light of the clearing and guaranteeing functions performed by the OCC. FINRA Rule 4210(f)(2) and FINRA Rule 4210(g) sets forth the strategy-based margin and portfolio margin requirements for transactions in options. In general, the margin requirement for options listed on an exchange (and cleared and guaranteed by the OCC) is lower than the margin requirement for OTC options [29] (not cleared or guaranteed by the OCC). The reasons underlying the more favorable margin treatment for listed (and OCC cleared and guaranteed) options apply with equal force to OCC Cleared OTC Options. The clearing and guaranteeing functions performed by the OCC reduce the counterparty credit risk of the otherwise OTC nature of these options, likening them to the same level of risk as listed options.

The proposed beneficial margin treatment for OCC cleared OTC option may only be applied by a member after the OTC option has been accepted for clearing and guaranteed by the OCC. FINRA understands that the OCC's proposal provides that the trade data for an OTC option trade would be submitted to an approved OCC vendor that would process the trade and submit it as a confirmed trade to OCC for clearing. The OCC would then confirm if the OTC option trade meets OCC's validation requirements and will notify the vendor, which will notify the submitting parties.[30] The OCC proposal also provides that parties may submit trades for clearance that were entered into bilaterally at any time in the past, provided that the eligibility for clearance will be determined as of the date the trade is submitted to OCC for clearance.[31] Upon confirmation from

[24] *See* note 3 and proposed Section 6(f), Article XVII of the OCC By-Laws.

[25] *See* note 3 and proposed Section 6(f), Article XVII of the OCC By-Laws.

[26] The definition reflects the OCC proposed rule requirement that counterparties to OCC Cleared OTC Options must be ''eligible contract participants'' as defined in the Act. *See* note 3 and proposed Section 6(f), Article XVII of the OCC By-Laws.

[27] FINRA notes that the expiration date of FLEX Equity Options also may be customized and accordingly the proposed rule change also clarifies this definition for purposes of FLEX Equity Options.

[28] *See* FINRA Rule 4210(f)(2)(A)(xxiv) and FINRA Rule 4210(g)(2)(A) for the definition of ''listed'' and ''listed option,'' respectively.

[29] *See* FINRA Rule 4210(f)(2)(A)(xxvii) for the definition of ''OTC'' and FINRA Rule 4210(g)(2)(H) for ''unlisted derivative.''

[30] FINRA further understands that, if the option trade is rejected for clearing, the option would remain subject to any applicable agreement between the original parties to the transaction, which may provide that (1) such rejected transaction shall remain a bilateral transaction between the parties subject to such agreement or other documentation as the parties have entered into for that purpose or (2) may be terminated. *See* note 3 and proposed interpretation .02 of Section 6, Article VII of the OCC By-Laws. If the OTC option was rejected for clearing, but the option contract was not terminated by the parties and remained an OTC option contract, the member would be required to apply the applicable OTC option margin requirements, not the listed option margin requirements.

[31] *See* note 3. OCC's license agreement with S&P imposes certain minimum requirements relating to time remaining to expiration of the OTC option, as

the OCC vendor that the OTC option has been accepted for clearance and guaranteed by the OCC, the member may apply the applicable listed option margin requirements.

Accordingly, FINRA proposes to amend the definition of ''listed'' in FINRA Rule 4210(f)(2)(A)(xxiv) to provide that a listed option means an option that is traded on a national securities exchange or issued and guaranteed by a registered clearing agency and shall include an OCC Cleared OTC Option as defined in FINRA Rule 2360. FINRA proposes to amend the definition of ''OTC'' in FINRA Rule 4210(f)(2)(A)(xxvii) to provide that OTC options shall not include an OCC Cleared OTC Option as defined in FINRA Rule 2360. FINRA proposes conforming amendments to FINRA Rule 4210(g)(2)(A) regarding portfolio margin requirements to provide that a ''listed option'' means an option that is traded on a national securities exchange or issued and guaranteed by a registered clearing agency and shall include an OCC Cleared OTC Option as defined in FINRA Rule 2360. Finally, FINRA Rule 4210(g)(2)(H) would be amended to clarify that an ''unlisted derivative'' would include among other things, an index-based option that is neither traded on a national securities exchange nor issued or guaranteed by a registered clearing agency and shall not include an OCC Cleared OTC Option as defined in FINRA Rule 2360.

FINRA requests comment on the proposed rule change. Among other matters that commenters may wish to address, FINRA is particularly interested in the following question: Do commenters believe that different or amended margin provisions, including higher requirements, would be superior to those set forth in the proposed rule change?

FINRA will announce the effective date of the proposed rule change in a *Regulatory Notice,* which will be no later than 90 days following Commission approval.

2. Statutory Basis

FINRA believes that the proposed rule change is consistent with the provisions of Section 15A(b)(6) of the Act,[32] 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 believes that the proposed rule change fosters innovation in the market by accommodating a new product in OCC Cleared OTC Options while balancing the need to protect investors and the public interest by regulating such product in a rational regulatory framework. FINRA believes that treating OCC Cleared OTC Options as conventional options ensures that OCC Cleared OTC Options are subject to position and exercise limits and reporting consistent with the treatment of OTC options generally. FINRA believes requiring OCC Cleared OTC Options to be subject to position limits is consistent with Act and the purpose of position limits generally: To prevent the establishment of options positions that can be used or might create incentives to manipulate or disrupt the underlying market so as to benefit the options position; to minimize the potential for mini-manipulation and for corners or squeezes of the underlying market; and to reduce the possibility for disruption of the options market itself, especially in illiquid options classes. FINRA believes that it is consistent to treat transactions in OCC cleared OTC options as conventional options and not require delivery of the ODD or the Special Written Statement because the options are not addressed in the ODD, and because counterparties to such OCC cleared OTC options are ''eligible contract participants'' as defined in the Act and are more sophisticated investors likely to be aware of the risks of options trading. OCC Cleared OTC options will also be subject to the same options sales practice and other requirements (such as account opening procedures and standards for supervision and suitability) as are all categories of options. For purposes of margin treatment, FINRA believes that the clearing and guaranteeing functions performed by the OCC support a determination to treat OCC cleared OTC options as the margin rule treats other cleared and guaranteed options, which to date have always been listed options. The clearing and guaranteeing functions performed by the OCC greatly reduce the counterparty credit risk of the otherwise OTC nature of these options, likening them to the same level of risk as listed options.

