

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

The Exchange 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. In fact, the Exchange believes that the introduction of the Fund would promote competition by making available to investors an actively managed investment strategy in a structure that offers the cost and tax efficiencies and shareholder protections of ETFs, while removing the requirement for daily portfolio holdings disclosure to ensure a tight relationship between market trading prices and NAV. Moreover, the Exchange believes that the proposed method of Share trading would provide investors with transparency of trading costs, and the ability to control trading costs using limit orders, that is not available for conventionally traded ETFs.

These developments could significantly enhance competition to the benefit of the markets and investors.

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

No written comments were either solicited or received.

### 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 (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 Exchange consents, the Commission shall: (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](mailto:rule-comments@sec.gov). Please include File Number SR-NASDAQ-2017-025 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.

All submissions should refer to File Number SR-NASDAQ-2017-025. 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 Web site (<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 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 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-NASDAQ-2017-025 and should be submitted on or before April 10, 2017.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>34</sup>

**Robert W. Errett,**

*Deputy Secretary.*

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### SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-80234; File No. SR-FICC-2017-002]

#### Self-Regulatory Organizations; Fixed Income Clearing Corporation; Notice of Filing of Proposed Rule Change To Implement the Capped Contingency Liquidity Facility in the Government Securities Division Rulebook

March 14, 2017.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Exchange Act"),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on March 1, 2017, Fixed Income Clearing Corporation ("FICC") 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 clearing agency.<sup>3</sup> The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

#### I. Clearing Agency's Statement of the Terms of Substance of the Proposed Rule Change

The proposed rule change consists of amendments to FICC's Government Securities Division ("GSD") Rulebook (the "GSD Rules")<sup>4</sup> in order to include a committed liquidity resource (referred to as the "Capped Contingency Liquidity Facility®" ("CCLF")). This facility would provide FICC with additional liquid financial resources to meet its cash settlement obligations in the event of a default of the largest family of affiliated Netting Members<sup>5</sup> (an "Affiliated Family") of GSD, as described in greater detail below.

#### II. Clearing Agency's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the clearing agency included statements

<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> On March 1, 2017, FICC filed this proposed rule change as an advance notice (SR-FICC-2017-802) ("Advance Notice Filing") with the Commission pursuant to Section 806(e)(1) of the Dodd-Frank Wall Street Reform and Consumer Protection Act entitled the Payment, Clearing, and Settlement Supervision Act of 2010, 12 U.S.C. 5465(e)(1), and Rule 19b-4(n)(1)(i) of the Exchange Act, 17 CFR 240.19b-4(n)(1)(i). A copy of the advance notice is available at <http://www.dtcc.com/legal/sec-rule-filings.aspx>.

<sup>4</sup> GSD Rules, available at [www.dtcc.com/legal/rules-and-procedures.aspx](http://www.dtcc.com/legal/rules-and-procedures.aspx). Capitalized terms used herein and not otherwise defined shall have the meaning assigned to such terms in the GSD Rules.

<sup>5</sup> As defined in the GSD Rules, the term "Netting Member" means a Member that is a Member of the Comparison System and the Netting System. *Id.*

<sup>34</sup> 17 CFR 200.30-3(a)(12).

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 clearing agency has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

*(A) Clearing Agency's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change*

#### 1. Purpose

FICC is proposing to amend the GSD Rules to include CCLF, which would be a rules-based committed liquidity facility designed to help ensure that FICC maintains sufficient liquid financial resources to meet its cash settlement obligations in the event of a default of the Affiliated Family to which FICC has the largest exposure in extreme but plausible market conditions, as required by Rule 17Ad-22(b)(3)<sup>6</sup> of the Exchange Act. This proposal is also designed to comply with newly adopted Rule 17Ad-22(e)(7) under the Exchange Act.<sup>7</sup> As of April 11, 2017, Rule 17Ad-22(e)(7) will require FICC to have policies and procedures reasonably designed to effectively monitor, measure, and manage liquidity risk.

