to make available publicly. All submissions should refer to File Number SR–NYSEAMER–2022–35 and should be submitted on or before September 8, 2022.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[16]

J. Matthew DeLesDernier,

Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–95494; File No. SR–FINRA–2022–025]

Self-Regulatory Organizations; Financial Industry Regulatory Authority, Inc.; Notice of Filing of a Proposed Rule Change To Amend FINRA Rule 11880 (Settlement of Syndicate Accounts) To Revise the Syndicate Account Settlement Timeframe for Corporate Debt Offerings

August 12, 2022.

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 August 5, 2022, the Financial Industry Regulatory Authority, Inc. (''FINRA'') 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 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 amend FINRA Rule 11880 (Settlement of Syndicate Accounts) to revise the syndicate account settlement timeframe for corporate debt offerings.

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

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

1. Purpose

Underwriting groups ordinarily form syndicate accounts [3] to process the income and expenses of the syndicate. The syndicate manager [4] is responsible for maintaining syndicate account records and must provide to each selling syndicate member an itemized statement of syndicate expenses no later than the date of the final settlement of the syndicate account. Syndicate members record the expected payments from the syndicate manager as ''receivables'' on their books and records but generally do not receive the payments for up to 90 days after the syndicate settlement date,[5] as currently permitted under FINRA rules.[6]

To help avoid lengthy settlement delays, FINRA Rule 11880 provides that the syndicate manager in a public offering of corporate securities must effect the final settlement of syndicate accounts within 90 days following the settlement date. When FINRA (then NASD) initially adopted a settlement rule in 1985, it required that final settlement of syndicate accounts be effected within 120 days after the syndicate settlement date.[7] The syndicate settlement timeframe was reduced from 120 days to 90 days in 1987, and it has remained the same since then.[8]

In consideration of the technological advances since 1987, FINRA is proposing to amend the timeframe to settle syndicate accounts set forth in FINRA Rule 11880(b). Specifically, FINRA is proposing to establish a two-stage syndicate account settlement approach whereby the syndicate manager would be required to remit to each syndicate member at least 70 percent of the gross amount due to such syndicate member within 30 days following the syndicate settlement date, with any final balance due remitted within 90 days following the syndicate settlement date.

The proposed two-stage approach would be limited to public offerings of corporate debt securities.[9] FINRA is not proposing at this time to change the current 90-day period for the final settlement of syndicate accounts for public offerings of equity securities, which often involve complexities that may necessitate a longer settlement timeframe than corporate debt offerings (*e.g.,* an overallotment option that may have an exercise term of 30 days).

FINRA also notes that, with respect to municipal debt offerings, Municipal Securities Rulemaking Board (''MSRB'') Rule G–11 (Primary Offering Practices) currently provides that final settlement of a syndicate or similar account must be made within 30 calendar days of the syndicate settlement date. The MSRB shortened the settlement timeframe from 60 days to 30 days in 2009 to reduce the exposure of syndicate account members to the credit risk of potential deterioration in the credit of the syndicate manager during the pendency of account settlements.[10] The MSRB believed that this change would not be unduly burdensome on firms given the more efficient billing and accounting systems firms had implemented since the rules were first adopted in the 1970s.[11]

FINRA similarly believes that the proposed rule change will benefit syndicate members by reducing the exposure of syndicate members to the credit risk of the syndicate manager during the pendency of account

[16] 17 CFR 200.30–3(a)(12).

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

[2] 17 CFR 240.19b–4.

[3] A syndicate account is the account formed by members of the selling syndicate for the purpose of purchasing and distributing the corporate securities of a public offering. *See* FINRA Rule 11880(a)(2).

[4] A syndicate manager is the member of the selling syndicate that is responsible for the maintenance of syndicate account records. *See* FINRA Rule 11880(a)(3).

[5] The syndicate settlement date is the date that the issuer delivers corporate securities to or for the account of the syndicate members. *See* FINRA Rule 11880(a)(4).

[6] During this time, a syndicate member may not treat the ''receivables'' as allowable assets for purposes of Exchange Act Rule 15c3–1 (''Net Capital Rule'') and therefore must deduct them from its net worth in computing its net capital.

[7] *See* Securities Exchange Act Release No. 22238 (July 15, 1985), 50 FR 29503 (July 19, 1985) (Order Approving File No. SR–NASD–85–14).

[8] *See* Securities Exchange Act Release No. 24290 (April 1, 1987), 52 FR 11148 (April 7, 1987) (Order Approving File No. SR–NASD–87–7).

