

19(b)(3)(A) of the Act<sup>78</sup> and Rule 19b-4(f)(6) thereunder.

A proposed rule change filed under Rule 19b-4(f)(6) normally does not become operative for 30 days from the date of filing. However, Rule 19b-4(f)(6)(iii)<sup>79</sup> permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange has asked the Commission to waive the 30-day operative delay so that the proposal may become operative on October 1, 2018 to coincide with the effective date of FINRA's proposed rule change on which the proposal is based.<sup>80</sup> The waiver of the operative delay would make the Exchange's qualification requirements consistent with those of FINRA, as of October 1, 2018. Therefore, the Commission believes that the waiver of the 30-day operative delay is consistent with the protection of investors and the public interest and hereby waives the 30-day operative delay and designates the proposal operative on October 1, 2018.<sup>81</sup>

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

#### 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-BX-2018-047 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-BX-2018-047. This file number should be included on the subject line if email is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-BX-2018-047 and should be submitted on or before October 31, 2018.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>82</sup>

**Eduardo A. Aleman,**  
Assistant Secretary.

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-84355; File No. SR-NASDAQ-2018-066]

### Self-Regulatory Organizations; The Nasdaq Stock Market LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Align Existing Investigatory and Disciplinary Processes and Related Rules With the Investigatory and Disciplinary Processes and Related Rules of Nasdaq PHLX LLC

October 3, 2018.

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 September 24, 2018, The Nasdaq Stock Market LLC ("Nasdaq" or "Exchange") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I and II, below, which Items have been prepared by the Exchange. 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 align its existing investigatory and disciplinary processes and related rules with the investigatory and disciplinary processes and related rules of Nasdaq PHLX LLC ("Phlx") [sic]

The text of the proposed rule change is available on the Exchange's website at <http://nasdaq.cchwallstreet.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 Exchange 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 Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

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

<sup>2</sup> 17 CFR 240.19b-4.

<sup>78</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>79</sup> 17 CFR 240.19b-4(f)(6)(iii).

<sup>80</sup> See *supra* note 7. As discussed above, the Exchange has stated that the new registration requirements for developers of algorithmic trading strategies would become operative on April 1, 2019.

<sup>81</sup> For purposes only of waiving the 30-day operative delay, the Commission has also considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

<sup>82</sup> 17 CFR 200.30-3(a)(12).

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

1. Purpose

Nasdaq proposes to amend certain of its rules to align its existing investigatory and disciplinary processes and related rules with the investigatory and disciplinary processes and related rules of Phlx. Nasdaq notes that Phlx amended its rules recently to adopt an investigatory and disciplinary process identical in all material respects to the investigatory and disciplinary processes of Nasdaq BX, Inc. ("BX") and Nasdaq.<sup>3</sup> The amendment also vested the Phlx Regulation Department with the same authority proposed herein. The Exchange therefore proposes the below changes to the 8000 and 9000 Series of the Nasdaq Rules in order to conform its rules to those of Phlx 8000 and 9000 Series rules in all respects.<sup>4</sup>

Definition of Nasdaq Regulation

The Exchange proposes to revise the definition of Nasdaq Current Rule 9120(w) ("Nasdaq Regulation") to expressly include the Exchange's Enforcement Department. The Exchange's Enforcement Department is specifically charged with pursuing disciplinary action against members, persons associated with a member, and persons subject to the Exchange's jurisdiction, in addition to FINRA's Department of Enforcement.

Similarly, the Exchange proposes to add references to the "Nasdaq

<sup>3</sup> See Securities Exchange Act Release No. 82143 (November 22, 2017), 82 FR 56672 (November 29, 2017) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Adopt Investigatory and Disciplinary Processes Substantially Similar to Nasdaq BX, Inc. and The Nasdaq Stock Market LLC for Phlx, which, among other things, similarly enabled Phlx to retain discretion to perform these functions).

