Executive Order 12333—United States intelligence activities. The discussion will allow the Board to refine its plan of action on this issue.

Procedures for public observation: The meeting is open to the public. Pre-registration is not required. Individuals who plan to attend and require special assistance should contact Executive Director Sharon Bradford Franklin at 202–331–2986, at least 72 hours prior to the meeting date.


Dated: March 24, 2015.

Lynn Parker Dupree,
Acting General Counsel, Privacy and Civil Liberties Oversight Board.

BILLING CODE 6820–B3–P

SECURITIES AND EXCHANGE COMMISSION


Self-Regulatory Organizations; Municipal Securities Rulemaking Board; Notice of Filing of a Proposed Rule Change Consisting of Proposed Amendments to the MSRB Rule G–14 RTRS Procedures, and the Real-Time Transaction Reporting System and Subscription Service


Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”) and Rule 19b–4 thereunder, notice is hereby given that on March 19, 2015, the Municipal Securities Rulemaking Board (the “MSRB” or “Board”) filed with the Securities and Exchange Commission (the “SEC” or “Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the MSRB. 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 MSRB filed with the Commission a proposed rule change consisting of proposed amendments to the MSRB Rule G–14 RTRS Procedures, and the Real-Time Transaction Reporting System and subscription service (collectively, the “proposed rule change”). The MSRB is proposing that the effective date for the proposed rule change be no later than May 23, 2016 and announced by the MSRB in a notice published on the MSRB Web site no later than sixty (60) days prior to the effective date.


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 MSRB 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 MSRB 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

MSRB Rule G–14, on reports of sales or purchases, requires brokers, dealers and municipal securities dealers (collectively “dealers”) to report all executed transactions in municipal securities to RTRS within 15 minutes of the time of trade, with limited exceptions. RTRS serves the dual objectives of price transparency and market surveillance. Because a comprehensive database of transactions is needed for the surveillance function of RTRS, Rule G–14, with limited exceptions, requires dealers to report all of their purchase-sale transactions to RTRS, not only those that qualify for public dissemination to serve the transparency function of the system. The MSRB makes transaction data available to the general public through the Electronic Municipal Market Access (“EMMA”) Web site at no cost, and disseminates such data through paid subscription services to market data vendors, institutional market participants and others that subscribe to the data feed.

As more fully described below, the proposed rule change would enhance the post-trade price transparency information provided through RTRS by:

• Expanding the application of the existing list offering price and takedown indicator to cases involving distribution participant dealers and takedown transactions that are not at a discount from the list offering price;
• eliminating the requirement for dealers to report yield on customer trade reports and, instead, enabling the MSRB to calculate and disseminate yield on customer trades;
• establishing a new indicator for customer trades involving non-transaction-based compensation arrangements; and
• establishing a new indicator for alternative trading system (“ATS”) transactions.

Expanding the Application of Existing List Offering Price and RTRS Takedown Indicator

Transaction reporting procedures require dealers that are part of the underwriting group for a new issuance of municipal securities to include an indicator on trade reports, which indicator is disseminated to the public, for transactions executed on the first day of trading in a new issue with prices set under an offering agreement for the new issue. These transactions include sales to customers by a sole underwriter, syndicate manager, syndicate member or selling group member at the published list offering price for the security (“List Offering Price Transaction”) or by a sole underwriter or syndicate manager to a syndicate or selling group member at a discount from the published list offering price for the security (“RTRS Takedown Transaction”). Such trade reports are provided an end-of-day exception from Rule G–14’s general 15-minute reporting requirement.

Since the introduction of the List Offering Price Transaction indicator in 2005 and RTRS Takedown Transaction indicator in 2007, certain market practices in this area have evolved. First, outside of traditional underwriting syndicates or selling groups, some dealers have entered into long-term marketing arrangements with other dealers that serve in the syndicate or selling group relating to purchases and re-sales of new issue securities.

