FINRA qualification examinations are not designed to provide information beyond demonstration of basic proficiency. For these reasons, comparisons of test scores across candidates may not be appropriate.12

Nevertheless, to the extent that test scores are used by individuals and others today, restricting the information may impose certain costs. For individuals, these costs can vary from time and effort to differentiate themselves to direct monetary costs if a test score would have improved their compensation or position. Regardless of its predictive ability, where parties today rely on the details of passing scores to make decisions and would make a different judgment in the absence of such information, the change may result in an economic transfer away from high-scoring individuals towards others.

Impact on Other Users of the Information

The economic impact to others is fundamentally related to the extent to which candidates share passing score information with current or prospective employers and the reliability of such scores as a signal in the contexts for which they are being used.

In situations where passing scores are misleading and cause users to make inefficient or ineffective decisions, the elimination of this information may lead to benefits through better decision making. In situations where passing scores are not misleading but are uninformative, they add noise to the decision-making process. However, noisy information should not cause consistent bias in the aggregate. Finally, in situations where passing scores are viewed as providing valuable information in decision making, the elimination of this information may result in the need for an alternative process and, in turn, result in additional costs.

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 and paragraph (f)(1) of Rule 19b–4 thereunder. 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–2018–036 on the subject line.

Paper Comments

• Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street NE, Washington, DC 20549–1990. All submissions should refer to File Number SR–FINRA–2018–036 on the subject line.

SECURITIES AND EXCHANGE COMMISSION


Self-Regulatory Organizations; Financial Industry Regulatory Authority, Inc.; Order Approving Proposed Rule Change to FINRA Rule 6710 To Modify the Dissemination Protocols for Agency Debt Securities

October 5, 2018.

I. Introduction

On August 16, 2018, the Financial Industry Regulatory Authority, Inc. (“FINRA”) filed with the Securities and Exchange Commission (“Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)1 and Rule 19b–4 thereunder, a proposed rule change to modify the dissemination protocols for Agency Debt Securities. The proposed rule change was published for comment in the Federal Register on August 23, 2018.2 The Commission received no comment letters on the proposed rule change.
change. This order approves the proposed rule change.

II. Description of the Proposal

Under FINRA’s rules, each member firm is required to report to the Trade Reporting and Compliance Engine (“TRACE”) transactions in TRACE-Eligible Securities,4 including securities that meet the definition of “Agency Debt Security.”5 Currently, for disseminated reports of transactions in Agency Debt Securities, FINRA displays either the entire notional size (volume) of the transaction or a capped amount, depending on whether the security is Investment Grade,6 Non-Investment Grade,7 or unrated.8 For Agency Debt Securities that are Investment Grade or unrated, FINRA disseminates the entire notional size for transactions of $5 million or less in par value traded, but a capped amount—“$5MM+”—for transactions exceeding $5 million in par value traded; for transactions in Agency Debt Securities that are Non-Investment Grade, FINRA disseminates the entire notional size for transactions of $1 million or less in par value traded but a capped amount—“$1MM+”—for transactions exceeding $1 million in par value traded.9

FINRA has proposed to apply the $5 million dissemination cap to transactions in all Agency Debt Securities, regardless of whether the security is Investment Grade, Non-Investment Grade, or unrated. FINRA has stated that, when adopting the original dissemination caps for Agency Debt Securities, it believed that unrated Agency Debt Securities should default to the $5 million dissemination cap due to factors such as that they trade more consistently with Investment Grade securities that are subject to the $5 million dissemination cap.10 FINRA has further stated that it is not aware of the existence of any Non-Investment Grade Agency Debt Securities other than credit risk transfer securities (“CRTs”), a type of Agency Debt Security issued by Fannie Mae (“Fannie”) and Freddie Mac (“Freddie”).11 Based on FINRA’s experience with CRTs and in consultation with Fannie and Freddie, FINRA believes that it is appropriate to disseminate Non-Investment Grade CRTs with the $5 million dissemination cap. Because CRTs are the only type of Agency Debt Security rated less than Investment Grade, FINRA is proposing to simplify the dissemination structure by applying the $5 million cap to all Agency Debt Securities irrespective of rating.12

FINRA has stated that it will announce the effective date of the rule change in a Regulatory Notice to be published no later than 60 days following a Commission approval, and the effective date will be no later than 120 days following publication of that Regulatory Notice.13

III. Discussion and Commission Findings

After careful consideration, the Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities association.14 In particular, the Commission finds that the proposed rule change is consistent with Section 15A(b)(6) of the Act,15 which requires, among other things, that FINRA rules 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. The Commission believes that the proposal is reasonably designed to simplify the dissemination protocols for transactions in Agency Debt Securities by instituting a uniform $5 million dissemination cap, regardless of whether the security is Investment Grade, Non-Investment Grade, or unrated. The Commission received no comments that objected to the proposed rule change and notes that FINRA consulted with Fannie and Freddie before submitting the proposal.

