



8011-01p
SECURITIES AND EXCHANGE COMMISSION
[Release No. 34-80933; File No. SR-NYSE-2017-30]

Self-Regulatory Organizations; New York Stock Exchange LLC; Notice of Filing of Proposed Rule Change to Amend Section 102.01B of the NYSE Listed Company Manual to Provide for the Listing of Companies that List Without a Prior Exchange Act Registration and that Are Not Listing in Connection with an Underwritten Initial Public Offering and Related Changes to Rules 15, 104, and 123D

June 15, 2017.

Pursuant to Section 19(b)(1)¹ of the Securities Exchange Act of 1934 (the “Act”)² and Rule 19b-4 thereunder,³ notice is hereby given that, on June 13, 2017, New York Stock Exchange LLC (“NYSE” or the “Exchange”) filed with the Securities and Exchange Commission (the “Commission”) the proposed rule change as described in Items I and II below, which Items have been prepared by the self-regulatory organization. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The Exchange proposes to amend: (i) Footnote (E) to Section 102.01B of the NYSE Listed Company Manual (the “Manual”) to modify the provisions relating to the qualification of companies listing without a prior Exchange Act registration; (ii) Rule 15 to add a Reference Price for when a security is listed under Footnote (E) to Section 102.01B; (iii) Rule 104 to specify DMM requirements when a security is listed under Footnote (E) to Section 102.01B and there has been no trading in the private market for such security; and (iv) Rule 123D to specify that the Exchange may declare a regulatory halt in a security that is the subject of an initial

¹ 15 U.S.C.78s(b)(1).

² 15 U.S.C. 78a.

³ 17 CFR 240.19b-4.

public offering (“IPO”) or initial listing on the Exchange. The proposed rule change is available on the Exchange’s website at www.nyse.com, at the principal office of the Exchange, and at the Commission’s Public Reference Room.

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

In its filing with the Commission, the self-regulatory organization included statements concerning the purpose of, and basis for, the proposed rule change and discussed any comments it received on the proposed rule change. The text of those statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant parts of such statements.

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

1. Purpose

The Exchange proposes to amend: (i) Footnote (E) to Section 102.01B of the Manual to modify the provisions relating to the qualification of companies listing without a prior Exchange Act registration; (ii) Rule 15 to add a Reference Price for when a security is listed under Footnote (E) to Section 102.01B; (iii) Rule 104 to specify DMM requirements when a security is listed under Footnote (E) to Section 102.10B and there has been no trading in the private market for such security; and (iv) Rule 123D to specify that the Exchange may declare a regulatory halt in a security that is the subject of an IPO or initial listing on the Exchange

Amendments to Footnote (E) to Section 102.01B

Generally, the Exchange expects to list companies in connection with a firm commitment underwritten IPO, upon transfer from another market, or pursuant to a spin-off. Companies listing in connection with an IPO must demonstrate that they have \$40 million in market value of

publicly-held shares,⁴ while companies that are listing upon transfer from another exchange or the over-the counter market or pursuant to a spin-off must demonstrate that they have \$100 million in market value of publicly-held shares.

Section 102.01B currently contains a provision under which the Exchange recognizes that some companies that have not previously had their common equity securities registered under the Exchange Act, but which have sold common equity securities in a private placement, may wish to list their common equity securities on the Exchange at the time of effectiveness of a registration statement filed solely for the purpose of allowing existing shareholders to sell their shares. Footnote (E) to Section 102.01B provides that the Exchange will, on a case by case basis, exercise discretion to list such companies. In exercising this discretion, Footnote (E) provides that the Exchange will determine that such company has met the \$100 million aggregate market value of publicly-held shares requirement based on a combination of both (i) an independent third-party valuation (a “Valuation”) of the company and (ii) the most recent trading price for the company's common stock in a trading system for unregistered securities operated by a national securities exchange or a registered broker-dealer (a “Private Placement Market”). The Exchange will attribute a market value of publicly-held shares to the company equal to the lesser of (i) the value calculable based on the Valuation and (ii) the value calculable based on the most recent trading price in a Private Placement Market.