Securities and Exchange Commission


Self-Regulatory Organizations; Municipal Securities Rulemaking Board; Notice of Filing of a Proposed Rule Change Consisting of Proposed Amendments to the MSRB Rule G–14 RTRS Procedures, and the Real-Time Transaction Reporting System and Subscription Service


Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”) and Rule 19b–4 thereunder, notice is hereby given that on March 19, 2015, the Municipal Securities Rulemaking Board (the “MSRB” or “Board”) filed with the Securities and Exchange Commission (the “SEC” or “Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the MSRB. 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 MSRB filed with the Commission a proposed rule change consisting of proposed amendments to the MSRB Rule G–14 RTRS Procedures, and the Real-Time Transaction Reporting System and subscription service (collectively, the “proposed rule change”). The MSRB is proposing that the effective date for the proposed rule change be no later than May 23, 2016 and announced by the MSRB in a notice published on the MSRB Web site no later than sixty (60) days prior to the effective date.


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 MSRB 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 MSRB 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

MSRB Rule G–14, on reports of sales or purchases, requires brokers, dealers and municipal securities dealers (collectively “dealers”) to report all executed transactions in municipal securities to RTRS within 15 minutes of the time of trade, with limited exceptions. RTRS serves the dual objectives of price transparency and market surveillance. Because a comprehensive database of transactions is needed for the surveillance function of RTRS, Rule G–14, with limited exceptions, requires dealers to report all of their purchase-sale transactions to RTRS, not only those that qualify for public dissemination to serve the transparency function of the system. The MSRB makes transaction data available to the general public through the Electronic Municipal Market Access (“EMMA”) Web site at no cost, and disseminates such data through paid subscription services to market data vendors, institutional market participants and others that subscribe to the data feed.

As more fully described below, the proposed rule change would enhance the post-trade price transparency information provided through RTRS by:

• Expanding the application of the existing list offering price and takedown indicator to cases involving distribution participant dealers and takedown transactions that are not at a discount from the list offering price;
• eliminating the requirement for dealers to report yield on customer trade reports and, instead, enabling the MSRB to calculate and disseminate yield on customer trades;
• establishing a new indicator for customer trades involving non-transaction-based compensation arrangements; and
• establishing a new indicator for alternative trading system (“ATS”) transactions.

Expanding the Application of Existing List Offering Price and RTRS Takedown Indicator

Transaction reporting procedures require dealers that are part of the underwriting group for a new issuance of municipal securities to include an indicator on trade reports, which indicator is disseminated to the public, for transactions executed on the first day of trading in a new issue with prices set under an offering agreement for the new issue. These transactions include sales to customers by a sole underwriter, syndicate manager, syndicate member or selling group member at the published list offering price for the security (“List Offering Price Transaction”) or by a sole underwriter or syndicate manager to a syndicate or selling group member at a discount from the published list offering price for the security (“RTRS Takedown Transaction”). Such trade reports are provided an end-of-day exception from Rule G–14’s general 15-minute reporting requirement.

Since the introduction of the List Offering Price Transaction indicator in 2005 and RTRS Takedown Transaction indicator in 2007, certain market practices in this area have evolved. First, outside of traditional underwriting syndicates or selling groups, some dealers have entered into long-term marketing arrangements with other dealers that serve in the syndicate or selling group relating to purchases and re-sales of new issue securities.

3 Transactions in securities without CUSIP numbers, in municipal fund securities, and certain inter-dealer securities movements not eligible for comparison through a clearing agency are the only transactions exempt from the reporting requirements of Rule G–14.
4 In this respect, RTRS serves as an audit trail for securities and certain internal movements of securities within dealers that currently are not required to be reported, customer identifications, and other related specific items of information. Compare Consolidated Audit Trail, Release No. 34–67457 (July 18, 2012), 77 FR 45722 (August 1, 2012), File No. S7–11–10.
Since April 30, 2012, the MSRB has calculated and included in disseminated RTRS information the yield on inter-dealer trades computed in the same manner as required for customer trades.6

The proposed rule change would eliminate the requirement for dealers to include yield on customer trade reports.7 Consistent with the manner in which the MSRB calculates and includes in disseminated RTRS information yield on inter-dealer trades, the MSRB would calculate and disseminate yield on customer trade reports.8 This would remove one aspect of a dealer’s burden in reporting customer transactions to the MSRB in compliance with MSRB Rule G–149 and ensure that the calculation and dissemination of yields for both inter-dealer and customer transactions are consistent.