#### A. Background

FICC occupies an important role in the securities settlement system by interposing itself as a central counterparty between Netting Members that are counterparties to transactions cleared by GSD ("GSD Transactions"), thereby reducing the risk faced by Netting Members.<sup>8</sup> To manage the counterparty risk, FICC requires each Netting Member to deposit margin (referred to in the GSD Rules as "Required Fund Deposits") into the Clearing Fund, which constitutes the financial resources that FICC could use to cover potential losses resulting from a Netting Member default. In addition to collecting and maintaining financial resources to cover default losses, FICC also maintains liquid resources to satisfy its settlement obligations in the

<sup>6</sup> See 17 CFR 240.17Ad7-22(b)(3).

<sup>7</sup> See 17 CFR 240.17Ad-22(e)(7).

<sup>8</sup> FICC operates two divisions—GSD and the Mortgage-Backed Securities Division ("MBSD"). GSD provides trade comparison, netting, risk management, settlement and central counterparty services for the U.S. government securities market, while MBSD provides the same services for the U.S. mortgage-backed securities market. Because GSD and MBSD are separate divisions of FICC, each division maintains its own rules, members, margin from their respective members, Clearing Fund, and liquid resources.

event of a Netting Member default. Upon regulatory approval and completion of a 12-month phase-in period, as described below, CCLF would become an additional liquid resource available to FICC as part of its liquidity risk management framework for GSD.<sup>9</sup>

#### B. Overview of the Proposal

CCLF would only be invoked if FICC declared a "CCLF Event," that is, if FICC has ceased to act for a Netting Member in accordance to GSD Rule 22A<sup>10</sup> (referred to as a "default") and subsequent to such default, FICC determines that it does not have the ability to obtain sufficient liquidity from GSD's Clearing Fund, by entering into repurchase transactions using securities in the Clearing Fund or securities that were destined to the defaulting Netting Member, or through uncommitted bank loans with its Clearing Agent Banks. Upon declaration of a CCLF Event, each Netting Member may be called upon to enter into repurchase transactions with FICC ("CCLF Transactions") up to a previously determined capped dollar amount, as described below.

#### 1. Declaration of a CCLF Event

Following a default, FICC would first obtain liquidity through other available liquid resources, as described above. If and only if, FICC determines that these sources of liquidity are not able to generate sufficient cash to pay the non-defaulting Netting Members, FICC would declare a CCLF Event by issuing an Important Notice informing all Netting Members of FICC's need to make such a declaration and enter into CCLF Transactions, as necessary.<sup>11</sup>

#### 2. CCLF Transactions

During a CCLF Event, FICC would meet its liquidity need by initiating CCLF Transactions with non-defaulting Netting Members. Each CCLF Transaction would be governed by the terms of the September 1996 Securities Industry and Financial Markets Association Master Repurchase

<sup>9</sup> In 2012, FICC amended MBSD's Clearing Rules (the "MBSD Rules") to create a CCLF for managing MBSD's liquidity risk. FICC is proposing to amend the GSD Rules to create a CCLF for managing GSD's liquidity risk. Because this CCLF is for GSD only, the description of the proposal should be understood within the framework of the GSD Rules. See Securities Exchange Act Release No. 34-66550 (March 9, 2012), 77 FR 15155 (March 14, 2012) (SR-FICC-2008-01); MBSD Rule 17, MBSD Rules, available at [www.dtcc.com/legal/rules-and-procedures.aspx](http://www.dtcc.com/legal/rules-and-procedures.aspx).

<sup>10</sup> GSD Rules, *supra* note 4.

<sup>11</sup> Such Important Notice would also advise Netting Members to review their most recent liquidity funding reports to determine their respective maximum funding obligations.

Agreement,<sup>12</sup> which would be incorporated by reference into the GSD Rules as a master repurchase agreement between FICC as seller and each Netting Member as buyer with certain modifications as outlined in the GSD Rules (the "CCLF MRA").