Any Valuation used for purposes of Footnote (E) must be provided by an entity that has significant experience and demonstrable competence in the provision of such valuations. The Valuation must be of a recent date as of the time of the approval of the company for listing and

⁴ Shares held by directors, officers, or their immediate families and other concentrated holdings of 10 percent or more are excluded in calculating the number of publicly-held shares.

the evaluator must have considered, among other factors, the annual financial statements required to be included in the registration statement, along with financial statements for any completed fiscal quarters subsequent to the end of the last year of audited financials included in the registration statement. The Exchange will consider any market factors or factors particular to the listing applicant that would cause concern that the value of the company had diminished since the date of the Valuation and will continue to monitor the company and the appropriateness of relying on the Valuation up to the time of listing. In particular, the Exchange will examine the trading price trends for the stock in the Private Placement Market over a period of several months prior to listing and will only rely on a Private Placement Market price if it is consistent with a sustained history over that several month period evidencing a market value in excess of the Exchange's market value requirement. The Exchange may withdraw its approval of the listing at any time prior to the listing date if it believes that the Valuation no longer accurately reflects the company's likely market value.

While Footnote (E) to Section 102.01B provides for a company listing upon effectiveness of a selling shareholder registration statement, it does not make any provision for a company listing in connection with the effectiveness of an Exchange Act registration statement in the absence of an IPO or other Securities Act registration. A company is able to become an Exchange Act registrant without a concurrent public offering by filing a Form 10 (or, in the case of a foreign private issuer, a Form 20-F) with the SEC. The Exchange believes that it is appropriate to list companies that wish to list immediately upon effectiveness of an Exchange Act registration statement without a concurrent Securities Act registration provided the applicable company meets all other listing requirements. Consequently, the Exchange proposes to amend Footnote (E) to Section 102.01B to explicitly provide that it applies to companies

listing upon effectiveness of an Exchange Act registration statement without a concurrent Securities Act registration as well as to companies listing upon effectiveness of a selling shareholder registration statement.

The Exchange notes that the requirement of Footnote (E) that the Exchange should rely on recent Private Placement Market trading in addition to a Valuation may cause difficulties for certain companies that are otherwise clearly qualified for listing. Some companies that are clearly large enough to be suitable for listing on the Exchange do not have their securities traded at all on a Private Placement Market prior to going public. In other cases, the Private Placement Market trading is too limited to provide a reasonable basis for reaching conclusions about a company's qualification. Consequently, the Exchange proposes to amend Footnote (E) to provide an exception to the Private Placement Market trading requirement for companies with respect to which there is a recent Valuation available indicating at least \$250 million in market value of publicly-held shares. Adopting a requirement that the Valuation must be at least two-and-a-half times the \$100 million requirement will give a significant degree of comfort that the market value of the company's shares will meet the standard upon commencement of trading on the Exchange. The Exchange notes that it is unlikely that any Valuation would reach a conclusion that was incorrect to the degree necessary for a company using this provision to fail to meet the \$100 million requirement upon listing, in particular because any Valuation used for this purpose must be provided by an entity that has significant experience and demonstrable competence in the provision of such valuations.

The Exchange proposes to further amend Footnote (E) by providing that a valuation agent will not be deemed to be independent if:

- At the time it provides such valuation, the valuation agent or any affiliated person or persons beneficially own in the aggregate as of the date of the valuation, more than 5% of the class of securities to be listed, including any right to receive any such securities exercisable within 60 days.
- The valuation agent or any affiliated entity has provided any investment banking services to the listing applicant within the 12 months preceding the date of the valuation. For purposes of this provision, "investment banking services" includes, without limitation, acting as an underwriter in an offering for the issuer; acting as a financial adviser in a merger or acquisition; providing venture capital, equity lines of credit, PIPEs (private investment, public equity transactions), or similar investments; serving as placement agent for the issuer; or acting as a member of a selling group in a securities underwriting.
- The valuation agent or any affiliated entity has been engaged to provide investment banking services to the listing applicant in connection with the proposed listing or any related financings or other related transactions.

The Exchange believes that this proposed new requirement will provide a significant additional guarantee of the independence of any entity providing a Valuation for purposes of Footnote (E).

The proposed amendments would enable the Exchange to compete for listings of companies that the Exchange believes would be able to list on the Nasdaq Stock Market

(“Nasdaq”) but would not be able to list on the NYSE under its current rules. Nasdaq’s initial listing rules do not explicitly address how Nasdaq determines compliance with its initial listing market capitalization requirements by private companies seeking to list upon effectiveness of a selling shareholder registration statement or Exchange Act registration without a concurrent underwritten public offering. However, over an extended period of time Nasdaq has listed a number of previously private companies in conjunction with the effectiveness of a selling shareholder registration statement without an underwritten offering. In light of this precedent and the absence of any Nasdaq rule provision explicitly limiting the ability of a company to qualify for listing without a public offering or prior public market price, the Exchange believes that Nasdaq would take the position that it could also list a previously private company upon effectiveness of an Exchange Act registration statement without a concurrent public offering. Therefore, the Exchange believes that its proposed amendment would permit it to compete on equal terms with Nasdaq for the listing of companies seeking to list in either of these circumstances.