[9] A ''corporate debt security'' would be defined as a debt security that is United States (''U.S.'') dollar-denominated and issued by a U.S. or foreign private issuer, including a Securitized Product as defined in FINRA Rule 6710(m). ''Corporate debt security'' would not include a Money Market Instrument as defined in FINRA Rule 6710(o). *See* proposed Rule 11880(a)(1).

[10] *See* Securities Exchange Act Release No. 60487 (August 12, 2009), 74 FR 41771 (August 18, 2009) (Notice of Filing of File No. SR–MSRB–2009–12) and Securities Exchange Act Release No. 60725 (September 28, 2009), 74 FR 50855 (October 1, 2009) (Order Approving File No. SR–MSRB–2009–12).

[11] *See supra* note 10.

settlements. FINRA also believes that the proposed rule change will benefit syndicate members, including capital-constrained small firms, by allowing them to obtain earlier access to the funds earned from an offering without significantly increasing the risks of resettlements. In addition, FINRA believes that the proposed staged approach will provide these benefits to syndicate members while easing compliance for syndicate managers by permitting them to retain 30 percent of the gross amount earned by syndicate members to cover expenses and remit any balance due to the syndicate members within the current 90-day period following the syndicate settlement date.

If the Commission approves the proposed rule change, FINRA will announce the effective date of the proposed rule change in a *Regulatory Notice*. The effective date will be January 1, 2023.

2. Statutory Basis

FINRA believes that the proposed rule change is consistent with the provisions of Section 15A(b)(6) of the Act,[12] which requires, among other things, that FINRA rules must be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, and, in general, to protect investors and the public interest. FINRA believes that the proposed rule change promotes just and equitable principles of trade and is in the public interest as it will reduce the exposure of syndicate members to the potential deterioration of the credit of syndicate managers during the pendency of account settlement without negatively impacting the ability of syndicate managers to run the syndicate settlement account process. FINRA also believes that the proposed rule change promotes just and equitable principles of trade because it will result in syndicate managers more quickly remitting the majority of the gross amount earned by syndicate members and will not be unduly burdensome on syndicate managers given the technological advances that have been made since the 90-day syndicate account settlement timeframe was adopted in 1987.

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.

[12] 15 U.S.C. 78*o*–3(b)(6).

Economic Impact Assessment

FINRA has undertaken an economic impact assessment, as set forth below, to analyze the potential economic impacts of the proposed rule change, including potential costs, benefits, and distributional and competitive effects, relative to the current baseline.

Regulatory Need

FINRA Rule 11880 requires final settlement of syndicate accounts within 90 days following the syndicate settlement date. As discussed further below, FINRA understands that syndicate managers currently could conduct partial settlements of syndicate accounts much more quickly, at limited additional expense, to the benefit of syndicate members. Longstanding industry practices, the number of parties in selling syndicates and possibly greater efficiency in syndicate settlement by syndicate managers that conduct more settlements may limit the impact of competition and negotiation on final settlement practices and timelines. FINRA also believes that modifying the current syndicate settlement timeframe will benefit syndicate members, including capital-constrained small firms, by allowing them to obtain earlier access to the funds earned from an offering without significantly increasing the risks of resettlements. FINRA is therefore proposing a two-staged syndicate settlement framework to enable quicker remittance of a significant portion of syndicate revenue to syndicate members.

Economic Baseline

The economic baseline for the proposed rule change is current FINRA Rule 11880, which allows 90 days for the final settlement of syndicate accounts, industry practices for compliance and implementation of the rule, and the competitive landscape.

FINRA conducted an analysis of the primary corporate debt market to study the extent and scope of participation in corporate debt syndicates by member firms using data from the Trade Reporting and Compliance Engine (''TRACE''). From 2019 to 2021, FINRA estimates that approximately 377 member firms, on average per year, participated in syndicates for corporate debt offerings and could be affected by the proposed rule change.[13] Of these firms, 57 percent, 18 percent, and 25 percent are small, mid-size and large firms, respectively.[14]

The 90-day period following the syndicate settlement date allows the syndicate manager to record income and expenses incurred in connection with the offering and then to distribute the net underwriting revenue due to each syndicate member. Syndicate managers tend to be large, well-capitalized firms.[15] The syndicate manager collects the underwriting revenue for the syndicate and pays expenses. The other syndicate members, which often include smaller firms, are paid their respective portion of the underwriting revenue, net of expenses, from the syndicate managers by the final syndicate account settlement date.