Pursuant to Section 19(b)(5) of the Act,16 the Commission consulted with and considered the views of the Treasury Department in determining to approve the proposed rule change. The Treasury Department indicated its support for the proposal.17 Pursuant to Section 19(b)(6) of the Act,18 the Commission has considered the sufficiency and appropriateness of existing laws and rules applicable to government securities brokers, government securities dealers, and their associated persons in approving the proposal. As discussed above, by applying the $5 million dissemination cap to all Agency Debt Securities regardless of rating, the rule change will simplify the dissemination protocols for transactions in Agency Debt Securities.

IV. Conclusion

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,19 that the proposed rule change (SR–FINRA–2018–032) is approved.
For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.20
Eduardo A. Aleman, Assistant Secretary.

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SECURITIES AND EXCHANGE COMMISSION


Self-Regulatory Organizations; NYSE Arca, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating To Listing and Trading of Shares of the First Trust Short Duration Managed Municipal ETF Under NYSE Arca Rule 8.600–E

October 5, 2018.

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 October 3, 2018, 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 and II 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 list and trade shares of the First Trust Short Duration Managed Municipal ETF under NYSE Arca Rule 8.600–E (“Managed Fund Shares”). The proposed rule change is available on the Exchange’s website 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 sections 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 list and trade shares (“Shares”) of the First Trust Short Duration Managed Municipal ETF (“Fund”) under NYSE Arca Rule 8.600–E, which governs the listing and trading of Managed Fund Shares.5 The Shares will be offered by First Trust Exchange-Traded Fund III (the “Trust”), which is registered with the Commission as an open-end management investment company.6 The Fund is a series of the Trust.


A Managed Fund Share is a security that represents an investment in an investment company registered under the Investment Company Act of 1940 (15 U.S.C. 80a–1) (“1940 Act”) organized as an open-end investment company or similar entity that invests in a portfolio of securities selected by its investment adviser consistent with its investment objectives and policies. In contrast, an open-end investment company that issues Investment Company Units, listed and traded on the Exchange under NYSE Arca Rule 5.2–E(iii), seeks to provide investment results that correspond generally to the price and yield performance of a specific foreign or domestic stock index, fixed income securities index or combination thereof.

The Trust is registered under the 1940 Act. On August 17, 2018, the Trust filed with the Commission its registration statement on Form N–1A under the Securities Act of 1933 (15 U.S.C. 77a) (“Securities Act”), and under the 1940 Act relating to the Fund (File Nos. 333–176976 and 811–22245).

First Trust Advisors L.P. will be the Fund’s investment adviser (“Adviser”). First Trust Portfolios L.P. will be the Fund’s distributor. Brown Brothers Harriman & Co. will serve as custodian (“Custodian”) and transfer agent (“Transfer Agent”) for the Fund.

Commentary .06 to Rule 8.600–E provides that, if the investment adviser to the investment company issuing Managed Fund Shares is affiliated with a broker-dealer, such investment adviser shall erect and maintain a “fire wall” between the investment adviser and the broker-dealer with respect to access to information concerning the composition and/or changes to such investment company portfolio.7 In addition, Commentary .06 further requires that personnel who make decisions on the open-end fund’s portfolio composition must be subject to procedures designed to prevent the use and dissemination of material nonpublic information regarding the open-end fund’s portfolio.

The Adviser is not registered as a broker-dealer but is affiliated with a broker-dealer, and hence has implemented and will maintain a “fire wall” with respect to such broker-dealer affiliate regarding access to information concerning the composition of and/or changes to the Fund’s portfolio. In addition, personnel who make decisions on the Fund’s portfolio composition must be subject to procedures designed to prevent the use and dissemination of material, non-public information.

(``Registration Statement’’). The description of the operation of the Trust and the Fund herein is based, in part, on the Registration Statement. In addition, the Commission has issued an order granting certain exemptive relief to the Trust under the 1940 Act. See Investment Company Act Release No. 30029 (April 10, 2012) (File No. 812–13795) (“Exemptive Order”).

An investment adviser to an open-end fund is required to be registered under the Investment Advisers Act of 1940 (the “Advisers Act”). As a result, the Adviser and its related personnel are subject to the provisions of Rule 204A–1 under the Advisers Act relating to codes of ethics. This Rule requires investment advisers to adopt a code of ethics that reflects the fiduciary nature of the relationship to clients as well as compliance with other applicable securities laws. Accordingly, procedures designed to prevent the communication and misuse of non-public information by an investment adviser must be consistent with Rule 204A–1 under the Advisers Act. In addition, Rule 206(4)–7 under the Advisers Act makes it unlawful for an investment adviser to provide investment advice to clients unless such investment adviser has (i) adopted and implemented written policies and procedures reasonably designed to prevent violation, by the investment adviser and its supervised persons, of the Advisers Act and the Commission rules adopted thereunder; (ii) disclosed and the effectiveness of their implementation; and (iii) designated an individual (who is a supervised person) responsible for administering the policies and procedures adopted under subparagraph (i) above.

5 The Trust is registered under the 1940 Act. On August 17, 2018, the Fund filed with the Commission its registration statement on Form N–1A under the Securities Act of 1933 (15 U.S.C. 77a) (“Securities Act”), and under the 1940 Act relating to the Fund (File Nos. 333–176976 and 811–22245).