SECURITIES OPERATIONS

REGULATORY UPDATE

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IN THIS ISSUE

SEC GRANTS REGISTRATION OF DEMOTECH INC. AS A NRSRO

On July 11, 2022, the U.S. Securities and Exchange Commission ("SEC" or "Commission") announced Demotech, Inc. as a nationally recognized statistical rating organization ("NRSRO") under Section 15E of the Securities Exchange Act of 1934 ("Exchange Act") for the class of credit ratings described under clause (ii) of Section 3(a)(62)(A) of the Exchange Act.

Information Notice or SEC Announcement: https://www.sec.gov/rules/other/2022/34-95243.pdf

SEC UPDATES EDGAR FILER MANUAL

On July 13, 2022, the SEC announced the adoption of amendments to Volume II of the Electronic Data Gathering, Analysis, and Retrieval system ("EDGAR") Filer Manual ("Filer Manual") and related rules and forms effective July 19, 2022. EDGAR was updated in Releases 22.1.1, 22.1.2 and 22.2, and the corresponding amendments to Volume II of the Filer Manual are being made to reflect these changes. Along with the adoption of the updated Filer Manual, amendments to Rule 301 of Regulation S-T were made to provide for the incorporation by reference into the Code of Federal Regulations. The updated EDGAR Filer Manual is available at https://www.sec.gov/edgar/filer-information/current-edgar-filer-manual.

Final Rule: https://www.sec.gov/rules/final/2022/33-11082.pdf

SEC ADOPTS AMENDMENTS TO PROXY RULES GOVERNING PROXY VOTING ADVICE

On July 13, 2022, the SEC announced adoption of amendments to its rules governing proxy voting advice proposed in November 2021 as part of a reassessment of revisions made to those rules in 2020 and in light of public feedback. The final amendments rescind revisions made to two rules applicable to proxy voting advice businesses that the SEC adopted in 2020, including changes made to the proxy rules' liability provision, and rescinded certain guidance the Commission issued to investment advisers about their proxy voting obligations. Specifically, the final amendments rescind conditions to the availability of two exemptions from the proxy rules' information and filing requirements on which proxy voting advice businesses often rely. Those conditions require that: (1) registrants that are the subject of proxy voting advice have such advice made available to them in a timely manner; and (2) clients of proxy voting advice businesses are provided with a means of becoming aware of any written responses by registrants to proxy voting advice. Institutional investors and other clients of proxy voting advice businesses continued to express concerns that these conditions could impose increased compliance costs on proxy voting advice businesses and impair the independence and timeliness of their proxy voting advice. The amendments also address misperceptions about liability standards applicable to proxy voting advice. The amendments remove a note added in 2020 that provides examples of material misstatements or omissions in proxy voting advice that may be considered misleading within the meaning of the proxy rules. The amendments and the rescission of the guidance are effective September 19, 2022.

Final Rule: https://www.sec.gov/rules/final/2022/34-95266.pdf
Fact Sheet: https://www.sec.gov/files/34-95266-fact-sheet.pdf
Press Release: https://www.sec.gov/news/press-release/2022-120

SEC PROPOSES AMENDMENTS TO SHAREHOLDER PROPOSAL RULE

On July 13, 2022, the SEC proposed amendments to Rule 14a-8 of the Exchange Act that governs the process for including shareholder proposals in a company's proxy statement. Under Rule 14a-8, companies generally must include shareholder proposals in their proxy statements. The Rule, however, provides several bases for exclusion, including several substantive requirements that proposals must comply with to avoid exclusion. The proposed amendments would revise three of the bases for exclusion to provide additional clarity and promote more consistency and predictability in application. The proposed amendments would amend the language of i) the substantial implementation exclusion to clarify the exclusion applies when "the company has already implemented the essential elements of the proposal", ii) the substantial duplication exclusion to note its applicability when the shareholder proposal "addresses the same subject matter and seeks the same objective by the same means" as another proposal, and iii) the resubmission exclusion to clarify a proposal constitutes a resubmission if it "substantially duplicates" a prior proposal, aligning the "resubmission" standard under Rule 14a-8(i)(12) with the "duplication" standard under Rule 14a-8(i)(11).