The Exchange believes that it is important to have a transparent and consistent approach to determining compliance with applicable market capitalization requirements by previously private companies seeking to list without a public offering and that Footnote (E) to Section 102.01B as amended would provide such a mechanism. In the absence of the proposed amendments, companies listing upon effectiveness of an Exchange Act registration statement would have no means of listing on the NYSE, while the Exchange believes that Nasdaq would interpret its own rules as enabling it to list a company under those circumstances. As such, the proposed amendment would address a significant competitive disadvantage faced by the NYSE,

while also providing certain companies with an alternative listing venue where none currently exists.

Proposed Amendments to NYSE Rules

The Exchange proposes to amend its rules governing the opening of trading to specify procedures for the opening trade on the day of initial listing of a company that lists under the amended provisions of Footnote (E) to Section 102.01B of the Manual and that did not have any recent trading in a Private Placement Market before listing on the Exchange.⁵ The Exchange proposes that the issuer must retain a financial advisor to provide specified functions, as described below.

Rule 15

Rule 15(b) provides that a designated market maker (“DMM”) will publish a pre-opening indication either (i) before a security opens if the opening transaction on the Exchange is anticipated to be at a price that represents a change of more than the “Applicable Price Range,” as specified in Rule 15(d), from a specified “Reference Price,” as specified in Rule 15(c), or (ii) if a security has not opened by 10:00 a.m. Eastern Time. Rule 15(c)(1) specifies the Reference Price for a security other than an American Depositary Receipt, which would be either (A) the security’s last reported sale price on the Exchange; (B) the security’s offering price in the case of an IPO; or (C) the security’s last reported sale price on the securities market from which the security is being transferred to the Exchange, on the security’s first day of trading on the Exchange.

⁵ For purposes of the proposed provision, the Exchange would generally require an issuer to have a financial advisor if there had been no trades on a Private Placement Market within 90 days of the date of listing.

The Exchange proposes to amend Rule 15(c)(1) to add new sub-paragraph (D) to specify the Reference Price for a security that is listed under Footnote (E) to Section 102.01B of the Manual. As proposed, the Reference Price in such scenario would be the most recent transaction price in a Private Placement Market or, if none, a price determined by the Exchange in consultation with a financial advisor to the issuer of such security.

Rule 104

Rule 104(a)(2) provides that the DMM has a responsibility for facilitating openings and reopenings for each of the securities in which the DMM is registered as required under Exchange rules, which includes supplying liquidity as needed.⁶ The Exchange proposes to amend Rule 104(a)(2) to specify the role of a financial advisor to an issuer that is listing under Footnote (E) to Section 102.01B of the Manual and that has not had any recent trading in a Private Placement Market.

As described above, an issuer that seeks to list under Footnote (E) to Section 102.01B and that does not have any recent Private Market Placement trading would be required to have a financial advisor in connection with such listing. The Exchange proposes that the DMM would be required to consult with such financial advisor when facilitating the open of trading of the first day of trading of such listing. This requirement is based in part on Nasdaq Rule 4120(c)(9), which requires that a new listing on Nasdaq that is not an IPO have a financial advisor willing to

⁶ Rules 15, 115A, and 123D specify the procedures for opening securities on the Exchange.

perform the functions performed by an underwriter in connection with pricing an IPO on Nasdaq.⁷

The Exchange believes that such a financial advisor would have an understanding of the status of ownership of outstanding shares in the company and would have been working with the issuer to identify a market for the securities upon listing. Such financial advisor would be able to provide input to the DMM regarding expectations of where such a new listing should be priced, based on pre-listing selling and buying interest and other factors that would not be available to the DMM through other sources.

To effect this change, the Exchange proposes to amend Rule 104(a)(3) to provide that when facilitating the opening of a security that is listed under Footnote (E) to Section 102.01B of the Manual and that has not had any recent trading in a Private Placement Market, the DMM would be required to consult with a financial advisor to the issuer of such security in order to effect a fair and orderly opening of such security.