Establishing a New Indicator for Customer Trades Involving Non-Transaction-Based Compensation Arrangements

For principal transactions by dealers, the trade price reported to and publicly disseminated by the MSRB includes all aspects of the price, including any mark-up or mark-down that compensates the dealer for executing the transaction. In agency transactions, dealers are required to report to the MSRB both the price of the security and the commission charged to the customer. The prices publicly disseminated for agency transactions incorporate the reported commission to provide for comparability with the prices for principal trades. However, dealers effecting transactions with customers as part of an arrangement that does not provide for dealer compensation to be paid on a transaction-based basis, such as in certain wrap fee arrangements, report to the MSRB transaction prices that do not include a compensation component.

To distinguish in the transaction information disseminated publicly between customer transactions that do not include a dealer compensation component and those that include a mark-up or mark-down or a commission, the proposed rule change would require dealers to include a new indicator on their trade reports that would be disseminated publicly. This would improve the usefulness of the transaction information disseminated publicly by enabling users of the price transparency information to distinguish those customer transactions that do not include a dealer compensation component.

Establishing a New Indicator for ATS Transactions

Dealers may use a variety of means to transact in municipal securities, including broker’s brokers or ATSs as well as traditional direct transactions with a known counterparty. The MSRB currently identifies all transactions reported as having been executed by a broker’s broker in the transaction information disseminated publicly. This identifier is applied based on the broker’s broker informing the MSRB that it acts in such capacity. The MSRB does not currently identify trades as having been executed through an ATS.

To better ascertain the extent to which ATSs are used in the municipal market and to indicate to market participants on disseminated transaction information that an ATS was used, the proposed rule change would establish an additional new indicator. For those ATSs that take a principal position between a buyer and seller, the ATS and the dealers that transact with the ATS would be required to include the ATS indicator on trade reports. In instances where an ATS connects a buyer and seller but does not take a principal or agency position between those parties and therefore does not have a transaction reporting requirement under MSRB rules, the dealers that transact with each other as a result of using the services of the ATS would be required to include the ATS indicator on their trade reports. In all cases, the ATS indicator would be included on transaction information.
understand the pricing of certain transactions as well as how such transactions were executed. As previously noted, identifying in disseminated transaction information that an ATS was employed should facilitate higher quality research and analysis of market structure by providing information about the extent to which ATSSs are used and should complement the existing indicator disseminated for transactions involving a broker’s broker.

Effective Date of the Proposed Rule Change

To provide time for the MSRB to undertake the programming changes to implement the proposed rule change, as well as to provide an adequate testing period for dealers and subscribers that interface with RTRS, the MSRB is proposing an effective date for the proposed rule change to be announced by the MSRB in a notice published on the MSRB Web site, which date shall be no later than May 23, 2016 and shall be announced no later than sixty (60) days prior to the effective date.

2. Statutory Basis

The MSRB believes that the proposed rule change is consistent with Section 15(b)(2)(C) of the Act, which provides that the MSRB’s rules shall:

be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in municipal securities and municipal financial products, to remove impediments to and perfect the mechanism of a free and open market in municipal securities and municipal financial products, and, in general, to protect investors, municipal entities, obligated persons, and the public interest.

The MSRB believes that the proposed rule change is consistent with the Act. The MSRB believes that the proposed rule change would remove impediments to and perfect the mechanism of a free and open market in municipal securities by increasing the quality and usefulness of the post-trade price transparency information provided through RTRS.

The MSRB believes the expansion of the application of the existing list offering price and takedown indicator to cases involving distribution participant dealers and takedown transactions that are not at a discount from the list offering price, establishment of a new indicator for customer trades involving non-transaction-based compensation arrangements, and establishment of a new indicator for ATS transactions would enable usage of the post-trade price transparency information provided through RTRS to better disseminated publicly. Identifying in disseminated transaction information that an ATS was employed should facilitate higher quality research and analysis of market structure by providing information about the extent to which ATSSs are used and should complement the existing indicator disseminated for transactions involving a broker’s broker.

The MSRB believes the expansion of the mechanism of a free and open market in securities and municipal financial products, to remove impediments to and perfect the mechanism of a free and open market in securities and municipal financial products, and, in general, to protect investors, municipal entities, obligated persons, and the public interest.