Proposed Rule: https://www.sec.gov/rules/proposed/2022/34-95267.pdf
Comments Due: September 12, 2022
Fact Sheet: https://www.sec.gov/files/34-95267-fact-sheet.pdf
Press Release: https://www.sec.gov/news/press-release/2022-121

NEW SEC COMMISSIONERS

On July 18, 2022, the SEC announced Jaime Lizárraga had been sworn into office as a Commissioner. Commissioner Lizárraga most recently served as Senior Advisor to House Speaker Nancy Pelosi. In that role, Commissioner Lizárraga oversaw issues related to financial markets, small business, international finance and immigration. Commissioner Lizárraga fills a term that expires on June 5, 2027. Previously, on June 30, 2022, the SEC announced Mark T. Uyeda had also been sworn into office as a Commissioner. Commissioner Uyeda had served on the staff of the SEC since 2006, including as Senior Advisor to Chairman Jay Clayton, Senior Advisor to Acting Chairman Michael S. Piwowar, Counsel to Commissioner Paul S. Atkins, and various staff positions in the Division of Investment Management. He most recently served on detail from the SEC to the Senate Committee on Banking, Housing and Urban Affairs as a securities counsel to the committee's minority staff. Commissioner Uyeda fills a term that expires on June 5, 2023. Both Commissioners were confirmed by the U.S. Senate on June 16.

Press Release for Commissioner Lizárraga: https://www.sec.gov/news/press-release/2022-123
Press Release for Commissioner Uyeda: https://www.sec.gov/news/press-release/2022-118

FINRA AMENDMENT TO ENHANCE TRACE REPORTING OBLIGATIONS GRANTED LONGER ACTION PERIOD

On July 13, 2022, the SEC designated a longer period for Commission action on proceedings to determine to approve or disapprove a Financial Industry Regulatory Authority, Inc. ("FINRA") proposal to amend Rule 6730 to enhance Trade Reporting and Compliance Engine ("TRACE") reporting obligations for U.S. Treasury Securities. The proposed rule change was published for comment in the Federal Register on June 3, 2022. The Commission designates September 1, 2022 as the date by which the Commission shall approve or disapprove, or institute proceedings to determine whether to disapprove, the proposed rule change (File No. SR-FINRA-2022-013) to consider the proposed rule change and the comments received.

Notice Release: https://www.sec.gov/rules/sro/finra/2022/34-95270.pdf

FINRA EXTENDS PILOT PROGRAM RELATED TO RULE 11892

On July 19, 2022, the SEC published for comment a FINRA proposal, effective upon filling, to extend the current pilot program related to FINRA Rule 11892 (Clearly Erroneous Transactions in Exchange-Listed Securities) ("Clearly Erroneous Transaction Pilot" or "Pilot") until October 20, 2022. Further extending the Pilot allows market participants to continue to benefit from the more objective clearly erroneous transaction standards under the Pilot and provide FINRA and the national securities exchanges additional time to consider a permanent proposal for clearly erroneous transaction reviews.

Notice Release: https://www.sec.gov/rules/sro/finra/2022/34-95322.pdf
Comments Due: August 15, 2022

FINRA NOTICE OF ANNUAL MEETING OF FIRMS AND ELECTION PROXY

On July 20, 2022, FINRA published an Election Notice that it will conduct its Annual Meeting of firms on Friday, August 19, 2022, at 10:00 a.m. Eastern Time in the FINRA Visitors Center at 1735 K Street, NW, Washington, D.C. The purpose of the meeting is to elect an individual to fill one small firm seat on the FINRA Board of Governors. FINRA firms are eligible to vote for the candidates in the same size category as their own firm. Therefore, small firms that were members of FINRA as of the close of business on Tuesday, July 19, 2022 (the Annual Meeting record date), are eligible to vote. All eligible small firms may be represented by proxy or in person at the Annual Meeting. Firms are urged to submit a proxy using one of the methods described in the Notice.

Election Notice: https://www.finra.org/rules-guidance/notices/election-notice-072022

NASDAQ EXTENDS IMPLEMENTATION DATE OF POST-TRADE RISK MANAGEMENT PRODUCT

On July 7, 2022, the SEC published for comment a Nasdaq Stock Market LLC ("Nasdaq") proposal, effective upon filling, to extend the implementation date of its Post-Trade Risk Management product to Q4 2022. Nasdaq proposed to enhance its connectivity, surveillance and risk management services by launching three re-platformed products: (i) WorkX, (ii) Real-Time Stats and (iii) Post-Trade Risk Management. These changes were filed by Nasdaq on April 20, 2021 and published in the Federal Register on May 7, 2021. Due to continued reprioritization of the Nasdaq product pipeline, Nasdaq is further delaying the implementation of the Post-Trade Risk Management product and will announce the new implementation date in an Equity Trader Alert at least 10 days in advance of the implementation date.