Notwithstanding the proposed obligation to consult with the financial advisor, the DMM would remain responsible for facilitating the opening of trading of such security, and the opening

⁷ Nasdaq operates an automated IPO opening process, which is described in Nasdaq Rule 4120(c)(8). In contrast to the NYSE, which has DMMs to facilitate the opening of trading, for an IPO, Nasdaq requires that the underwriter of the IPO perform specified functions, including (i) notifying Nasdaq that the security is ready to trade; (ii) determining whether an IPO should be postponed; and (iii) selecting price bands for purposes of applying Nasdaq's automated price validation test. Nasdaq Rule 4120(c)(9) requires that if a new listing does not have an underwriter, the issuer must have a financial advisor willing to perform the above-described functions. The functions that the underwriter/financial advisor performs on Nasdaq as described in Rule 4120(c)(8) are not applicable to the Exchange. The Exchange opening process does not have a concept of "price bands" because, as described in Rule 115A, market orders and limit orders priced better than the opening price are guaranteed to participate in the IPO opening. In addition, because the Exchange does not conduct an automated opening process, the DMM functions as an independent financial expert responsible for facilitating the opening of trading to ensure a fair and orderly opening.

of such security must take into consideration the buy and sell orders available on the Exchange's book in connection. Accordingly, just as a DMM is not bound by an offering price in an IPO, and will open such a security at a price dictated by the buying and selling interest entered on the Exchange in that security, a DMM would not be bound by the input he or she receives from the financial advisor.

Rule 123D

The Exchange further proposes to amend its rules to provide authority to declare a regulatory halt for a new listing. As proposed, Rule 123D(d) would provide that the Exchange may declare a regulatory halt in a security that is the subject of: (1) an initial public offering on the Exchange; or (2) an initial pricing on the Exchange of a security that has not been listed on a national securities exchange or traded in the over-the-counter market pursuant to FINRA Form 211 ("OTC market") immediately prior to the initial pricing.⁸

Proposed Rule 123D(d)(1) is based on Nasdaq Rule 4120(a)(7), which provides that Nasdaq may halt trading in a security that is the subject of an IPO on Nasdaq.

Proposed Rule 123D(d)(2) is based in part on Nasdaq Rule 4120(c)(9), which provides that the process for halting and initial pricing of a security that is the subject of an IPO on Nasdaq is also available for the initial pricing of any other security that has not been listed on a national securities exchange or traded in the OTC market immediately prior to the initial public offering, provided that a broker-dealer serving in the role of financial advisor to the issuer of the securities being listed is willing to perform the functions under Rule 4120(c)(7)(B) that are

⁸ The Exchange proposes to re-number current Rule 123D(d) as Rule 123D(e).

performed by an underwriter with respect to an initial public offering.⁹

Proposed Rule 123D(d)(2) would provide authority for the Exchange to declare a regulatory halt for a security that is having its initial listing on the Exchange, is not an IPO, and has not been listed on a national securities exchange or traded in the OTC market immediately prior to the initial pricing (“non-IPO listing”). The Exchange does not propose to include the last clause of Nasdaq Rule 4120(c)(9) in proposed Rule 123D(d)(2). Rather, as described above, the Exchange proposes to address the role of a financial advisor to an issuer in specified circumstances in Rule 104(a)(3).

The Exchange believes that it would be consistent with the protection of investors and the public interest for the Exchange, as a primary listing exchange, to have authority to declare a regulatory halt for security that is the subject of an IPO or a non-IPO listing. For example, the Exchange believes that it would be consistent with the protection of investors and the public interest for the Exchange to have the authority to declare a regulatory halt if there is a systems or technology issue in connection with the opening IPO transaction.

2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b)¹⁰ of the Act, in general, and furthers the objectives of Section 6(b)(5) of the Act,¹¹ in particular in that it is designed to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with

⁹ The Exchange believes that the correct cross reference should be to Nasdaq Rule 4120(c)(8)(B). Nasdaq Rule 4120(c)(8) specifies Nasdaq procedures for how it conducts its crossing trade following a trading halt declared for an IPO on Nasdaq, including the role of an underwriter in determining when an IPO may be released for trading.

¹⁰ 15 U.S.C. 78f(b).