<sup>4</sup> The Exchange notes that the Financial Industry Regulatory Authority ("FINRA") amended its rules recently to reflect an internal reorganization of FINRA's Enforcement Operations. See Securities Exchange Act Release No. 83781 (August 6, 2018), 83 FR 39802 (August 10, 2018). In July 2017, FINRA announced its plan to consolidate its existing enforcement functions into a unified Department of Enforcement. FINRA's recent rule change makes technical and other non-substantive changes to FINRA Rules 9000 Series Code of Procedure (the "Code") to reflect the single Department of Enforcement. The rule change removed references to the Market Regulation department, its head and employees from the Code where those references reflect the previously separate Market Regulation enforcement function. In light of FINRA's reorganization, the Exchange is likewise removing references to the Market Regulation department, its head and employees from the Code, and re-lettering the remainder of those sections where such re-lettering is necessary (*i.e.* Rule 9120). Phlx will also submit a similar rule filing to remove those references in due course.

Regulation Department" in Nasdaq Current Rule 9120(aa) (definition of the term "Party"). The Exchange also proposes to add a definition for the term "Party" as used in the Nasdaq Rule 9400 series,<sup>5</sup> and to add references to "FINRA" in Nasdaq Current Rule 9120(aa)(3) to clarify that FINRA falls under the definition of "Party" as used in the Rule 9550 series. In addition, the Exchange is adding references to the Nasdaq Regulation Department throughout the Nasdaq Rule 8000 and 9000 series.<sup>6</sup> These amendments will conform the text of Nasdaq 8000 and 9000 rules with those of Phlx.<sup>7</sup>

Role of FINRA

The Exchange proposes to add rule text to certain rules to clarify that FINRA may act on behalf of the Exchange. Today, FINRA is empowered to act on behalf of the Exchange.<sup>8</sup> The revisions to these rules will therefore clarify FINRA's authority as it currently exists today.<sup>9</sup>

Jurisdiction

The Exchange proposes to replace the current rule text related to jurisdiction of Nasdaq to initiate disciplinary actions with text substantially similar to the Phlx's jurisdiction rule text. Nasdaq

<sup>5</sup> The Exchange notes that, like Phlx, it is likewise including the Department of Enforcement as a potential party to a matter under the Rule 9400 Series. The Exchange believes that including this department in Rule 9400 Series is appropriate because it may be involved in the initiation of such a matter for Nasdaq currently. The Exchange is also adding FINRA to other parts of Rule 9400 where it is appropriate to show that FINRA may be the entity that initiated an action under the rule.

<sup>6</sup> See Nasdaq Current Rules 8001, 8210, 8211, IM-8310-3, 9001, 9120, 9131, 9133, 9143, 9146, 9211, 9212, 9213, 9215, 9216, 9251, 9252, 9253, 9264, 9269, 9270, 9311, 9400, 9522, 9523, 9524, 9552, 9553, 9554, 9555, 9556, 9557, 9558, 9559, 9610, 9630, 9810, 9820, 9830, and 9840.

<sup>7</sup> The Exchange is also amending Current Nasdaq Rule 9120(aa)(2), to align that rule text with FINRA's recent rule change. The term "Party" when used in the Rule 9520 Series, now means FINRA's Department of Enforcement, rather than Member Regulation. See Securities Exchange Act Release No. 83781 (August 6, 2018), 83 FR 39802 (August 10, 2018).

<sup>8</sup> See Nasdaq Current Rule 8001 ("Nasdaq and FINRA are parties to the Regulatory Contract pursuant to which FINRA has agreed to perform certain functions described in these rules on behalf of Nasdaq. Nasdaq rules that refer to Nasdaq Regulation, Nasdaq Regulation staff, Nasdaq staff, and Nasdaq departments should be understood as also referring to FINRA staff and FINRA departments acting on behalf of Nasdaq pursuant to the Regulatory Contract.").

<sup>9</sup> See Nasdaq Current Rules 9400, 9522, 9552, 9553, 9554, 9555, 9556, 9557, and 9558. The Exchange notes that FINRA currently performs the functions described in these rules. The proposed changes further clarify that in the rule text.

Current Rules 1012(h)<sup>10</sup> and 1031(f)<sup>11</sup> permit a disciplinary action to be brought within two years after the effective date of resignation, cancellation, or revocation of a member or associated person. The current Nasdaq provisions are more limited than Phlx's jurisdictional language. Phlx Rule 9110(d) does not contain a time limit on when a matter may be brought against a member or associated person following its termination or deregistration, so long as the Exchange serves written notice within one year of receipt by the Exchange of notice of such termination or deregistration that the Exchange is making inquiry into a matter or matters which occurred prior to the termination of such person's status as a member or associated person.<sup>12</sup> The substantive amendment

<sup>10</sup> A resigned Nasdaq member or a Nasdaq member that has had its membership canceled or revoked shall continue to be subject to the filing of a complaint under the Nasdaq Rules based upon conduct that commenced prior to the effective date of the Nasdaq member's resignation from Nasdaq or the cancellation or revocation of its membership. Any such complaint, however, shall be filed within two years after the effective date of resignation, cancellation, or revocation.