To assess the magnitude of the gross revenue from underwriting public offerings of corporate debt, FINRA calculated that, on average each year between 2019 and 2021, there were 41,756 U.S. dollar-denominated corporate debt offerings (excluding 144A offerings) with an average amount of $3.5 trillion raised (see Table 1). Investment grade corporate debt offerings account for 49 percent of the total issued amount, and high yield and non-rated corporate debt offerings account for the remainder (see Table 1).[16] A recent study estimates that the average gross underwriting spread is 0.65 percent for investment grade debt securities and 1.42 percent for high yield debt securities.[17] Using these

[13] The extent of firm participation in the primary corporate debt market was approximated using TRACE data. Issuers sell new stocks and bonds in the primary market to the public, such as through an initial public offering. The data is limited to the primary market sellers for corporate debt, excluding offerings made in compliance with Rule 144A of the Securities Act of 1933 (''144A offerings'').

[14] *See* 2022 FINRA Industry Snapshot, *https://www.finra.org/sites/default/files/2022-03/2022-industry-snapshot.pdf.* Small, mid-size and large firms are defined as having 1–150, 151–499, and at least 500 registered representatives, respectively. *See* Article I of the FINRA By-Laws.

[15] *See, e.g.,* Hendrik Bessembinder, Stacey E. Jacobsen, William F. Maxwell & Kumar Venkataraman, Overallocation and Secondary Market Outcomes in Corporate Bond Offerings (April 29, 2022), SMU Cox School of Business Research Paper No. 20–04, available at *https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3611056.* The authors developed a sample of 5,573 bond offerings that were issued between 2010 and 2018, based upon primary allocation data collected through TRACE. They found that only 10 firms were syndicate managers and that the most frequent bookrunners (manager and co-managers) were large firms. This finding is consistent with FINRA's findings from its outreach efforts.

[16] While members are required to report revenue from underwriting on Financial and Operational Combined Uniform Single (''FOCUS'') and Supplemental Statement of Income (''SSOI'') reports, the data is in aggregate form and thus we are unable to determine underwriting revenue for public offerings of corporate debt securities.

[17] The gross revenue from an underwriting is the difference between the price the syndicate pays the issuer for the securities and the initial price at which the syndicate sells the securities to the

Continued

estimates, FINRA estimates that the gross revenue from underwriting public offerings of corporate debt (excluding 144A offerings) would be at least $36 billion per year.[18] Underwriting revenue, net of expenses, is distributed to syndicate members.

TABLE 1—TRACE-ELIGIBLE CORPORATE BONDS (EXCLUDING 144A) ISSUED BY GRADE AND YEAR

	Number of offerings	Total issued amount (trillion $)	% of annual total issued amounts
2019	26,769	3.10	100.00%
Investment Grade	3,275	1.50	48.39
High Yield	468	0.26	8.45
Non-rated	23,026	1.34	43.15
2020	43,334	4.22	100.00
Investment Grade	3,828	2.14	50.81
High Yield	374	0.24	5.58
Non-rated	39,132	1.84	43.61
2021	55,164	3.12	100.00
Investment Grade	3,615	1.48	47.31
High Yield	275	0.15	4.71
Non-rated	51,274	1.50	47.98
Average 2019–2021	41,756	3.48	100.00
Investment Grade	3,573	1.71	48.84
High Yield	372	0.21	6.25
Non-rated	37,811	1.56	44.92

Source: Bloomberg for TRACE-eligible Corporate Bonds.

Through its outreach efforts, FINRA has heard that the settlement of syndicate accounts for corporate debt offerings is typically conducted at the end of the 90-day window, rather than earlier in the window, as permitted under the current rule. FINRA also has heard, however, that syndicate income is often known much earlier, even by the closing date of the offering. This information is consistent with recent research findings that, in more than 95 percent of the debt offerings from 2016 to 2018, the debt security is priced, allocated to investors, and starts trading in the secondary market all within the same day.[19] Thus, a large part of syndicate income can be accounted for within days after the date of issuance.[20]

Through its outreach efforts, FINRA understands that syndicate expenses are also generally known within 90 days following the syndicate settlement date. However, syndicate managers sometimes receive invoices after 90 days. Certain expenses, such as legal fees and covering overallotment short transactions, take time to realize and are difficult to estimate as they might depend on another party or market movements. Invoices received after the final settlement of syndicate accounts result in resettlements. FINRA understands that syndicate managers prefer to avoid this scenario as much as possible. Data on the prevalence of resettlements after 90 days is unavailable, but some public comments submitted in response to the *Notice* suggest that they are infrequent.

Economic Impacts

Under the proposed rule change, syndicate members would receive 70 percent of the gross receivables due to them within 30 days following the syndicate settlement date and any final balance due within 90 days. The proposed rule change could impact firms of different sizes that participate in corporate debt offerings in different ways, as explained further below. The aggregate impact is less clear, as it depends upon the extent of long-term competitive benefits and short-term cost increases. If competition increases in the market for corporate debt offerings in the long term, investors may also benefit from improved pricing.