¹¹ 15 U.S.C. 78f(b)(5).

respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest and is not designed to permit unfair discrimination between customers, issuers, brokers, or dealers. The proposed rule change would foster cooperation and coordination with persons engaged in clearing and settling transactions in securities, thereby facilitating such transactions.

The proposal to permit companies listing upon effectiveness of an Exchange Act registration statement without a concurrent public offering or Securities Act registration is designed to protect investors and the public interest, because such companies will be required to meet all of the same quantitative requirements met by other listing applicants. The proposal to amend Footnote (E) to Section 102.01B of the Manual to allow companies to avail themselves of that provision without any reliance on Private Placement Market trading is designed to protect investors and the public interest because any company relying solely on a valuation to demonstrate compliance with the market value of publicly-held shares requirement will be required to demonstrate a market value of publicly-held shares of \$250 million, rather than the \$100 million that is generally applicable. The proposal to include a definition of valuation agent independence in Footnote (E) is consistent with the protection of investors, as it ensures that any entity providing a Valuation for purposes of Footnote (E) will have a significant level of independence from the listing applicant.

The Exchange believes that the proposed amendments to Rules 15 and 104 would remove impediments to and perfect the mechanism of a free and open market and a national market system because the proposed rule changes would specify requirements relating to the opening of a trading of a security that would be listed under the proposed amended text of Footnote (E) to

Section 102.01B of the Manual. The proposed amendments to Exchange rules are designed to provide DMMs with information to assist them in meeting their obligations to open a new listing under the amended provisions of the Manual. Rule 15 would be amended to specify the Reference Price that the DMM would use for purposes of determining whether a pre-opening indication is required and Rule 104 would be amended to provide that the DMM will consult with a financial advisor when facilitating the opening of a security that is listed under Footnote (E) to Section 102.01B of the Manual and that has not had any recent trading in a Private Placement Market.

The Exchange believes that the proposed amendments to Rule 123D to provide authority to declare a regulatory halt in a security subject to an IPO on non-IPO listing would remove impediments to and perfect the mechanism of a free and open market and a national market system because it would provide the Exchange with authority to halt trading across all markets for a security that has not previously listed on the Exchange, but for which a regulatory halt would promote fair and orderly markets. The proposed rule change would also align halt rule authority among primary listing exchanges. The Exchange further believes that having the authority to declare a regulatory halt for a security that is the subject of an IPO or non-IPO listing is consistent with the protection of investors and the public interest and would promote fair and orderly markets by helping to protect against volatility in pricing and initial trading of unseasoned securities.

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

The Exchange does not believe that the proposed amendment to Footnote (E) to Section 102.01B of the Manual will impose any burden on competition that is not necessary or appropriate in furtherance of the purpose of the Exchange Act. Rather, the proposed rule change

will increase competition for new listings by enabling companies to list that meet all quantitative requirements but are currently unable to list because of the methodology required by the current rules to demonstrate their compliance.

As noted above, Nasdaq's listing rules do not include explicit limitations applicable to the listing of companies in these circumstances. Additionally, Nasdaq has listed previously private companies upon effectiveness of a selling shareholder registration statement without a concurrent underwritten offering on several occasions in the past. In light of this precedent and the absence of any Nasdaq rule provision explicitly limiting the ability of a company to qualify for listing without a public offering or prior public market price, the Exchange believes that Nasdaq would take the position that it could also list a previously private company upon effectiveness of an Exchange Act registration statement without a concurrent public offering. As such, the proposed amendment to Footnote (E) to Section 102.01B of the Manual would increase competition by enabling the NYSE to compete with Nasdaq for these listings.

The Exchange does not believe that the proposed amendments to its Rule Book will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Exchange Act. Specifically, the Exchange believes that the changes are not related to competition, but rather are designed to promote fair and orderly markets in a manner that is consistent with the protection of investors and the public interest. The proposed changes do not impact the ability of any market participant or trading venue to compete.

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

No written comments were solicited or received with respect to the proposed rule change.

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 up to 90

days (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 the 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 e-mail to rule-comments@sec.gov. Please include File Number SR-NYSE-2017-30 on the subject line.

Paper comments:

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

All submissions should refer to File Number SR-NYSE-2017-30. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>).

Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those

that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-NYSE-2017-30 and should be submitted on or before [INSERT DATE 21 DAYS FROM PUBLICATION IN THE FEDERAL REGISTER].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹²

Eduardo A. Aleman
Assistant

Secretary

¹² 17 CFR 200.30-3(a)(12).