<sup>11</sup> A person whose association with a Nasdaq member has been terminated and who is no longer associated with any member of Nasdaq or a person whose registration has been revoked or canceled shall continue to be subject to the filing of a complaint under Nasdaq Rules based upon conduct which commenced prior to the termination, revocation, or cancellation or upon such person's failure, while subject to Nasdaq's jurisdiction as provided herein, to provide information requested by Nasdaq pursuant to the Nasdaq Rules, but any such complaint shall be filed within: (A) Two years after the effective date of termination of registration pursuant to subsection (c); provided, however, that any amendment to a notice of termination filed pursuant to paragraph (c)(2) that is filed within two years of the original notice that discloses that such person may have engaged in conduct actionable under any applicable statute, rule, or regulation shall operate to recommence the running of the two-year period under this subsection; (B) two years after the effective date of revocation or cancellation of registration pursuant to the Nasdaq Rules; or (C) in the case of an unregistered person, within two years after the date upon which such person ceased to be associated with the Nasdaq member.

A person whose association with a member has been terminated and is no longer associated with any Nasdaq member shall continue to be subject to a proceeding to suspend, consistent with Article IX, Section 2 of the Nasdaq By-Laws, his or her ability to associate with a member based on such person's failure to comply with an arbitration award or a written and executed settlement agreement obtained in connection with an arbitration or mediation submitted for disposition pursuant to Nasdaq Rules, provided that such proceeding is instituted within two years after the date of entry of such award or settlement.

<sup>12</sup> Any member or any partner, officer, director or person employed by or associated with any member (the Respondent) who is alleged to have violated or aided and abetted a violation of the Securities Exchange Act of 1934 (Exchange Act), the rules and regulations thereunder, the By-Laws and Rules of the Exchange or any interpretation thereof, and the Rules, Regulations, resolutions and stated policies of the Board of Directors or any Committee of the

with respect to jurisdiction is with the timeframe for bringing a disciplinary action against a member or associated person. The proposed rule expands the timeframe.

The amendment to expand jurisdiction will not apply retroactively and any complaints not filed within the existing two year time-period will be time-barred. The new jurisdiction rule will only apply to members or associated persons who terminate with the Exchange on or after October 15, 2018.

The Exchange also proposes to eliminate the rule text contained within Nasdaq Current Rules 1012(h) and 1031(f) and reserve those sections.

#### Interested Staff Definition

The definition of Interested Staff is being conformed to Phlx's definition and includes references to Exchange and FINRA employees as those terms are proposed to be defined.<sup>13</sup> The proposed Nasdaq definition better defines who falls within the category of Interested Staff without substantively

Exchange, shall be subject to the disciplinary jurisdiction of the Exchange, and after notice and opportunity for a hearing may be appropriately disciplined by expulsion, suspension, fine, censure, limitation or termination as to activities, functions, operations, or association with a member organization, or any other fitting sanction in accordance with the provisions of these disciplinary Rules.

An individual member, or a partner, officer, director or person employed by or associated with a member may be charged with any violation within the disciplinary jurisdiction of the Exchange committed by employees under his supervision or by the member with which he is associated, as though such violations were his own. A member may be charged with any violation within the disciplinary jurisdiction of the Exchange committed by its officers, directors, or employees or by a member or other person who is associated with such member, as though such violation were its own.

Any member, or any partner, officer, director, or person employed by or associated with a member organization, and any member organization shall continue to be subject to the disciplinary jurisdiction of the Exchange following the termination of such person's permit or the termination of the employment by or the association with a member organization of such member or partner, officer, director or person, or following the deregistration of a member organization from the Exchange; provided, that the Exchange serves written notice to such former member, partner, officer, director, employee, associated person or member organization within one year of receipt by the Exchange of notice of such termination or deregistration that the Exchange is making inquiry into a matter or matters which occurred prior to the termination of such person's status as a member, or as a partner, officer, director or person employed by or associated with a member organization, or prior to the deregistration of such member organization.