Anticipated Benefits

FINRA expects that the proposed rule change could reduce a number of risks associated with syndicate debt issuance, including counterparty and liquidity risk. Remitting revenues earned from the offering to syndicate members more quickly would reduce counterparty risk to syndicate members. The reduction in

public, also called the ''gross underwriting spread.'' The spread generally accounts for management fees paid to lead underwriters, underwriting fees and the sales credits paid to syndicate members for selling the securities. As a rule, gross revenue from a public offering is directly related to the size of the offering.

[18] Research using a sample of municipal bond offerings between 1997 and 2001 found that the absence of a rating increases underwriting gross spreads by about 40 basis points after controlling for bond rating and other characteristics. *See* Alexander W. Butler, Distance Still Matters: Evidence from Municipal Bond Underwriting, 21(2) Rev. Fin. Stud. 763–784 (March 2008), available at *https://www.jstor.org/stable/40056834?seq=1.* Information on gross spreads for unrated corporate bonds is harder to find. One study found the default rate among unrated institutional loans issued by U.S. publicly owned companies was comparable to that of rated high yield loans. *See* Edward I. Altman, Sreedhar T. Bharath & Anthony Saunders, Credit Ratings and the BIS Capital Adequacy Reform Agenda, 26(5) J. Bank. Fin. 909–921 (May 2002), available at *https://www.sciencedirect.com/science/article/abs/pii/S0378426601002692.* These findings indicate that the gross spread for unrated corporate bonds is likely somewhat greater than that for high yield corporate bonds. Based on these assumptions, the gross underwriting revenue from public offerings of corporate debt would be at least $36B (= 0.0065 * 1.71*10^12 + 0.0142 *(0.21 + 1.56)*10^12).

[19] *See* Liying Wang, Lifting the Veil: The Price Formation of Corporate Bond Offerings, 142(3) J. Fin. Econ. 1340–1358 (December 2021), available at *https://www.sciencedirect.com/science/article/abs/pii/S0304405X2100307X.*

[20] FINRA understands that, in the absence of an overallotment option, syndicate managers may over-allocate an offering to stabilize secondary market prices—effectively creating a syndicate short position. Profits or losses from these transactions are considered part of a syndicate's revenues or expenses and depend on secondary market price movements, which cannot be estimated before the public offering. Research has found, however, that average profit/loss from covering overallocations relative to corporate debt underwriting revenue is very small, and most of the overallocations are offset within a few days of the date of issuance. Bessembinder et al. (2022) found that over 70 percent of the issues with overallocations in their sample are offset within two days after issuance and by day 15 about 80 percent of the issues have the overallocation fully offset. *See supra* note 15. According to the authors, the mean net position for covering overallotment short-transactions and round-trip trades in the secondary market ranges from a $240,967 loss per high-yield issue with a large overallocation to a $161,578 gain per high-yield issue with a smaller overallocation.

counterparty risk would depend on the financial capacity of the syndicate manager—where the syndicate manager is smaller or more financially constrained, the reduction in counterparty risk will likely be greater. In addition, a shorter syndicate settlement timeframe would result in providing syndicate members with earlier access to capital and improve the member's liquidity position where their own net capital is limited. Members may therefore be exposed to lower liquidity risk. The extent of this benefit would depend on the relative magnitude of syndicate receivables to the firm's liquidity position and the strength of the liquidity position itself.

FINRA expects that these potential benefits would be more pronounced for firms with lower capital levels. For instance, firms that do not have sufficient capital to engage in other business activities due to the length of the current settlement period may reap greater benefits from the proposed rule change. Syndicate members exposed to higher counterparty default risk may also disproportionately bear the risks associated with longer final settlement times. To the extent that smaller firms tend to have lower capital levels, the proposed rule change will benefit smaller firms by providing additional capital to engage in other business activities and manage default risk.

The proposed rule change is expected to have positive effects on competition and efficiency in the corporate debt underwriting market to the extent that the anticipated syndicate receivables constrain a firm's liquidity position. Alleviation of liquidity constraints would create opportunities for the syndicate members to participate in new offerings and enhance their ability to compete with other firms, maintain business operations or use the funds for other purposes. This may reduce barriers to entering the corporate debt underwriting market and could ultimately result in an increase in the supply of underwriters and lower costs for corporate debt issuers and investors. Lowering costs to issuers and investors may increase the size and frequency of new corporate debt offerings, benefiting all member firms engaged in the underwriting process. However, the extent of this potential gain in market competitiveness cannot be fully and accurately estimated.