Notice Release: https://www.sec.gov/rules/sro/nasdaq/2022/34-95216.pdf

PROCEEDINGS INSTITUTED FOR PROPOSED CHANGE TO NASDAQ PRICING LIMITATIONS

On July 7, 2022, the SEC published an order instituting proceedings to determine whether to approve or disapprove a Nasdaq-proposed rule change to modify certain pricing limitations for companies listing in connection with a direct listing with a primary offering in which the company will sell shares itself in the opening auction on the first day of trading on Nasdaq. The original proposed rule change was published for comment in the Federal Register on April 8, 2022. On May 19, 2022, the Commission designated a longer period within 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. On May 23, 2022, Nasdaq filed Amendment No. 1 to the proposed rule change, which superseded the proposed rule change as originally filed. The Commission received no comments on the proposal. The Commission provided notice of the grounds for disapproval under consideration. Currently, in the case of a Direct Listing with a Capital Raise, Nasdaq will release the security for trading on the first day of listing if, among other things, the actual price calculated by the Nasdaq Halt Cross is at or above the lowest price and at or below the highest price of the price range established by the issuer in its effective registration statement (the "Pricing Range Limitation"). Nasdaq proposed to modify the Pricing Range Limitation to provide that Nasdaq would release the security for trading if: (a) the actual price calculated by the Nasdaq Halt Cross is at or above the price that is 20% below the lowest price of the disclosed price range; or (b) the actual price calculated by the Nasdaq Halt Cross is at a price above the highest price of such price range. Nasdaq would calculate the 20% threshold below the disclosed price range based on the maximum offering price set forth in the registration fee table in the company's effective registration statement, which Nasdaq argues is consistent with the instruction to paragraph (a) of Rule 430A of the Securities Act of 1933. Nasdaq has also proposed to make related conforming changes.

Notice Release: https://www.sec.gov/rules/sro/nasdaq/2022/34-95220.pdf
Rebuttal Comments Due: August 17, 2022

NASDAQ AMENDS ITS SCHEDULE OF CREDITS AT EQUITY 7

On July 11, 2022, the SEC published for comment a Nasdaq proposal, effective upon filling, to amend its schedule of credits, at Equity 7, Section 118(a)(1). Currently, Nasdaq provides a $0.0018 per share executed credit for securities in Tape C for members meeting certain conditions. Nasdaq offered this credit as a means of improving market quality by providing its members with an incentive to increase liquidity on Nasdaq, however, it has been observed that this credit has not been successful in accomplishing its objective. The elimination of this credit will permit Nasdaq to allocate its incentive resources more effectively.

Notice Release: https://www.sec.gov/rules/sro/nasdaq/2022/34-95226.pdf
Comments Due: August 5, 2022

NASDAQ AMENDS CERTAIN NOM MARKET MAKER NON-PENNY DISCOUNTS IN OPTIONS 7

On July 15, 2022, the SEC published for comment a Nasdaq proposal, effective upon filling, to amend the Pricing Schedule at Options 7, Section 2(1), which governs pricing for Nasdaq participants using The Nasdaq Options Market ("NOM"), Nasdaq's facility for executing and routing standardized equity and index options. Currently, Nasdaq assesses NOM Market Makers a $0.35 per contract fee to add liquidity in non-penny symbols, with qualifying participants offered an opportunity to reduce the fee or earn a rebate if they meet the volume-based requirements under note 5. Current average daily volume thresholds in note 5 are replaced with new thresholds based on a percentage of total industry volume and provide for either free executions or a rebate if a certain percentage of NOM Market Maker liquidity is added in non-penny symbols. Only the volume requirements for the note 5 incentives are amended, not the related fees or rebates. Nasdaq notes that the new volume requirements are more stringent to align with the increasing participant activity on Nasdaq over time.

Notice Release: https://www.sec.gov/rules/sro/nasdaq/2022/34-95300.pdf
Comments Due: August 11, 2022

NASDAQ EXTENDS PILOT PROGRAM RELATED TO CLEARLY ERRONEOUS TRANSACTIONS

On July 20, 2022, the SEC published for comment a Nasdaq proposal, effective upon filling, to extend the current pilot program related to Equity 11, Rule 11890, Clearly Erroneous Transactions, to the close of business on October 20, 2022. The pilot program was due to expire on July 20, 2022. Extending the effectiveness of Rule 11890 for an additional three months will provide Nasdaq and other self-regulatory organizations additional time to consider whether further amendments to the clearly erroneous execution rules are appropriate.

Notice Release: https://www.sec.gov/rules/sro/nasdaq/2022/34-95329.pdf
Comments Due: August 16, 2022

PROCEEDINGS INSTITUTED FOR PROPOSAL TO NYSE PRICING LIMITATIONS RELATED TO PRIMARY DIRECT FLOOR LISTING

On July 18, 2022, the SEC published an order instituting proceedings to determine whether to approve or disapprove the New York Stock Exchange LLC ("NYSE") proposal to modify certain pricing limitations for securities listed on NYSE pursuant to a direct listing with a primary offering in which the company will sell shares itself in the opening auction on the first day of trading on NYSE. The proposed rule change was published for comment in the Federal Register on April 19, 2022. On May 26, 2022, the Commission designated a longer period within 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. The Commission received one comment on the proposal. The SEC is providing notice of the grounds for disapproval under consideration and is instituting proceedings to allow for additional analysis and input concerning the proposed rule change's consistency with the Exchange Act and, in particular, with Section 6(b)(5) of the Exchange Act. The Commission seeks additional consideration and comment to determine whether the proposal should be approved or disapproved.