<sup>13</sup> As noted in n.5 above, the Exchange is, however, omitting references to FINRA's Department of Market Regulation in light of FINRA's recent rule filing that similarly omitted references to its Department of Market Regulation.

amending the definition. At this time, Nasdaq's proposal mirrors the Phlx definition, except insofar as Nasdaq's proposal omits references to FINRA's Department of Market Regulation for the reasons set forth in footnote 5 above.<sup>14</sup> The Exchange also notes that it is removing the words "a district director or" from Nasdaq Current Rules 9120(t)(1)(D), 9120(t)(2)(D), and 9120(t)(3)(D) because there is no such position at the Exchange. The use of those words in the current definition refers to the individual to whom a FINRA employee may report. Those words are therefore being preserved as they relate to FINRA in Proposed New Rules 9120(r)(1)(H), 9120(r)(2)(E), 9120(r)(3)(E), and 9120(r)(4)(F).

#### Special Panelist

The Exchange is removing the definition of Special Panelist and re-lettering the remainder of the Section. Phlx and BX do not use or otherwise define a Special Panelist. Nasdaq Current Rule 9120(u) defines a Special Panelist.<sup>15</sup> The Exchange notes that related rules, Nasdaq Current Rules 9212(a)(2)(B) and 9231(b)(2), are not mandatory today and permit, but do not require, a Chief Hearing Officer to utilize a Special Panelist. Nasdaq has automated its system throughout the years so that most disciplinary actions today involve issues which pertain to quotations of securities, execution of transactions, reporting of transactions and trading practices, including rules, for example, that prohibit manipulation and insider trading, among other Rules as described in Nasdaq Current Rules 9120(u)(1)–(4). Further, FINRA has

<sup>14</sup> The Exchange notes that it is adopting a more comprehensive definition of "Interested Staff" under Nasdaq Current Rule 9120(t) to align it with the definition used by Phlx. Specifically, the Exchange is adopting new text that accounts for the role of the Nasdaq Regulation Department, including the involvement of employees thereof. Thus, the proposed new definition will include all individuals that should be considered as "Interested Staff" for purposes of the Nasdaq Rule 9000 Series.

<sup>15</sup> "The term "Special Panelist" means an individual approved by the Nasdaq Board of Directors at least annually who may be selected by the Chief Hearing Officer to serve on a Hearing Panel pursuant to Rules 9212, 9221, 9231, and 9232. A Special Panelist may be drawn from FINRA's Market Regulation Committee, or any other source the Nasdaq Board of Directors deems appropriate given the responsibilities of Special Panelists. Special Panelists may participate in disciplinary proceedings in which issues arise regarding: (1) The quotations of securities; (2) the execution of transactions; (3) the reporting of transactions; and (4) trading practices, including rules prohibiting manipulation and insider trading, and those Rules designated as Trading Rules (Rule 3300 Series), The Nasdaq Stock Market Rules (Rule 4000 Series), and Other Systems and Programs Rules (Rule 6000 Series)." See Nasdaq Current Rule 9120(u).

skilled panelists who, like the Special Panelists, are trained to handle matters involving the subject matters described in the Special Panelist definition. The Exchange believes that the notion of a Special Panelist is not necessary because today FINRA panelists are equipped to handle matters related to the subject matter of Nasdaq Current Rules 9120(u)(1)–(4) with respect to any type of hearing. The concept of a Special Panelist is not extraordinary, rather it is a presumed skill set for today's FINRA panelists. The Exchange therefore proposes to remove all references to the term "Special Panelist" from its rules because the reality of current panelist selection and disciplinary processes obviate the need for this rule.<sup>16</sup>

#### Hearing Panelists

The Exchange is removing a category of individuals that may serve on a Hearing Panel and re-lettering the remainder of the section.<sup>17</sup> Phlx and BX rules do not include that category of individuals from among those whom the Chief Hearing Officer may select as a Panelist. The Exchange originally proposed Current Rule 9231(b)(1)(D) as a transitional rule when the Exchange sought to become registered as a national securities exchange. The Rule allowed "persons who served on the NASD National Adjudicatory Council, or a disciplinary subcommittee thereof, prior to the date that Nasdaq commenced operating as a national securities exchange to sit on Hearing Panels."<sup>18</sup> This enabled the Exchange to pull from a larger pool of candidates. The Exchange has now been a national securities exchange for nearly 12 years, and believes that there is a sufficient pool of panelists from which the Chief Hearing Officer may now pull. This is evidenced by the Hearing Panels both Phlx and BX are able to assemble. Given the passage of time, the need for Nasdaq Current Rule 9231(b)(1)(D) no longer exists.