As the syndicate manager would be required to remit a large part of the revenue to the syndicate members sooner, the proposed rule change could lead to a transfer of some of the interest earned on the syndicate's underwriting revenue—*i.e.,* from the syndicate manager to other syndicate members. The magnitude of such benefit is positively correlated with the interest rate environment. Under the proposed rule change, if part of the underwriting revenue is paid earlier, the syndicate manager would forego the earned interest on the amount to be distributed to syndicate members over the 60-day period—the difference between the 90-day baseline and proposed 30-day timeframe for the first payment of the underwriting revenue. Other syndicate members would have the opportunity to earn that interest where they do not have a better economic use for the capital.

Finally, FINRA does not expect the proposed rule change to increase the frequency of resettlements. The maximum time to final syndicate settlement under the proposed rule change, 90 days, is the same as under the baseline, and nothing in the proposed rule change would make it more difficult for parties to provide timely invoices of expenses relative to the baseline.

Anticipated Costs

FINRA believes the proposed rule change may result in additional one-time and ongoing direct costs to member firms that serve as syndicate managers in public offerings of corporate debt. These firms will need to adapt their internal policies and procedures as well as their accounting, compliance, and supervision and management systems to accommodate a two-stage syndicate account settlement cycle. Firms may also adopt better technology and greater automation of accounting and recordkeeping processes. Firms may also need to hire additional staff depending on how settlement cycles on multiple offerings overlap. The magnitude of such associated costs, specifically staff and related human and technology resources, could increase as the volume and frequency of offerings in which firms participate as syndicate managers increases. Syndicate managers could absorb such costs or pass them on to the syndicate members or the issuers.

FINRA believes that the adoption of MSRB Rule G–11 provides a useful case study for understanding the potential costs of the proposed rule change. Both commenters that supported and those more critical of the FINRA rule proposal set forth in *Regulatory Notice* 21–40 discussed comparisons between the offering process for municipal bonds versus corporate bonds. Opponents argued that, because the process for corporate bond offerings is more complex than that for municipal bonds, experience with the 30-day settlement period for municipal bond offerings is not directly relevant to corporate bond offerings. However, when the MSRB Rule G–11 amendment was proposed to shorten the deadline for municipal bond syndicate account settlement from 60 days to 30 days, similar opposing arguments were raised. Specifically, commenters noted uncertain expenses in complex issuances, the inability to obtain counsel bills and invoices within 30 days, and the fact that some bonds might take longer than 30 days to sell.[21] The amendment to MSRB Rule G–11 became effective in 2009 and market participants were able to implement necessary changes to adapt to the new timeline. While a transition in syndicate settlement timeframes involves costs, FINRA believes that the long-term benefits of shortening the settlement timeframe would outweigh the costs.

Alternatives Considered

In developing the proposed rule change, FINRA considered alternatives to the two-stage syndicate settlement approach. Specifically, FINRA considered requiring syndicate accounts to be fully settled within 30 days. FINRA also considered a 45-day settlement period instead of 30 days. These alternatives could deliver some benefits as well as carry some costs in comparison with the current proposed rule change. FINRA believes that the proposed approach is appropriate at this time because it balances the goals of reducing exposure of syndicate members to the credit risk of the syndicate manager during the pendency of account settlements and providing syndicate members with earlier access to the funds earned from an offering, with preserving the ability of syndicate managers to effectively run the settlement process and thereby limit resettlements.

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

The proposed rule change was published for comment in *Regulatory Notice* 21–40 (''*Notice*''). FINRA received 12 comment letters in response to the *Notice*.[22] A copy of the *Notice* is attached as Exhibit 2a. A list of the comment letters received in response to the *Notice* is attached as Exhibit 2b. Copies of the comment letters received in response to the *Notice* are attached as Exhibit 2c. Of the 12 comment letters received, eight were in favor of the

[21] *See* 74 FR 41771, *supra* note 10.

[22] All references to commenters are to the comment letters as listed in Exhibit 2b.

proposal set forth in the *Notice* and four were opposed. In the *Notice,* FINRA proposed to reduce the timeframe for the final settlement of syndicate accounts in a public offering of corporate debt securities from 90 days to 30 days following the syndicate settlement date. FINRA has considered the comment letters received and engaged in further discussions with a wide variety of industry members. As a result, FINRA has revised the proposal to instead provide for a two-stage syndicate account settlement process, as described above. The comments received in response to the approach described in the *Notice* are summarized below.

1. Reduction of Syndicate Settlement Timeframe to 30 Days

BDA supported the proposal to reduce the timeframe for the final settlement of syndicate accounts in a public offering of corporate debt securities from 90 days to 30 days, stating it would provide the following economic benefits: (1) lessen the risk that a syndicate manager could become insolvent before syndicate members receive payment; (2) provide quicker access to the revenues earned from an offering (and thereby lower barriers for broker-dealers to enter the corporate debt underwriting market); and (3) reduce the amount of interest lost by syndicate members while the funds are held in the syndicate account.