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The MSRB believes that the proposed rule change is consistent with the Act. The MSRB believes that the proposed rule change would remove impediments to and perfect the mechanism of a free and open market in municipal securities by increasing the quality and usefulness of the post-trade price transparency information provided through RTRS.

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nine commenters,17 and on the August Release from seven commenters.18 The portions of these notices relating to the proposed rule change, the comments received in response to such portions, and the MSRB’s responses are discussed below.19

Expanding the Application of Existing List Offering Price and RTRS Takedown Transaction indicators would be warranted given evolutions in market practices and the information publicly available through the EMMA Web site. The August Release proposed expanding the application of the List Offering Price Transaction and RTRS Takedown Transaction indicators to include scenarios where: (i) Dealers have entered into long-term marketing arrangements with other dealers that serve in the syndicate or selling group for purchasing and re-selling new issue securities (“distribution participant dealers”); (ii) takedown transactions are not at a discount from the list offering price; and (iii) offerings that occur over a number of days with different list offering prices set each day.

FIF–3 and SIFMA–3 stated support for expanding the application of the List Offering Price Transaction and RTRS Takedown Transaction indicators. With respect to including distribution participant dealers in the definition of which dealers must use the indicator, SIFMA–3 noted that these dealers perform “a similar function to a selling group member.” Further, in response to whether takedown transactions that are not at a discount from the list offering price, which would occur in the case of a group net or net designated order arrangement, should be included in the definition of an RTRS Takedown Transaction, FIF–3 and SIFMA–3 indicated support and SIFMA–3 stated that this change “will conform the rule to widespread industry practice” although FIF–3 noted that they “see this happening frequently in the corporate bond market but infrequently in the municipal bond market.”

Comments were mixed in response to whether offerings that occur over a number of days with different list offering prices set each day should be included in the List Offering Price Transaction and RTRS Takedown Transaction indicators. FIF–3 offered support for this change and stated that it “agree[s] that if the distribution occurs on days that are not the first day of trading of a new issue, the distribution should still be reported as the list price.” SIFMA–3 did not support this change and stated that this “change would be confusing for investors.”

After careful consideration of the comments received, and given the absence of evidence of widespread use of offerings occurring over a number of days with different list offering prices set each day, the MSRB has determined not to propose to expand the application of the indicator to address this scenario at this time, although the MSRB may revisit this issue if these types of offerings become more frequent.

Eliminating the Requirement for Dealers To Report Yield on Customer Trade Reports

The July and August Releases proposed to eliminate the requirement for dealers to include yield on customer trade reports and, instead, enable the MSRB to calculate and disseminate yield on customer trades. The August Release solicited input on whether this change would alleviate operational concerns cited by dealers in connection with reporting certain “away from market” trade reports.

BDA–3, FIF–2, FIF–3, IDC, SIFMA–2 and SIFMA–3 supported eliminating the requirement to include yield on customer trade reports. Eliminating this requirement would make the MSRB’s RTRS yield reporting requirements consistent with those established by Financial Industry Regulatory Authority (“FINRA”) for corporate bond transactions and reduce the amount of error feedback returned to dealers when minor discrepancies arise. BDA–3 stated that “MSRB’s calculation of yields would avoid differences in yield calculations across dealers due to security master differences” and “customers and dealers would also benefit from the improved consistency in the calculation of yield to worst.” SIFMA–3 noted that the “elimination of the broker-dealer requirement to report yield on customer trade reports does also alleviate some operational concerns in connection with reporting certain ‘away from market’ trade reports, such as transactions arising from customer repurchase agreements.”

FIF–3, SIFMA–2 and SIFMA–3 cited a concern related to potential differences in the yield calculated by MSRB and displayed on EMMA and the yield calculated by dealers and displayed on customer confirmations. FIF–3 stated that the MSRB should “consider the impact of discrepancies between the MSRB’s calculations and dealer-calculated yield to worst which will appear on a customer’s confirm” and recommends that the MSRB “[provide] guidance for cases where there are discrepancies between the MSRB’s calculations and dealer-calculated yield to worst on a customer’s confirm.” SIFMA–2 observed that dealers have the responsibility to report yield to customers on trade confirmations and that, due to the complicated nature of some redemption provisions, the dealer-calculated yield and the MSRB calculated yield may not always match precisely. FIF–2 and IDC suggested that the display of the date to which this
yield-to-worst calculation is determined would be helpful.