The Exchange is also clarifying Current Rule 9231(b)(1)(E) (Proposed New Rule 9231(b)(1)(D)) to more clearly state who may serve on a Hearing Panel.

<sup>16</sup> See Nasdaq Current Rules 9120(u), 9212(a)(2)(B), 9221(a)(3), 9231(b)(2), 9231(c)(2), and 9232(a)–(c).

<sup>17</sup> Specifically, the Exchange is removing Nasdaq Current Rule 9231(b)(1)(D) ("served on the FINRA National Adjudicatory Council or on a disciplinary subcommittee of the FINRA National Adjudicatory Council prior to the date that Nasdaq commenced operating as a national securities exchange; or").

<sup>18</sup> See Securities Exchange Act Release No. 34–53128 (January 13, 2006), 71 FR 3550 (January 23, 2006) (File No. 10–131) (Order granting application of NASDAQ Stock Market LLC for registration as a national securities exchange).

Currently, BX and Phlx Rules 9231(b)(1)(D) indicate that the Chief Hearing Office may select as a Panelist a person who “is a FINRA Panelist approved by the Nasdaq Board at least annually, including a person who previously served on the Market Regulation Committee<sup>19</sup> not earlier than four years before the date the complaint was served upon the Respondent who was the first served Respondent in the disciplinary proceeding for which the Hearing Panel or the Extended Hearing Panel is being appointed, or from other sources the Board deems appropriate given the responsibilities of Panelists.” The Exchange is adding the same text after “is a FINRA Panelist approved by the Nasdaq Board at least annually” in Proposed New Rule 9231(b)(1)(D) to make it clear that a person who served on the Market Regulation Committee is among those permitted to serve as a Panelist, provided that person meets the requirements of the rule.

#### Other Non-Substantive and Technical Amendments

The Exchange proposes to add a sentence within Nasdaq Current Rule 9270(e)(2), similar to Phlx, to add more specificity to this rule and make clear that the Office of Disciplinary Affairs may accept an offer of settlement and order of acceptance or refer them to the Exchange Review Council. The Exchange notes that today the Office of Disciplinary Affairs may accept an offer of settlement and order of acceptance or refer them to the Exchange Review Council, so this language is intended to clarify current practice under the rule.

The Exchange also proposes to make certain technical amendments throughout these rules to: (i) Add “FINRA” before “Regulatory Contract”;<sup>20</sup> (ii) amend “NASD” to the updated name “FINRA”;<sup>21</sup> (iii) replace “Association” with “FINRA”;<sup>22</sup> (iv) update certain incorrect cross-references to both FINRA and Nasdaq rule citations<sup>23</sup>; (v) add, remove, or modify rule text or punctuation in certain rules

<sup>19</sup> The Exchange notes that while FINRA recently “consolidate[d] its existing enforcement [sic] functions into a unified Department of Enforcement”, see Securities Exchange Act Release No. 83781 (August 6, 2018), 83 FR 39802 (August 10, 2018), it did not eliminate the Market Regulation Committee. See, e.g., FINRA Code of Procedure Rule 9120(u).

<sup>20</sup> See Nasdaq Current Rules 8001, 9001, 9120(f), and Proposed New Rules 9120(g), and 9120(u) and (v).

<sup>21</sup> See Nasdaq Current Rule 8110.

<sup>22</sup> See Nasdaq Current Rules 8210(a)(1), 9558(a)(2), and 9610(a).

<sup>23</sup> See Nasdaq Current Rules 9231(c), 9268(e)(2), 9269(d)(2), 9270(e), 9270(e)(2), 9270(f)(2), 9311(a), 9312(a)(3), 9331(a)(2), 9351(a), 9524(a)(1), 9524(b)(3), and 9559 (q)(1).

to conform the rule text of Nasdaq to Phlx;<sup>24</sup> (vi) include the phrase “or person” in various places throughout the rule to make it clear that inclusion of the person associated with a member is applicable;<sup>25</sup> (vii) relocate and/or renumber certain rules for ease of reference given other amendments described herein;<sup>26</sup> and (viii) correct a typographical error.<sup>27</sup>

#### 2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,<sup>28</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act,<sup>29</sup> in particular, in that it is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general to protect investors and the public interest. In addition, the Exchange believes that the proposed rule changes further the objectives of Section 6(b)(7) of the Act,<sup>30</sup> in particular, in that these changes provide for fair procedures for the disciplining of members and persons associated with members, the denial of membership to any person seeking membership therein, the barring of any person from becoming associated with a member thereof, and the prohibition or limitation by the Exchange of any person with respect to access to services offered by the Exchange or a member thereof.