BDA also expressed support by noting that various technological advances that have emerged since 1987, such as electronic order entry and accounting systems, facilitate faster syndicate settlements. BDA further noted support for the proposal by stating that there are not substantial differences between syndicate management and accounting for municipal versus corporate debt offerings that would justify the 90-day timeframe for corporates, including in the areas of multiple lead managers, cross-border offerings, the complexity of the legal issues involved, investor carve-out letters, and asset-backed securities. In addition, BDA stated that overallotments (which effectively do not exist in corporate bond transactions), travel expensing, and vendor billing also present no impediments to a 30-day settlement timeframe.

Castle Oak, InspereX, Loop Capital, SWS, and R. Seelaus supported the proposal, stating it would provide the following economic benefits: (1) lessen the risk that a syndicate manager could become insolvent before the payment of deal revenue to syndicate members; (2) provide quicker access to the revenues earned from an offering, which would allow syndicate members to conduct more business, including additional new-issue underwritings and secondary market trading; and (3) reduce the amount of interest lost by syndicate members while the funds are held in the syndicate account. ASA also supported the proposal, stating that it would provide syndicate members quicker access to the revenues earned from an offering. These commenters, except for Loop Capital, also supported the proposal by noting that there have been significant technological and logistical improvements in the past 35 years that have made the process of settling syndicate accounts cheaper and faster. Loop Capital noted support for the proposal by stating that, based on its experience, shortening the settlement period to 30 days would not present substantive challenges to firms that serve as syndicate managers.

On the other hand, Mizuho opposed the proposal described in the *Notice,* expressing concern regarding the feasibility of a syndicate manager receiving, reviewing, and approving all expenses within a 30-day window. Mizuho also stated that a 30-day account settlement timeframe would take firms some time to implement and would result in a loss of revenue for firms if done too soon.

Cleary also opposed the proposal, stating that the reduction of the syndicate account settlement period to 30 days would require syndicate managers to hire and train a significant number of additional employees to complete the settlement process within this shortened timeframe.[23] Cleary noted that these additional costs would be passed on to the syndicate, which would reduce the net earnings of syndicate members. Cleary also opposed the proposal because a reduction of the settlement period would result in more frequent resettlements, which is a burdensome process. In addition, Cleary argued that the technological advances that have enabled a 30-day settlement process for municipal debt offerings cannot be expected to expedite, to the same degree, the settlement process for corporate debt offerings. In this regard, Cleary stated that the syndicate settlement process for corporate debt offerings is more complex and involves more manual inputs, many of which are beyond the control of syndicate managers, than the settlement process for municipal debt offerings.

Cleary also opposed the proposal by asserting that there are a number of important differences between the settlement mechanics of corporate versus municipal debt offerings that make corporate debt offerings not amenable to a 30-day settlement period. According to Cleary, these differences include: (1) corporate bond offerings generally involve multiple lead managers; (2) syndicates in corporate debt offerings routinely engage in aftermarket support; (3) expenses in corporate debt offerings are not known up front; (4) corporate bonds are offered outside the United States; (5) corporate bond offerings do not have fixed legal fees; and (6) delivery of investor carve-out letters occurs after closing in corporate bond offerings.

2. Alternatives to a 30-Day Syndicate Account Settlement Requirement

Commenters discussed several potential alternatives to reducing the syndicate account settlement timeframe to 30 days.[24] As discussed above, one potential alternative was a two-stage approach, whereby the syndicate manager would be required to remit a specified percentage of the syndicate proceeds to syndicate members within 30 days and would be permitted to retain a portion to cover expenses for an additional period of time. Mizuho expressed support for revising the syndicate account settlement timeframe by either implementing a two-stage—50/50—syndicate account settlement approach or by shortening the syndicate settlement timeframe in incremental steps rather than a sudden reduction to 30 days. Cleary also supported implementing a two-stage—50/50—syndicate account settlement approach, stating that it would more quickly provide to syndicate members the revenues earned from an offering and also allow syndicate managers to retain a sufficient amount of syndicate funds to effect timely and accurate settlements.