Notice Release: https://www.sec.gov/rules/sro/nyse/2022/34-95312.pdf
Comments Due: August 12, 2022
Rebuttal Comments Due: August 26, 2022

NYSE AMENDMENT TO RULE 7.35B RELATED TO THE CLOSING AUCTION AND CONFORMING CHANGES

On July 22, 2022, the SEC published for comment a NYSE proposal to (1) amend Rule 7.35B (Designated Market Marker ("DMM")-Facilitated Closing Auctions) relating to the Closing Auction, and (2) make certain conforming and non-substantive changes to Rule 7.31 (Orders and Modifiers), Rule 7.35, Rule 7.35B and Rule 104 (Dealings and Responsibilities of DMMs). NYSE proposes to amend Rule 7.35B to modify how the Closing Auction Price would be determined by adding price parameters within which the DMM must select a Closing Auction Price. The proposed pricing parameters would be based on non-DMM interest eligible to participate in the Closing Auction that was included in the last-published Auction Imbalance Information. NYSE also proposes to modify how the DMM would participate in the Closing Auction by cancelling any resting DMM Orders at the end of Core Trading Hours but does not propose to change the DMMs' Rule 104 obligation to facilitate the Closing Auction, including the obligation to supply liquidity as needed. NYSE proposes to amend Rule 104 to eliminate obsolete rule text, update rule references, and make other conforming changes to Rule 7.31 and Rule 104. The non-substantive amendments to Rule 104 would be operative immediately upon approval of this proposed rule change. Because of the technology changes associated with the amendments to Rule 7.35B, NYSE proposes that, subject to approval, the associated implementation date of the remaining proposed rule changes will be announced by Trader Update. Subject to approval, NYSE anticipates that such changes will be implemented in the fourth quarter of 2022.

Notice Release: https://www.sec.gov/rules/sro/nyse/2022/34-95354.pdf
Comments Due: August 18, 2022

NYSE AND NYSE AMERICAN MODIFY RULES 7.31 AND 7.31E

On July 7, 2022, and July 13, 2022, the SEC published for comment proposals by the NYSE and NYSE American LLC ("NYSE American") (collectively "the NYSE Exchanges"), effective upon filing, to modify Rules 7.31 and 7.31E (Orders and Modifiers), respectively. The NYSE Exchanges modified Rules 7.31 and 7.31E to (1) permit certain non-routable order types to be designated to cancel if they would be displayed at a price other than their limit price (NYSE and NYSE American); (2) allow Add Liquidity Only ("ALO") Orders to be designated as non-displayed (NYSE and NYSE American); (3) permit ALO Orders to be entered in any size (NYSE and NYSE American); (4) introduce the Non-Display Remove and Proactive if Locked/Crossed Modifiers (NYSE) and modify the operation of the Non-Display Remove Modifier and eliminate its use with Midpoint Passive Liquidity ("MPL")-ALO Orders (NYSE American); and (5) make MPL Orders eligible to trade at their limit price (NYSE) and make MPL Orders eligible to trade at their limit price and eliminate the "No Midpoint Execution" Modifier (NYSE American). Because of the technology changes associated with these rule changes, the NYSE Exchanges will announce the implementation date by Trader Update, which will be in the third quarter of 2022.

NYSE Notice Release: https://www.sec.gov/rules/sro/nyse/2022/34-95209.pdf
NYSE American Notice Release: https://www.sec.gov/rules/sro/nyseamer/2022/34-95269.pdf
Comments Due: August 9, 2022

NYSE AND NYSE AMERICAN EXTEND PILOT PROGRAMS RELATED TO CLEARLY ERRONEOUS TRANSACTIONS

On July 18, 2022, the SEC published for comment NYSE and NYSE American proposals, effective upon filling, to extend the current pilot programs related to Rules 7.10 and 7.10E (Clearly Erroneous Executions), respectively, to the close of business on October 20, 2022. The pilot programs are currently due to expire on July 20, 2022. Extending the pilot programs provides NYSE, NYSE American, and other self-regulatory organizations additional time to consider whether further amendments to the clearly erroneous execution rules are appropriate.

NYSE Notice Release: https://www.sec.gov/rules/sro/nyse/2022/34-95301.pdf
Comments Due: August 12, 2022
NYSE American Notice Release: https://www.sec.gov/rules/sro/nyseamer/2022/34-95302.pdf
Comments Due: August 12, 2022

NYSE AND NYSE AMERICAN AMEND COLOCATION PRICE LISTS

On July 20, 2022, the SEC published for comment NYSE and NYSE American proposals, effective upon filling, to amend their Price Lists related to colocation to specify that the National Market System ("NMS") feeds that are included in the Included Data Products are no longer available over the Liquidity Center Network ("LCN"). The NYSE Exchanges are in the process of transitioning all remaining users who receive the NMS feeds over the LCN to begin receiving the feeds over NMS network connections at no additional charge, expect the transition process to be completed before October 2022, and will implement the rule change by Customer Notice.