In addition, the Exchange believes that the proposed rule changes are consistent with Section 6(b)(6) of the Act,<sup>31</sup> which requires the rules of an exchange provide that its members be appropriately disciplined for violations of the Act as well as the rules and regulations thereunder, or the rules of the Exchange, by expulsion, suspension, limitation of activities, functions, and operations, fine, censure, being suspended or barred from being associated with a member, or any other fitting sanction.

The Exchange believes that the proposed changes are consistent with these requirements because the changes

<sup>24</sup> See Nasdaq Current Rules IM-8310-3, 9211(a)(1)-(2), 9221(a)(1), 9231(b)(1), 9270(e)(2), 9270(f)(3), 9559(e), 9559(h)(2), and 9630(b).

<sup>25</sup> See Nasdaq Current Rules 9552(b), 9553(b), 9554(b), 9555(b).

<sup>26</sup> See Proposed New Rule 9212(a)(2), which relocates language from Current Rule 9212(a)(2)(A); and Proposed New Rule 9231(c), which relocates language from Current Rule 9231(c)(1).

<sup>27</sup> See Nasdaq Current Rules 9215(f) and 9523(a)(4).

<sup>28</sup> 15 U.S.C. 78f(b).

<sup>29</sup> 15 U.S.C. 78f(b)(5).

<sup>30</sup> 15 U.S.C. 78f(b)(7).

<sup>31</sup> 15 U.S.C. 78f(b)(6).

further harmonize Nasdaq’s investigative and adjudicatory processes with similar processes used by Phlx. The new processes are well-established as fair and designed to protect investors and the public interest. Because the Exchange is conforming the Nasdaq rule text to the Phlx rule text to eliminate any differences (except for those noted herein), the Exchange believes that the proposed changes should facilitate prompt, appropriate, and effective discipline of members and their associated persons consistent with the Act. The Exchange believes that adding references to the Nasdaq Regulation Department within the 8000 and 9000 Nasdaq Series rules as described in this proposal clarifies the involvement that Nasdaq Regulation plays in the investigation and enforcement of Nasdaq’s disciplinary rules. In addition, the Exchange believes that adding references to FINRA within the 8000 and 9000 Nasdaq Series rules as described in this proposal brings greater transparency to its rules and clarifies the process as it exists today. Today, FINRA is empowered to act on behalf of the Exchange.<sup>32</sup>

The Exchange believes that harmonizing the rule text of the investigative and adjudicatory processes with those of Phlx will reduce the burden on members and their associated persons as they only will need to be familiar with a single rule set going forward. Because the substance of the rules would remain unchanged, the Exchange believes that the proposed change would continue to provide fair procedures for the suspending and disciplining of members and associated persons, the denial of membership to any person seeking membership therein, the barring of any person from becoming associated with a member thereof, and the prohibition or limitation by the Exchange of any person with respect to access to services offered by the Exchange or a member thereof.

The Exchange’s proposal to replace the current rule text related to jurisdiction of Nasdaq to initiate disciplinary actions with text substantially similar to the Phlx’s jurisdiction rule text will permit the Exchange to initiate a disciplinary action beyond two years after the effective date of the member’s or associated person’s termination with the Exchange. This provision would not apply retroactively, but would permit the Exchange to bring actions after the effective date of termination, so long as the Exchange serves written notice within one year of receipt by the

<sup>32</sup> See Nasdaq Current Rule 8001.

Exchange of notice of such termination that the Exchange is making inquiry into a matter or matters which occurred prior to the termination of status as a member or associated person. The Exchange believes that this provision will provide the Exchange with the same latitude as Phlx to bring actions against its members and associated persons for violations of its rule. The Exchange believes that it is consistent with the Act to provide the Exchange with the ability to initiate violations for members and their associated persons for violations which took place while these members and associated persons were members of the Exchange. The rule change will better protect investors and the public interest by allowing actions to proceed that may otherwise have been time barred under the old rule.