SIFMA supported a two-stage—70/30—syndicate account settlement approach for corporate debt offerings because it provides for payment within 30 days of a very large percentage of the net compensation ultimately payable to syndicate members and preserves the ability of syndicate managers to effectively manage the settlement process. SIFMA stated that it had received input on this alternative from broker-dealers that frequently act as syndicate managers as well as other

[23] Cleary submitted its comment letter on behalf of BofA Securities, Inc., Barclays Capital Inc., Citigroup Global Markets Inc., Credit Suisse Securities (USA) LLC, Deutsche Bank Securities Inc., Goldman Sachs & Co. LLC, Jefferies LLC, J.P. Morgan Securities LLC, Morgan Stanley & Co. LLC, RBC Capital Markets, LLC, UBS Securities LLC, and Wells Fargo Securities, LLC.

[24] BDA, Cleary, Mizuho, SIFMA.

broker-dealers that routinely act as syndicate members, and that all of these constituencies fully support this alternative.

While BDA initially opposed a two-stage syndicate account settlement approach as an alternative to the proposal, BDA subsequently expressed support for a two-stage—70/30—syndicate account settlement approach, stating that it was a more practical way to shorten the time to provide compensation to syndicate members.[25] According to BDA, the 70/30 approach would strike an appropriate balance between ensuring that syndicate members have ready access to their funds and minimizing the number of resettlements. In addition, BDA asserted that this approach would benefit investors by encouraging broader syndicate membership and making new-issue corporate bonds available to customers of a wider group of broker-dealers.

FINRA has modified the approach that was described in the *Notice* to instead adopt a two-stage—70/30—syndicate account settlement approach. FINRA believes that the proposed two-stage—70/30—approach is preferable to a two-stage 50/50 approach because it provides for a larger up-front payment with a smaller reserve amount and should not significantly increase the number of resettlements.

In response to a question posed in the *Notice* regarding the use of sole recourse loans as an alternative means of addressing concerns regarding the length of the syndicate account settlement timeframe, BDA stated that such loans are not a feasible alternative to shortening the syndicate account settlement timeframe because such a borrowing option does not exist generally, the lender would charge interest and thereby require a syndicate member to incur a liability for access to its own capital, and this alternative does not address the interest lost by syndicate members while their funds are held in the syndicate account. Cleary also opposed sole recourse loans as an alternative to address the length of the syndicate account settlement period. In this regard, Cleary stated that a syndicate manager will not know the amount required for a sole recourse loan because the syndicate manager will not know the net amount ultimately to be paid to each syndicate member and, as a result, syndicate managers will not know whether the receivable adequately secures any such loan. Cleary commented that syndicate managers also need to treat unsecured and partly-secured receivables as unallowable assets, and this approach therefore would cause uncertainty with regard to net capital for syndicate managers.

In light of the comments received and further discussions regarding the current syndicate account settlement framework, FINRA has determined to modify the approach that was described in the *Notice* and amend FINRA Rule 11880 as described above. In this regard, FINRA believes that the proposed amendments to FINRA Rule 11880 most directly and fairly balance the goals of reducing exposure of syndicate members to the credit risk of the syndicate manager during the pendency of account settlements and providing syndicate members with earlier access to the funds earned from an offering with preserving the ability of syndicate managers to effectively run the settlement process and thereby limit resettlements. After gaining experience with the two-stage—70/30—syndicate account settlement approach, FINRA will consider whether to reduce the 90-day time period for final settlement to align with the MSRB timeframe.

3. Definition of Corporate Debt Security

In the *Notice,* FINRA proposed defining a ''corporate debt security'' as a type of ''TRACE-Eligible Security'' that is U.S. dollar-denominated and issued by a U.S. or foreign private issuer. BDA and Loop Capital expressed support for the definition of ''corporate debt security'' proposed in the *Notice* by stating that it generally captures the universe of corporate bonds for which a move to a 30-day settlement timeframe would be easily achievable. Mizuho similarly expressed support for the definition of ''corporate debt security'' proposed in the *Notice.* BDA and Loop Capital specifically suggested that the definition should include securitized products as defined in FINRA Rule 6710(m), because the process for managing the syndicate account, paying vendors, and releasing deal revenue to comanagers is virtually the same for both corporate bonds and publicly offered securitized products.

However, Cleary opposed including asset-backed securities in the definition and stated that those securities are often composed of multiple tranches, and offerings of these securities often navigate novel, multi-jurisdictional legal issues. FINRA has determined that it is appropriate that the proposed modifications to the syndicate account settlement process also apply to public offerings of corporate debt securities that are securitized products. Therefore, the proposed definition of ''corporate debt security'' in Rule 11880 would include securitized products.

4. Public Offerings of Equity Securities

In response to a question posed in the *Notice* regarding whether the period permitted for the final settlement of syndicate accounts for public offerings of corporate equity securities should be shortened, Cleary stated that the time period should not be less than 90 days because equity offerings are likely to be more complicated than debt offerings, including requiring more diligence and marketing. Mizuho also opposed reducing the timeframe for settling equity syndicate accounts from 90 days to 30 days. However, Loop Capital argued that the time period for settling equity syndicate accounts should be reduced from 90 days and supported the adoption of a two-stage approach for such offerings. FINRA has determined at this time not to propose an amendment to reduce the syndicate account settlement timeframe for equity offerings.

