SEcurities and Exchange COMMISSION


Self-Regulatory Organizations; Chicago Mercantile Exchange Inc.; Notice of Withdrawal of Proposed Rule Change Related to Clearing of Certain iTraxx Europe Index Untraded CDS Contracts on Indices Administered by Markit

November 18, 2014.

On August 11, 2014, Chicago Mercantile Exchange Inc. ("CME") filed with the Securities and Exchange Commission ("Commission"), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 1 and Rule 19b–4 thereunder, 2 a proposed rule change (SR–CME–2014–31) seeking to enable CME to offer clearing of certain iTraxx Europe index untraded CDS contracts on indices administered by Markit ("iTraxx Contracts"). Specifically, the proposed rule change would update CME's CDS Product Rules to provide for the clearing of the iTraxx Contracts. Notice of the proposed rule change was published in the Federal Register on August 18, 2014.3 Notice of Amendment No. 2 to the proposed rule change was published in the Federal Register on October 1, 2014.4 The Commission did not receive comments on the proposal.

On October 2, 2014, the Commission extended the time period in which to either approve the proposed rule change, disapprove the proposed rule change, or institute proceedings to determine whether to disapprove the proposed rule change to November 16, 2014.5 On November 14, 2014, CME withdrew the proposed rule change (SR–CME–2014–31).

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.6

Kevin M. O’Neill,
Deputy Secretary.

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SEcurities and Exchange COMMISSION


Self-Regulatory Organizations; Financial Industry Regulatory Authority, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change To Modify the Gross Income Assessment Pricing Structure

November 18, 2014.

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 November 7, 2014, 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. FINRA has designated the proposed rule change as "establishing or changing a due, fee or other charge" under Section 19(b)(3)(A)(ii) of the Act 3 and Rule 19b–4(f)(2) thereunder, 4 which renders the proposal effective upon receipt of this filing by the Commission. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

II. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

FINRA is proposing to modify the Gross Income Assessment pricing structure in Section 1(c) of Schedule A to the FINRA By-Laws. 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.

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taken in late 2008, particularly by the largest securities firms.

To ameliorate this vulnerability and smooth out the volatility inherent in the GIA, FINRA amended Schedule A to base the GIA on the greater of (1) the tier rate applied to a member’s annual gross revenue from the preceding calendar year (“current year GIA”) or (2) a three-year average of GIA to be calculated by adding the current year GIA to the GIA assessed on the member in the previous two calendar years and dividing by three (“averaged GIA”) (together “the reformulated calculation”). Thus, the change was intended to maintain the GIA rate structure, while building a buffer against industry downturns.

Accordingly, the proposed rule change was to minimize the impact gross revenue could have on the GIA in years 2012 through 2014, the firm would be assessed an amount based on the average GIA that is significantly greater than the current GIA calculation, despite declining or flattening revenues during those years. This is due to the knock-on effect that the higher GIA fee in 2011 has created on FINRA revenues of down years that intermittent significant year-to-year volatility in firm revenues in 2011 and 2012; in addition, the proposed rule change would eliminate the averaged GIA component of the assessment calculation where a firm’s prior year base the GIA on the greater of (1) the tier rate applied to a member’s annual gross revenue from the preceding calendar year (“current year GIA”) or (2) a three-year average of GIA to be calculated by adding the current year GIA to the GIA assessed on the member in the previous two calendar years and dividing by three (“averaged GIA”) (together “the reformulated calculation”). Thus, the change was intended to maintain the GIA rate structure, while building a buffer against industry downturns.

FINRA recognized this effect of the knock-on effect that the higher GIA fee in 2011 has created on FINRA revenues of down years that intermittent significant year-to-year volatility in firm revenues in 2011 and 2012; in addition, the proposed rule change would eliminate the averaged GIA component of the assessment calculation where a firm’s prior year base the GIA on the greater of (1) the tier rate applied to a member’s annual gross revenue from the preceding calendar year (“current year GIA”) or (2) a three-year average of GIA to be calculated by adding the current year GIA to the GIA assessed on the member in the previous two calendar years and dividing by three (“averaged GIA”) (together “the reformulated calculation”). Thus, the change was intended to maintain the GIA rate structure, while building a buffer against industry downturns.