The Exchange's proposal to amend the definition of Interested Staff will conform Nasdaq's definition to Phlx's definition, except insofar as Nasdaq's proposal omits references to FINRA's Department of Market Regulation for the reasons set forth in footnote 5 above. The Exchange believes that it is consistent with the Act because the definition better defines who falls within the category of Interested Staff without substantively amending the definition.

Removing the definition of Special Panelist is consistent with the Act because today Nasdaq Current Rules 9212(a)(2)(B) and 9231(b)(2) do not require a Chief Hearing Officer to utilize a Special Panelist. Further, FINRA has skilled panelists who, like the Special Panelists, are trained to handle matters involving the subject matters described in the Special Panelist definition, thus the reality of the panel selection and disciplinary processes today obviate the need for this rule.

Removing from the pool of panelists persons that served on the FINRA National Adjudicatory Council or on a disciplinary subcommittee of the FINRA National Adjudicatory Council prior to the date that Nasdaq commenced operating as a national securities exchange is consistent with the act because there currently exists a sufficient number of persons from whom a Chief Hearing Officer may select as a Panelist. This change, in addition to adding clarifying text to Current Rule 9231(b)(1)(E) (Proposed New Rule 9231(b)(1)(D)) to more clearly state who may serve on a Hearing Panel, thereby aligning the text with the text of the parallel BX and Phlx Rules, is also consistent with the Act because it creates a uniform pool from which Panelists may be selected across the Nasdaq, BX, and Phlx, thus removing

confusion that may result from having different pools of Panelists depending on the exchange.

Finally, making technical amendments in Nasdaq Current Rules 8001, 8110, 8210, IM-8310-3, 9001, 9120, 9211, 9212, 9221, 9231, 9268, 9269, 9270, 9311, 9312, 9331, 9351, 9524, 9552, 9553, 9554, 9555, 9556, 9558, 9559, 9610, and 9630 removes impediments to and perfects the mechanism of a free and open market by removing confusion that may result from having incorrect or incomplete material in the Exchange's rulebook.

The Exchange believes that its proposal furthers the objectives of Section 6(b)(7) of the Act,<sup>33</sup> in that it is designed to provide a fair procedure for the disciplining of members and persons associated with members, the denial of membership to any person seeking membership therein, the barring of any person from becoming associated with a member thereof, and the prohibition or limitation by the exchange of any person with respect to access to services offered by the exchange or a member thereof. Specifically, the Exchange believes that the proposed investigatory and disciplinary process is consistent with Section 6(b)(7) of the Act<sup>34</sup> because it is based on the existing processes used by Phlx.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. The proposed rule change is intended to more clearly align the text of Phlx's and the Exchange's rules. Specifically and as described in detail above, the Exchange believes that this change will bring efficiency and consistency to the investigatory and adjudicatory processes, thereby reducing the burden on members and their associated persons who are also members of Phlx.

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

No written comments were either solicited or received.

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

Because the foregoing proposed rule change does not: (i) Significantly affect

the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A)(iii) of the Act<sup>35</sup> and subparagraph (f)(6) of Rule 19b-4 thereunder.<sup>36</sup>

A proposed rule change filed under Rule 19b-4(f)(6)<sup>37</sup> normally does not become operative prior to 30 days after the date of the filing. However, pursuant to Rule 19b-4(f)(6)(iii),<sup>38</sup> the Commission may designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange has asked the Commission to waive the 30-day operative delay so the Exchange may immediately amend its disciplinary rules to conform to Phlx's disciplinary process. The Exchange states that the proposed amendment to expand its current jurisdiction will not apply retroactively and any complaints not filed within the existing two-year time period will be time-barred. The Exchange further states that its new jurisdiction rule will only apply to applicable members or associated persons who terminate their membership or association on October 15, 2018 or thereafter. The Commission believes that waiving the 30-day operative delay is consistent with the protection of investors and the public interest as it will allow Nasdaq to conform its disciplinary rules to those of Phlx. In addition, the proposal does not present any novel issues. Therefore, the Commission hereby waives the operative delay and designates the proposal as operative upon filing.<sup>39</sup>

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the

<sup>35</sup> 15 U.S.C. 78s(b)(3)(A)(iii).