NYSE Notice Release: https://www.sec.gov/rules/sro/nyse/2022/34-95337.pdf
Comments Due: August 16, 2022
NYSE American Notice Release: https://www.sec.gov/rules/sro/nyseamer/2022/34-95338.pdf
Comments Due: August 16, 2022

NYSE AMERICAN AMENDS RULE 952NY

On July 15, 2022, the SEC published for comment a NYSE American proposal, effective upon filling, to amend Rule 952NY (Opening Process) regarding the option for Available to Promise ("ATP") Holders to instruct NYSE American to cancel Marketable orders if a series is not opened within a specified time period to exclude Good-Til-Cancelled ("GTC") Orders. This does not mean, however, that such orders cannot be cancelled if a series has not opened per Rule 952NY(d). Rather, ATP Holders (whether they utilize this optional "bulk" cancel functionality or not) would still have the option to submit specific requests to cancel certain (or all) of its GTC Orders themselves if a series has not opened on NYSE American per Rule 952NY(d). NYSE American will announce via Trader Update when this proposed rule change will be implemented, which NYSE American anticipates will be in early August 2022, but no later than September 2022.

Notice Release: https://www.sec.gov/rules/sro/nyseamer/2022/34-95296.pdf
Comments Due: August 11, 2022

OCC MARGIN METHODOLOGY RELATED TO VOLATILITY APPROVED

On July 19, 2022, the SEC published an order approving the Options Clearing Corporation ("OCC") proposed rule change concerning the OCC's margin methodology for incorporating variations in implied volatility. Specifically, the OCC proposed to change three quantitative models related to certain volatility products: implement a new model for incorporating variations in implied volatility within OCC's methodology for calculating margin for products based on the S&P 500 Index; implement a new model to margin futures on volatility indexes; and replace OCC's model for margining variance futures. The changes to OCC's models are a continuation of volatility model changes that OCC has implemented over the past several years.

Approval Order: https://www.sec.gov/rules/sro/occ/2022/34-95319.pdf

MSRB AMENDMENTS TO RULE G-34 TO BETTER ALIGN CUSIP REQUIREMENTS WITH CURRENT MARKET PRACTICES

On July 7, 2022, the SEC published for comment a Municipal Securities Rulemaking Board ("MSRB") proposal to make amendments to MSRB Rule G-34 on CUSIP numbers, new issue, and market information requirements. The proposed rule change would make minor amendments to better align Rule G-34's requirements for obtaining CUSIP numbers with the process followed by market participants and facilitate compliance with MSRB Rule G-34 by streamlining the rule text. The MSRB amendments propose the four following changes: (1) to specify that CUSIP applications must be made to the Board's designee (and not the Board itself); (2) to remove the obligation for municipal advisors providing advice with respect to a competitive offering to apply for the CUSIP number by no later than one business day after dissemination of a notice of sale in favor of a more flexible standard that still obligates the application to be made within sufficient time to ensure timely CUSIP number assignment; (3) to remove language dictating the precise content of a CUSIP number application that the Board feels would more appropriately be left to the Board's designee for receiving and reviewing such applications; and (4) to explicitly provide that certain obligations set forth in the rule do not apply when CUSIP numbers have been preassigned. If the Commission approves the proposed rule change, the MSRB will publish a Notice announcing the effective date of the proposed rule change no later than 10 days following Commission approval and will be no later than 30 days following Commission approval.

Notice Release: https://www.sec.gov/rules/sro/msrb/2022/34-95208.pdf

DTC AMENDS THE REORGANIZATIONS SERVICE GUIDE

On July 5, 2022, the SEC published for comment a Depository Trust Company ("DTC") proposal to amend the Reorganizations Service Guide to provide participants with the option to submit voluntary reorganizations instructions via Application Program Interface and ISO 20022 real-time messaging (collectively, "Automated Instruction Messaging") for Automated Subscription Offer Program ("ASOP")-eligible offers (each, an "ASOP Offer") and for Automated Puts System ("APUT")-eligible offers (each, an "APUT Offer"), and to make technical and ministerial changes to the Guide. DTC has not received or solicited any written comments relating to this proposal. If any written comments are received, they would be publicly filed as an Exhibit 2 to this filing, as required by Form 19b-4 and the General Instructions thereto. The rule change has become effective pursuant to Section 19(b)(3)(A)16 of the Exchange Act and paragraph (f) of Rule 19b-4 thereunder.