After carefully considering commenters’ concerns, the MSRB believes potential confusion would be addressed by additionally displaying on EMMA the calculation method (yield to call or maturity) and, for yield to call, the call date and price used. Under this approach, any differences between dealer and MSRB calculations could be understood by viewing the inputs the MSRB used in its calculation.

Establishing a New Indicator for Customer Trades Involving Non-Transaction-Based Compensation Arrangements

The July and August Releases proposed the establishment of a new indicator to distinguish in the price transparency data between customer transactions that do not include a dealer compensation component and those that include a mark-up or mark-down or a commission.

BDA–3, FIF–2, FIF–3, Ms. Long, SIFMA–2, SIFMA–3, and Wells Fargo favored the addition of an indicator for identifying transactions that are not inclusive of a compensation component.

SIFMA–2, however, opposed requiring the reporting of the details of the non-transaction based compensation arrangement. BDA–3 stated that a new indicator “would provide the users of trade transparency products with information that could explain certain variations in trade prices and assist in best execution determinations.”

SIFMA–3 suggested that, if the MSRB publicly disseminates the existing agency or principal trade indicator currently collected, this would accomplish the same benefit and also stated that the MSRB should not consider collecting information on the nature of alternative compensation beyond an indicator as such information would be burdensome to report.

The MSRB does not believe that SIFMA–3’s suggestion that disseminating the existing agency or principal trade indicator currently collected would help distinguish in the price transparency data customer transactions that do not include a dealer compensation component, particularly because the MSRB understands that both agency and principal transactions can occur under current market practices without a dealer compensation component. With respect to SIFMA–2’s view that the MSRB should not consider collecting information on the nature of alternative compensation, the MSRB notes that this was not contemplated in the July or August Release and is not part of the proposed rule change.

Establishing a New Indicator for ATS Transactions

The July and August Releases proposed adding an indicator to identify transactions executed using the services of an ATS, which indicator would be included in the information disseminated publicly. The August Release also proposed that, in instances where an ATS does not take a principal position between two dealers, each dealer would be required to report the identity of the ATS employed.

In response to the July Release, Ms. Long supported the addition of an ATS indicator on trades, and stated that the specific ATS used should be identified, initially for surveillance purposes and potentially for future public dissemination. FIF–2 noted operational burdens associated with identifying trades executed using the services of an ATS, particularly in instances where the ATS does not act as the counter-party to the trade. SIFMA–2 questioned the “tangible transparency benefits to the market” of including an ATS indicator.

In response to the August Release, SIFMA–3 and FIF–3 noted that this indicator would result in a cost to dealers to implement. SIFMA–3 stated that it “recognizes that the MSRB has a legitimate interest in determining ATS participation in the market, and likely has no other way to get this information on a real-time basis.” FIF–3 noted that FINRA is pursuing the establishment of a similar ATS indicator for corporate bond trade reports.

In response to a potential requirement that dealers also would need to identify in some cases the ATS employed, SIFMA–3 and FIF–3 suggested that this component would add operational complexity and compliance costs to the requirement. SIFMA–3 stated that “[a]lthough flagging these trades would be a significant operational and administrative burden, the burden would be minimized for the broker-dealer community if the result was a mere change in an ‘M code’” (which is the change that would be made to simply identify that an ATS was employed, exclusive of the ATS’s identity). FIF–3 stated in response to the proposed requirement to identify the ATS employed that they “believe this would be challenging to implement.”

From a market structure perspective, the MSRB believes that it is important to know the extent to which ATSs are employed for inter-dealer transactions as such information could inform future system development, research and rulemaking initiatives. While also having the identity of the ATS in instances where the ATS does not take a principal position between two dealers would increase the usefulness of the ATS indicator, the MSRB is sensitive to the burden such a requirement would impose, particularly given the future potential establishment by the MSRB of a pre-trade transparency system. The MSRB notes that under a comprehensive pre-trade transparency system, it is anticipated that the identity of each ATS would be known and the extent to which each is used in the municipal market would therefore be quantifiable. Accordingly, the MSRB believes that proceeding with the establishment of an ATS indicator, which the MSRB plans to implement utilizing the existing special condition indicator (the “M code”) field in RTRS, is appropriate. The MSRB, however, in acknowledgement of the burdens identified by commenters, has not included in this proposed rule change a requirement to report the identity of the ATS that was used.