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

Within 45 days of the date of publication of this notice in the **Federal Register** or within such longer period up to 90 days of such date (i) as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

(A) by order approve or disapprove such proposed rule change, or

(B) institute proceedings to determine whether the proposed rule change should be disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic Comments

- Use the Commission's internet comment form (*http://www.sec.gov/rules/sro.shtml*); or
- Send an email to *rule-comments@sec.gov.* Please include File Number SR–FINRA–2022–025 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.

[25] BDA submitted three comment letters in response to the *Notice.*

All submissions should refer to File Number SR–FINRA–2022–025. 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 FINRA. 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–FINRA–2022–025 and should be submitted on or before September 8, 2022.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[26]

J. Matthew DeLesDernier,

Deputy Secretary.

[FR Doc. 2022–17745 Filed 8–17–22; 8:45 am]

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–95497; File No. SR–CboeEDGX–2022–004]

Self-Regulatory Organizations; Cboe EDGX Exchange, Inc.; Notice of Withdrawal of a Proposed Rule Change To Codify Certain Practices and Requirements Related to the Exchange's Port Message Rate Thresholds

August 12, 2022.

On January 21, 2022, Cboe EDGX Exchange, Inc. (''Exchange'') 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,[2] a proposed rule change to codify certain practices and requirements related to the Exchange's port message rate thresholds. The proposed rule change was published for comment in the **Federal Register** on February 9, 2022.[3] On March 23, 2022, pursuant to Section 19(b)(2) of the Act,[4] the Commission designated a longer period within which to approve the proposed rule change, disapprove the proposed rule change, or institute proceedings to determine whether to disapprove the proposed rule change.[5] On May 10, 2022, the Commission instituted proceedings under Section 19(b)(2)(B) of the Act[6] to determine whether to approve or disapprove the proposed rule change.[7] The Commission has received no comment letters on the proposed rule change. On July 21, 2022, the Exchange withdrew the proposed rule change (CboeEDGX–2022–004).

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[8]

J. Matthew DeLesDernier,

Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–95495; File No. SR–NASDAQ–2022–047]

Self-Regulatory Organizations; The Nasdaq Stock Market LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Amend Rule Nasdaq Equity 6, Section 5

August 12, 2022.

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 August 8, 2022, 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, II, and III, 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 amend Rule Nasdaq Equity 6, Section 5 (Risk Settings) to provide Participants with additional optional settings.

The text of the proposed rule change is available on the Exchange's website at *https://listingcenter.nasdaq.com/rulebook/nasdaq/rules,* 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.

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

1. Purpose

The purpose of the proposed rule changes under Rule Nasdaq Equity 6, Section 5 (Risk Settings) is to provide Participants[3] with additional optional settings to assist them in their efforts to

[26] 17 CFR 200.30–3(a)(12).

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

[2] 17 CFR 240.19b–4.

[3] *See* Securities Exchange Act Release No. 94144 (February 3, 2022), 87 FR 7519.

[4] 15 U.S.C. 78s(b)(2).

[5] *See* Securities Exchange Act Release No. 94496, 87 FR 18410 (March 30, 2022). The Commission designated May 10, 2022 as the date by which the Commission shall approve or disapprove, or institute proceedings to determine whether to disapprove, the proposed rule change.

[6] 15 U.S.C. 78s(b)(2)(B).

[7] *See* Securities Exchange Act Release No. 94883, 87 FR 29776 (May 16, 2022).

[8] 17 CFR 200.30–3(a)(12).

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

[2] 17 CFR 240.19b–4.

[3] Pursuant to Rule Nasdaq Equity 1, Section 1(a)(5), a ''Participant'' is defined as an entity that fulfills the obligations contained in Equity 2, Section 3 regarding participation in the System, and shall include: (1) ''Nasdaq ECNs,'' members that meet all of the requirements of Equity 2, Section 14, and that participates in the System with respect to one or more System Securities; (2) ''Nasdaq Market Makers'' or ''Market Makers'', members that are registered as Nasdaq Market Makers for purposes of participation in the System on a fully automated basis with respect to one or more System securities; and (3) ''Order Entry Firms,'' members that are registered as Order Entry Firms for purposes of entering orders in System Securities into the System. This term shall also include any Electronic Communications Network or Alternative Trading System (as such terms are defined in Regulation NMS) that fails to meet all the requirements of Equity 2, Section 14.