Proposed Rule: https://www.sec.gov/rules/sro/dtc/2022/34-95197.pdf

DTC AMENDS THE TAX EVENT ANNOUNCEMENTS FEATURE OF THE DTC DISTRIBUTIONS GUIDE

On July 8, 2022, the SEC announced a DTC proposal, effective upon filling, to amend the DTC Procedures set forth in the Distributions Guide to accommodate participants' tax reporting and withholding obligations by setting forth a proposed enhancement to the Tax Events Announcements feature of DTC's Distributions Service. Tax Event Announcements provide participants with information-only announcements regarding taxable events that may give rise to information and/or withholding obligations which occur even in the absence of an actual distribution of dividend and interest payments.

Proposed Rule: https://www.sec.gov/rules/sro/dtc/2022/34-95231.pdf
Comments Due: August 4, 2022

DTC PROPOSAL TO CHANGE NETWORK OR COMMUNICATION TECHNOLOGY REQUIREMENTS APPROVED

On July 8, 2022, the SEC published an order approving a DTC proposal to modify its rules to require its participants, pledgees and applicants for membership to upgrade and maintain their network technology, and communications technology or protocols, to meet standards that DTC would identify and publish via Important Notice on its website. Previously, DTC Rules did not require, either as part of an application for membership or as an ongoing membership requirement, any level or version for network technology, such as a web browser or other technology, or any level or version of communications technology or protocols, such as email encryption, secure messaging, or file transfers, that participants may use to connect to or communicate with DTC. To mitigate security concerns and resource inefficiencies, DTC filed the proposal and stated the new requirements would be based on standards set forth by widely accepted organizations such as the National Institute of Standards and Technology and the Internet Engineer Task Force. Failure to perform a necessary technology upgrade within the required timeframe will subject participants to a disciplinary sanction.

Approval Order: https://www.sec.gov/rules/sro/dtc/2022/34-95232.pdf

DTC PROPOSAL FOR STRESS TESTING AND RISK MANAGEMENT FRAMEWORKS GRANTED LONGER ACTION PERIOD

On July 14, 2022, the SEC designated a longer period for Commission action on proceedings to determine to approve or disapprove a DTC proposal to amend the Stress Testing Framework (Market Risk) and the Liquidity Risk Management Framework. The Commission designated September 13, 2022, as the date by which the Commission shall either approve, disapprove, or institute proceedings to determine whether to disapprove proposed rule change SR-DTC-2022-006.

Notice Release: https://www.sec.gov/rules/sro/dtc/2022/34-95282.pdf

Notable Enforcement Actions

This month's enforcement actions include two significant SEC actions related to misleading account statements and conflicts of interest by an NRSRO, in addition to FINRA actions related to the lack of financial risk controls and technology controls as well as other actions.

A firm agreed to pay $50 million to settle charges for providing account statements to about 1.4 million variable annuity investors that included materially misleading statements and omissions concerning investor fees. The firm also agreed to cease and desist from committing or causing any future violations of these provisions as well as to revise how it presents fee information in its variable annuity account statements. The SEC's order found that the firm violated the antifraud provisions of the Securities Act. The firm gave investors the false impression that their quarterly account statements listed all fees paid during the period. The SEC's investigation found that, in reality, the statements listed only certain types of administrative, transaction and plan operating fees that investors infrequently incurred, and that more often than not the statements reflected zero or a very small number—which was only a slight fraction of the overall fees paid by the investor. **(SEC Administrative Action: https://www.sec.gov/litigation/admin/2022/33-11083.pdf)**

A firm was censured, agreed to pay a $1.7 million penalty, $146,592 of disgorgement and prejudgment interest, and ordered to cease and desist from further violations of Sections 15E(h)(1) and 15(E)(f)(2) of the Exchange Act and Rules 17g-5(c)(8)(i), 17g-5(c)(8)(ii), and 17g-5(c)(1) thereunder. The firm was also ordered to commit to (i) conduct training to address the SEC's conflict of interest rules; (ii) prepare revenue reports through fiscal year 2024; (iii) retain an independent consultant to assess its policies and procedures concerning conflicts of interest; and (iv) prohibit the individual respondent (founder and chief executive officer ("CEO") of the firm) from participating in determining or monitoring credit ratings issued or maintained by the firm or developing or approving procedures used for determining credit ratings issued or maintained by the firm. The order also imposed a $300,000 penalty on the individual respondent and ordered him to cease and desist from further violations of Rules 17g-5(c)(8)(i) and 17g-5(c)(8)(ii). The SEC charged the Pennsylvania-based firm, an NRSRO, with violating certain securities law provisions intended to curb potential conflict of interest violations by credit rating agencies. The founder and CEO of the firm was also charged with causing certain of those violations. The order found that the firm failed to establish, maintain, and enforce policies and procedures reasonably designed to manage such conflicts of interest. The order further found that the firm was in violation of an earlier SEC order revoking the company's registration for rating certain classes of issuers when it rated two asset-backed securities and two municipal securities in 2017 and 2018. According to the SEC's order, the firm allegedly violated certain conflict-of-interest provisions when it issued and maintained a credit rating for one of its clients even though the founder and CEO had participated in determining the credit rating at issue and had also engaged in sales and marketing activities for that client. The order further alleges that the firm failed to establish, maintain, and enforce policies and procedures reasonably designed to manage such conflicts of interest in violation of Section 15E(h)(2) of the Exchange Act. **(SEC Administrative Action: https://www.sec.gov/litigation/admin/2022/34-95127.pdf)**