<sup>36</sup> 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6) requires a self-regulatory organization to give the Commission written notice of its intent to file the proposed rule change at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.

<sup>37</sup> 17 CFR 240.19b-4(f)(6).

<sup>38</sup> 17 CFR 240.19b-4(f)(6)(iii).

<sup>39</sup> For purposes only of waiving the 30-day operative delay, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

<sup>33</sup> 15 U.S.C. 78f(b)(7).

<sup>34</sup> *Id.*

Commission shall institute proceedings to determine whether the proposed rule should be approved or 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-NASDAQ-2018-066 on the subject line.

##### *Paper Comments*

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

All submissions should refer to File Number SR-NASDAQ-2018-066. This file number should be included on the subject line if email is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street NE, Washington, DC 20549, on official business days between the hours of 10 a.m. and 3 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-NASDAQ-2018-066 and should be submitted on or before October 31, 2018.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>40</sup>

**Eduardo A. Aleman,**

*Assistant Secretary.*

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-84349; File No. SR-NYSE-2018-42]

### Self-Regulatory Organizations; New York Stock Exchange LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Amend Rule 7.14, Clearance and Settlement

October 3, 2018.

Pursuant to Section 19(b)(1)<sup>1</sup> of the Securities Exchange Act of 1934 ("Act")<sup>2</sup> and Rule 19b-4 thereunder,<sup>3</sup> notice is hereby given that on September 20, 2018, 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 Rule 7.14, Clearance and Settlement, to remove language that is inconsistent with the Exchange's Price List. The proposed rule change is available on the Exchange's website 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

The Exchange proposes to amend Rule 7.14, Clearance and Settlement, to remove language that was inadvertently included when the rule was first adopted and that is inconsistent with the Exchange's Price List. The Exchange adopted Rule 7.14 as part of a proposed rule change to adopt rules for trading UTP securities on Pillar, the Exchange's new trading technology platform.<sup>4</sup> Rule 7.14 was based on similar rules of its affiliate, NYSE Arca, Inc. ("NYSE Arca") Rule 7.14-E and adopted by the Exchange without any substantive differences.<sup>5</sup> Rule 7.14 applies only to trading in UTP Securities. Paragraph (c) of Rule 7.14 states that "[e]ach clearing firm must be admitted to the Exchange as a member organization by meeting the qualification requirements set forth in Rule 2." Paragraph (c) of Rule 7.14 also includes language that exempts clearing firms from paying the regular member organization fee<sup>6</sup> where that clearing firm became a member organization for the sole purpose of acting as a clearing firm on the Exchange. This language was inadvertently included when Rule 7.14 was adopted and is inconsistent with the Exchange's Price List, which does not include language exempting clearing only member organizations from the fee's application.<sup>7</sup> The Exchange notes that no such exemption exists in the Exchange's rule governing the trading of NYSE-listed securities. Therefore, the Exchange proposes to remove the following phrase from the first sentence of Exchange Rule 7.14(c): "provided, however, if the clearing firm has become a member organization for the sole purpose of acting as a clearing firm on the Exchange, such clearing firm need

<sup>4</sup> See Securities Exchange Act Release Nos. 76803; (December 30, 2015), 81 FR 536 (January 6, 2016) (SR-NYSE-2015-67); and 81225 (July 27, 2017), 82 FR 36033 (August 2, 2017) (SR-NYSE-2017-35).

<sup>5</sup> *Id.*

<sup>6</sup> The "regular membership organization fee" referred to in Exchange Rule 7.14(c) is referred to as a Trading Licenses fee in the Exchange's Price List.

<sup>7</sup> In accordance with the Price list, the Exchange charges all member organizations a Trading License fee on an annual basis. All member organizations with 10 or more trading licenses are charged a fee or \$50,000 for the first trading license held by the member organization unless they qualify for a reduced rate. See the Exchange's Price List on pages 33-34 available at [https://www.nyse.com/publicdocs/nyse/markets/nyse/NYSE\\_Price\\_List.pdf](https://www.nyse.com/publicdocs/nyse/markets/nyse/NYSE_Price_List.pdf) (dated September 4, 2018).

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

<sup>2</sup> 15 U.S.C. 78a.

<sup>3</sup> 17 CFR 240.19b-4.

<sup>40</sup> 17 CFR 200.30-3(a)(12).