FINRA has filed the proposed rule change for immediate effectiveness. While the reformulated calculation has been effective in stabilizing FINRA’s GIA revenues, an unanticipated impact of the new structure has been that firms can be locked in to a higher GIA as the result of a spike in gross revenue during a single year. The following example of a hypothetical Tier 2 firm illustrates the effect:

<table>
<thead>
<tr>
<th>Year</th>
<th>Prior year assessable gross FOCUS revenue</th>
<th>GIA based on prior year revenue only</th>
<th>GIA based reformulated calculation (current rule)</th>
<th>Variance in GIA fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>$4 million</td>
<td>$4,860</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>2009</td>
<td>$4 million</td>
<td>4,860</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>2010</td>
<td>$4 million</td>
<td>4,860</td>
<td>$4,860</td>
<td>$0</td>
</tr>
<tr>
<td>2011</td>
<td>$10 million</td>
<td>12,150</td>
<td>12,150</td>
<td>0</td>
</tr>
<tr>
<td>2012</td>
<td>$6 million</td>
<td>7,290</td>
<td>8,100</td>
<td>810</td>
</tr>
<tr>
<td>2013</td>
<td>$4 million</td>
<td>4,860</td>
<td>8,370</td>
<td>3,510</td>
</tr>
<tr>
<td>2014</td>
<td>$3 million</td>
<td>3,645</td>
<td>6,705</td>
<td>3,060</td>
</tr>
</tbody>
</table>

Thus, in years 2012 through 2014, the firm’s prior year gross revenue does not exceed $25 million; i.e., those firms that fall within the lowest two tiers. In those circumstances, the firm would be assessed the current year GIA. Based on 2013 FOCUS revenues, FINRA estimates that 87% (1,365) of the firms with revenues of $25 million or less would benefit from the pricing change. FINRA further estimates that the change would result in savings to those firms of approximately $3.5 million, or approximately 2.0% of total GIA revenue. FINRA found that the proposed assessment approach would have had similar impacts as applied to firm revenues in 2011 and 2012; in other words, the back tested impact is generally consistent for the past three years’ worth of FOCUS data for active firms. FINRA notes that no firms would be worse off due to the pricing change. Since the current reformulated calculation assesses the greater of current year GIA or averaged GIA, the firms that would benefit from the change are those firms that have been subject to the higher averaged GIA. The remaining firms have paid only the current year GIA, which would continue under the proposed rule change, even if their revenues decrease.

FINRA recognizes the effect that the knock-on effect that the higher GIA fee in 2011 has created on FINRA revenues of down years that intermittent significant year-to-year volatility in firm revenues in 2011 and 2012; in addition, the proposed rule change would eliminate the averaged GIA component of the assessment calculation where a firm’s prior year base the GIA on the greater of (1) the tier rate applied to a member’s annual gross revenue from the preceding calendar year (“current year GIA”) or (2) a three-year average of GIA to be calculated by adding the current year GIA to the GIA assessed on the member in the previous two calendar years and dividing by three (“averaged GIA”) (together “the reformulated calculation”). Thus, the change was intended to maintain the GIA rate structure, while building a buffer against industry downturns.

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with those firms that have only paid the current year GIA.

The GIA is predicated on the fact that larger firms individually require greater regulatory resources. The proposed rule change largely keeps in place a GIA pricing structure that, as the Commission noted in approving the reformulated calculation in SR–FINRA–2009–057, “is reasonable in that it achieves a generally equitable impact across FINRA’s membership and correlates the fees assessed to the regulatory services provided by FINRA.”

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. The proposed rule change would reduce the costs of approximately one-third of FINRA members. As described in Item I.A. above, FINRA considered various thresholds for applying the modified GIA pricing structure to strike the appropriate balance between providing limited relief to smaller firms negatively impacted by the current GIA calculation, while maintaining a pricing structure that adequately supports its regulatory programs and minimizes revenue volatility.

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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A) of the Act 11 and paragraph (f)(2) of Rule 19b–4 thereunder. 12 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 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. Please include File Number SR–FINRA–2014–046 on the subject line.

Paper Comments
• Send paper comments in triplicate to Brent J. Fields, Secretary, Securities and Exchange Commission, 100 F Street NE., Washington, DC 20549.

All submissions should refer to File Number SR–FINRA–2014–046. 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–2014–046 and should be submitted on or before December 15, 2014.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority. 13

Kevin M. O’Neill, Deputy Secretary.
[PR Doc. 2014–27708 Filed 11–21–14; 8:45 am]

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SECURITIES AND EXCHANGE COMMISSION


Self-Regulatory Organizations; Financial Industry Regulatory Authority, Inc.; Notice of Filing of a Proposed Rule Change To Adopt FINRA Rule 2241 (Research Analysts and Research Reports) in the Consolidated FINRA Rulebook

November 18, 2014.

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 November 14, 2014, 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 Substance of the Proposed Rule Change

FINRA is proposing to adopt NASD Rule 2711 (Research Analysts and Research Reports) as a FINRA rule, with several modifications. The proposed rule change also would amend NASD Rule 1050 (Registration of Research Analysts) and Incorporated NYSE Rule 344 to create an exception from the research analyst qualification requirement. The proposed rule change would renumber NASD Rule 2711 as FINRA Rule 2241 in the consolidated FINRA rulebook.

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.

10 See supra note 9.