A firm was censured and fined $250,000 of which $70,000 is payable to FINRA based on the findings that the firm provided market access to two affiliates without accounting for those affiliates in its financial risk management controls. The findings stated that the firm maintained a proprietary order management

system that it and its affiliates used for trading in listed futures and options. In addition, the firm maintained a third-party order management system that it and its affiliates used primarily to enter good-till-cancelled spread orders. The firm established credit thresholds and erroneous order controls based upon its mistaken belief that the options orders entered through both order management systems were entered by a single firm affiliate. In fact, a firm employee was able to enter orders on behalf of two additional firm affiliates into both order management systems. The firm did not establish any credit thresholds or erroneous order controls with respect to the two affiliates. The findings also stated that the firm failed to establish, maintain and enforce a reasonably designed supervisory system concerning the documentation of the review of credit limits changes. The firm's supervisory system for reviewing credit limits changes was unreasonable because the system for documenting approvals of changes to customer credit limits in some cases permitted increases to customer credit limits without documenting a valid reason for the approval. The firm's Market Access Procedures provided that if an erroneous order control triggered a soft block, the personnel reviewing the order must consider one or more factors specified in the procedures, as relevant, and, if overriding the soft block, document the reason for resuming the order and allowing it to proceed to the market. The procedures also required the supervisors to review, on a weekly basis, reports of orders that were paused or rejected due to the firm's erroneous and duplicative order controls and determine, among other things, the reasons for release or rejection of a paused order. The findings included that the supervisory system for reviewing resumed orders was unreasonable because the system for documenting the resume reason offered a limited selection of reasons for allowing the order to proceed that did not capture the specified factors in the firm's procedures. The firm has since identified and corrected the issue. **(FINRA Case #2018058781101)**
https://www.finra.org/sites/default/files/fda_documents/2018058781101%20UBS%20Securities%20LLC%20CRD%207654%20AWC%20va%20%282022-1654302014385%29.pdf

A firm was censured and fined $200,000 based on the findings that it overstated its advertised trade volume on Bloomberg and Thomson Reuters, private subscription-based providers of market data. The findings stated that the firm configured its systems to automatically advertise daily trading volume in numerous securities through Bloomberg and Thomson Reuters. Two separate but related system changes caused the firm to overstate the executed trade volume it reported to Bloomberg and Thomson Reuters. The system changes the firm implemented inadvertently triggered and exacerbated a programming defect in the trade advertising software that the firm used to send trade volume to Bloomberg and Thomson Reuters and resulted in the firm submitting multiple end-of-day volume reports in the same symbols. The firm remediated the programming defect in its trade advertising software within a week of learning about the issue and reviewed older data to confirm no other issues existed. The findings also stated that the firm did not have a supervisory system reasonably designed to supervise the accuracy of its trade advertisements. The firm had no supervisory process or written procedures to verify that the trade-volume information it reported to Bloomberg and Thomson Reuters was accurate. The firm implemented a supervisory process within three weeks of discovering the overstatements described in the FINRA acceptance, waiver and consent. **(FINRA Case #2019063546101)**
https://www.finra.org/sites/default/files/fda_documents/2019063546101%20BIDS%20Trading%20L.P.%20CRD%20141296%20AWC%20va%20%282022-1656116424555%29.pdf

A firm was censured and fined $70,000, of which $7,000 is payable to FINRA based on findings that it failed to establish and maintain a supervisory system reasonably designed to achieve compliance with Rule 200(g) of Regulation SHO. The findings stated that the firm had no supervisory system reasonably

designed to check that it was correctly marking sell orders in compliance with Rule 200(g), and its Written Supervisory Procedures ("WSPs") were unreasonable because they did not describe any procedures for reviewing or testing orders to achieve compliance with order marking requirements. The firm later implemented a supervisory system whereby it sampled orders for the correct marking of sell orders and updated its WSPs to contain a detailed description of the steps to conduct the review. The findings also stated that the firm failed to reasonably monitor the orders of customers that used more than one Market Participant Identifier ("MPID") to verify that the customers' positions were aggregated for purposes of marking those orders accurately as required by Rule 200(g). The firm later updated its WSPs to address customers that use more than one MPID. **(FINRA Case #2019061067510)**
https://www.finra.org/sites/default/files/fda_documents/2019061067510%20Electronic%20Transaction%20Clearing%2C%20Inc.%20CRD%20%20146122%20AWC%20gg%20%282022-1655684432006%29.pdf