In addition, FINRA believes the proposed rule change facilitates OCC's ability to clear OTC options subject to the same basic rules, procedures and risk management practices that have been used by OCC in clearing transactions in listed options. The clearance and settlement of OTC options by the OCC is consistent with OCC's obligations with respect to the prompt and accurate clearance and settlement of securities transactions and the protection of securities investors and the public interest.

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. FINRA does not anticipate that the proposed rule change would impose any additional costs on members that trade OCC Cleared OTC Options. FINRA believes that the proposed rule change fosters innovation in the market by accommodating a new product in OCC Cleared OTC Options while balancing the need to protect investors and the public interest by regulating such product in a rational regulatory framework. FINRA believes that treating OCC Cleared OTC Options as conventional options ensures clarity and consistency in that OCC Cleared OTC Options are subject to position and exercise limits and reporting as well as other sales practice and other requirements on par with the treatment of OTC options generally. FINRA believes that the clearing and guaranteeing function provided by OCC benefits members by reducing the counterparty credit risk of the otherwise OTC nature of these options and the proposed rule change reflects such reduction in risk by permitting members to margin these options consistent with the margin requirements for listed options.

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:

detailed in proposed Interpretation and Policy .01 of Section 6, Article XVII of the OCC By-Laws. *See also* proposed Section 5, Article VI of the OCC By-Laws specifying that the OCC will not accept certain trades for clearance that were entered into bilaterally at any time in the past if such a trade is received after 4:00 p.m. Central Time on the business day that is four business days prior to the expiration date of such option.

[32] 15 U.S.C. 78*o*–3(b)(6).

(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–2013–027 on the subject line.

Paper Comments

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

All submissions should refer to File Number SR–FINRA–2013–027. 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 FINRA. 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–FINRA–2013–027, and should be submitted on or before July 30, 2013.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[33]

Elizabeth M. Murphy,

Secretary.

[FR Doc. 2013–16379 Filed 7–8–13; 8:45 am]

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–69926; File No. SR–NYSEArca-2013–67]

Self-Regulatory Organizations; NYSE Arca, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Amending the NYSE Arca Equities Schedule of Fees and Charges for Exchange Services To Modify the Credits for Certain Mid-Point Passive Liquidity Orders, Add Two New Tiers Applicable to Transactions in Tape B Securities, Add a Pricing Tier Applicable to Orders of ETP Holders for Tape A and Tape C Securities That Are Eligible To Be Routed Away From the Exchange, and Modify the Equity Threshold Applicable to the Cross-Asset Tier

July 3, 2013.

Pursuant to Section 19(b)(1)[1] of the Securities Exchange Act of 1934 (the ''Act'')[2] and Rule 19b–4 thereunder,[3] notice is hereby given that, on June 20, 2013, NYSE Arca, Inc. (the ''Exchange'' or ''NYSE Arca'') filed with the Securities and Exchange Commission (the ''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 the Substance of the Proposed Rule Change

The Exchange proposes to amend the NYSE Arca Equities Schedule of Fees and Charges for Exchange Services (the ''Fee Schedule'') to (i) modify the credits for certain Mid-Point Passive Liquidity (''MPL'') Orders, (ii) add two new tiers applicable to transactions in Tape B Securities, (iii) add a pricing tier applicable to orders of ETP Holders for Tape A and Tape C Securities that are eligible to be routed away from the Exchange, and (iv) modify the equity threshold applicable to the Cross-Asset Tier. The Exchange proposes to implement the fee changes on July 1, 2013. The text of the proposed rule change is available on the Exchange's Web site at *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 Statutory Basis for, the Proposed Rule Change

1. Purpose

The Exchange proposes to amend the Fee Schedule to (i) modify the credits for certain MPL Orders, (ii) add two new tiers applicable to transactions in Tape B Securities, (iii) add a pricing tier applicable to orders of ETP Holders for Tape A and Tape C Securities that are eligible to be routed away from the Exchange, and (iv) modify the equity threshold applicable to the Cross-Asset Tier.[4] The Exchange proposes to implement the fee changes on July 1, 2013.

MPL Orders

The Exchange proposes to add an ''MPL Order Tier'' applicable to MPL Orders that provide liquidity on the Exchange and modify an existing credit for such orders.[5]

Currently, under various tiers and Basic Rates, MPL Orders that provide liquidity on the Exchange receive a credit of $0.0015 per share for Tape A and Tape B Securities and a credit of $0.0020 per share for Tape C Securities. The Exchange proposes to add a new tier under which MPL Orders that provide liquidity on the Exchange would receive a credit of $0.0020 per

[33] 17 CFR 200.30–3(a)(12).

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

[2] 15 U.S.C. 78a.

[3] 17 CFR 240.19b–4.

[4] The proposed changes would apply to securities with a per share price of $1.00 or above.

[5] A Passive Liquidity (''PL'') Order is an order to buy or sell a stated amount of a security at a specified, undisplayed price. *See* Rule 7.31(h)(4). An MPL Order is a PL Order executable only at the midpoint of the Protected Best Bid and Offer. *See* Rule 7.31(h)(5).