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 of 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 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–MSRB–2015–02 on the subject line.

Paper Comments

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

All submissions should refer to File Number SR–MSRB–2015–02. This file number should be included on the
subject line if email is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission’s Internet Web site (http://www.sec.gov/rules/so.shtml). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for Web site viewing and printing in the Commission’s Public Reference Room, 100 F Street NE., Washington, DC 20549 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the MSRB. 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–MSRB–2015–02 and should be submitted on or before April 17, 2015.

For the Commission, pursuant to delegated authority.20

Brent J. Fields,
Secretary.

[FR Doc. 2015–06993 Filed 3–26–15; 8:45 am]
BILLING CODE 8011–01–P

SECURITIES AND EXCHANGE COMMISSION


Self-Regulatory Organizations: ICE Clear Credit LLC; Notice of Filing of Proposed Rule Change Relating to Physical Settlement of CDS Contracts


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 March 11, 2015, ICE Clear Credit LLC (“ICC” or the “clearinghouse”) 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 primarily by ICC. 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 purpose of the proposed rule change is to amend ICC rules to modify the terms and conditions for physical settlement of cleared CDS Contracts, and to adopt certain new delivery procedures relating to physical settlement.

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

In its filing with the Commission, ICC 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. ICC has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of these statements.

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

ICC submits proposed amendments to the ICC Clearing Rules (“ICC Rules”) relating to physical settlement of CDS Contracts. Upon the occurrence of a credit event under a cleared CDS Contract, the contract is typically settled in cash in accordance with the terms of the ICC Rules, which incorporate the applicable ISDA Credit Derivatives Definitions (the “ISDA Definitions”) and the market-standard credit default swap auction methodology for determining the cash settlement price. However, in certain circumstances, such as where the Credit Derivatives Determinations Committee decides not to hold a cash settlement auction for a particular credit event, or such an auction is cancelled under the terms of the auction methodology (including because of a failure to determine the auction settlement price), the CDS Contracts provide for a fallback settlement method of physical settlement. Under physical settlement of a CDS contract generally, the protection buyer will be entitled to deliver one or more qualifying deliverable obligations to the protection seller, in which case the protection seller will be required to pay the protection buyer a defined physical settlement amount. Under the current ICC Rules, if physical settlement applies,3 the clearinghouse will match clearing participants (“Participants”) that are protection buyers with Participants that are protection sellers in the relevant contract, and the two Participants will be responsible for effecting physical settlement between them. ICC does not itself perform or guarantee performance of physical settlement between the matched Participants. Once matching occurs, the contract is purely a bilateral contract between the matched Participants, and the clearinghouse has no further rights or obligations with respect to the contract. ICC does, however, collect and hold physical settlement margin as collateral agent on behalf of the protection buyer to secure the protection seller’s obligations to the protection buyer under physical settlement.

At the request of its Participants, and following extensive consultation with them, ICC proposes to amend the ICC Rules relating to physical settlement such that the clearinghouse will be responsible for financial performance of physical settlement. ICC understands that Participants and other market participants view the current approach, in which cash settlement of credit events is guaranteed by the clearinghouse but physical settlement is not, as creating a potentially anomalous result in the unlikely case that physical settlement may apply. The application of physical settlement would be a circumstance that is generally not within any Participant’s control, and under the current rules may expose Participants to a significantly different credit risk profile than under cash settlement (where the Participant is exposed to the credit of the clearinghouse). In light of these discussions, ICC has determined that it is appropriate to extend the clearing guarantee to the financial performance of physical settlement. ICC notes that under the amended approach, it would still require payments and deliveries in the ordinary course under physical settlement to be made directly between the matched buying Participant and selling Participant, with the clearinghouse only being obligated to make direct payments in the case of certain defined settlement failure scenarios. ICC believes that this proposed rule change will further the general policy goals of central clearing for CDS transactions, and is consistent with the clearinghouse’s financial


3 ICC notes that to date, physical settlement has not been necessary for any of the CDS Contracts cleared by ICC.