A firm was censured and ordered to pay $29,268, plus pre-judgment interest, in restitution to customers and ordered to retain an independent consultant to review its pricing procedures. The Commission affirmed the sanctions imposed by the National Adjudicatory Counsel and affirmed FINRA's disciplinary action arising from the firm's excessive markups and markdowns on 38 municipal bond transactions and nine sales and four purchases of corporate bonds in violation of MSRB Rules G-17 and G-30. **(FINRA Case #2012030738501)**
https://www.finra.org/sites/default/files/fda_documents/2012030738501%203-19206%20%20J.W.%20Korth%20%26%20Company%2C%20LP%20CRD%2026455%20SEC%20Decision%20jlg%20%282022-1651710178997%29.pdf

A firm was censured, fined $20,000, and required to certify that it has brought all aspects of its current client relationship summary ("Form CRS") into compliance, and implemented policies, systems, procedures, including WSPs, and training reasonably designed to achieve compliance with the requirements of Form CRS. The firm was found to have willfully violated Section 17(a)(1) of the Exchange Act and Rule 17a-14 thereunder and FINRA Rules 4511 and 2010. The findings stated that despite receiving three notices of noncompliance from FINRA, the firm did not file a Form CRS through Web Central Registration Depository ("CRD") until more than a year after it was due. Further, the firm failed to post the Form CRS on its website or to deliver the Form CRS to its existing customers until four months after it filed its Form CRS through Web CRD. The findings also stated that the firm failed to have a reasonably designed system, including WSPs, to comply with its Form CRS obligations. Initially, the firm failed to make any reference to Form CRS in its WSPs. Later, the firm's discussion of Form CRS in its WSPs included no procedures regarding the preparation, filing and distribution of the Form CRS. **(FINRA Case #2021072107601)**
https://www.finra.org/sites/default/files/fda_documents/2021072107601%20Aaron%20Capital%20Incorporated%20CRD%2028583%20AWC%20gg%20%282022-1656116424251%29.pdf

A firm was censured and fined $20,000 based on the findings that it failed to establish, maintain and enforce a supervisory system reasonably designed to achieve compliance with FINRA rules relating to outside business activities ("OBAs") and private securities transactions ("PSTs"). The findings stated that the firm's written procedures unreasonably failed to identify anyone to whom the designated principals were required to disclose their own OBAs or PSTs. The firm received oral notice from one of the designated principals regarding his PSTs and received oral notice that another designated principal was

engaging in OBAs. However, the firm did not promptly follow up to obtain further detail or written submissions regarding these OBAs and PSTs to evaluate whether they presented any conflicts with firm business or involved customers, or presented any additional issues. Indeed, the firm did not follow up until after it received inquiries about the OBAs and PSTs from FINRA. The findings also stated that the firm failed to search its records in response to information requests from the Financial Crimes Enforcement Network of the Department of Treasury. **(FINRA Case #2020065163001)**
https://www.finra.org/sites/default/files/fda_documents/2020065163001%20Roselaine%20Securities%20LLC%20CRD%20171237%20gg%20%282022-1654993223835%29.pdf

A firm was censured and fined $20,000 based on findings that it failed to make timely filings with FINRA relating to private offerings that it sold. The findings stated that the firm made the required regulatory filings an average of 88 days late, or 103 days after the first sale of the offerings. **(FINRA Case #2019060672801)**
https://www.finra.org/sites/default/files/fda_documents/2019060672801%20Spire%20Securities%2C%20LLC%20CRD%20144131%20AWC%20lp%20%282022-1654993204291%29.pdf

A firm was censured, fined $17,500, and required to certify that it has implemented supervisory systems and WSPs reasonably designed to address the deficiencies regarding the firm's due diligence obligations in connection with private offerings. A lower fine was imposed after considering, among other things, the firm's revenue, and financial resources. The firm failed to establish and maintain WSPs reasonably designed to ensure that it complied with its due diligence obligations. The findings stated that the firm's WSPs required that, before it recommended a private offering to any customer, it investigate, and complete a due diligence checklist related to several areas of review. The firm's procedures, however, did not include any discussion of red flags that might arise in the due diligence process or how the firm would address red flags. Nor did the procedures provide any guidance on how to perform reasonable due diligence when investigating private placements before offering and recommending them to customers. In addition, the firm failed to conduct and document reasonable investigations of three private placement offerings before recommending these securities to customers. The firm, rather than conducting an independent investigation, relied almost exclusively on documentation and information the issuers provided. **(FINRA Case #2019062311702)**
https://www.finra.org/sites/default/files/fda_documents/2019062311702%20Torch%20Securities%20LLC%20%20CRD%20133642%20AWC%20lp%20%282022-1654474821566%29.pdf