Each Netting Member would be obligated to enter into CCLF Transactions up to a capped dollar amount. FICC would first identify the non-defaulting Netting Members that are obligated to deliver securities destined for the defaulting Netting Member ("Direct Affected Members") and FICC's cash payment obligation to such Direct Affected Member that FICC would need to finance through CCLF to cover the defaulting Netting Member's failure to deliver cash (the "Financing Amount"). FICC would notify each Direct Affected Member of its Financing Amount and whether such Direct Affected Member should deliver to FICC or suppress any securities that were destined for the defaulting Netting Member. FICC would then initiate CCLF Transactions with each Direct Affected Member for its purchase of the securities (the "Financed Securities") that were destined for the defaulting Netting Member.<sup>13</sup> The aggregate purchase price of the CCLF Transactions with the Direct Affected Member would equal but never exceed its maximum funding obligation (the "Individual Total Amount").<sup>14</sup>

If any Direct Affected Member's Financing Amount exceeds its Individual Total Amount (the "Remaining Financing Amount"), FICC would advise (A) each other Direct Affected Member whose Financing Amount is less than its Individual Total Amount, and (B) each Netting Member that has not otherwise entered into CCLF Transactions with FICC (the

<sup>12</sup> The September 1996 Securities Industry and Financial Markets Association Master Repurchase Agreement (the "SIFMA MRA") is available at <http://www.sifma.org/services/standard-forms-and-documentation/mra,-gmra,-msla-and-msfas/>. The SIFMA MRA would be incorporated by reference into the GSD Rules without referenced annexes, other than in the case of any Netting Member that is a registered investment company, then Annex VII would be applicable to such Member. At the time of this filing, there are no registered investment companies that are also GSD Netting Members. If a registered investment company would become a GSD Netting Member, then Annex VII would be applicable to such Member.

<sup>13</sup> It should be noted that FICC would have the authority to initiate CCLF Transactions in respect of any securities that are in the Direct Affected Member's portfolio which are bound to the defaulting Netting Member.

<sup>14</sup> As described in Section C. herein, a Netting Member's Individual Total Amount represents such Member's maximum liquidity funding obligation. The Individual Total Amount would be based on a Netting Member's observed peak historical liquidity need.

"Indirect Affected Members," and together with the Direct Affected Members, "Affected Members") that FICC intends to initiate CCLF Transactions with them for the Remaining Financing Amount.

The order in which FICC would enter into CCLF Transactions for the Remaining Financing Amount would be based upon the Affected Members that have the most funding available within their Individual Total Amounts. No Affected Member would be obligated to enter into CCLF Transactions greater than its Individual Total Amount.

During a CCLF Event, FICC would engage its investment advisor subject to the approval of its Board and seek to minimize liquidation losses on the Financed Securities through hedging, strategic dispositions, or other investment transactions as determined by FICC under relevant market conditions. Once FICC completes the liquidation of the underlying securities by selling them to a new buyer, FICC would instruct the Affected Member to close the repo trade and deliver the Financed Securities to FICC to complete settlement on the contractual settlement date of the liquidating trade. FICC would endeavor to unwind the CCLF Transactions based on the order that it enters into the Liquidating Trades. Each CCLF Transaction would remain open until the earlier of (x) such time that FICC has liquidated the Affected Member's Financed Securities, (y) such time that FICC has obtained liquidity through its available liquid resources or (z) 30 or 60 calendar days after entry into the CCLF Transaction for U.S. government bonds and mortgage-backed securities, respectively.

The original GSD Transactions, which FICC is obligated to settle, are independent from the CCLF Transactions. The proposed rule change would clarify that, under the original GSD Transaction, FICC's obligation to pay cash to a Direct Affected Member, and the Direct Affected Member's obligation to deliver securities, would be deemed satisfied by entry into CCLF Transactions, and that such settlement would be final.

#### C. CCLF Sizing and Allocation

As noted above, FICC would only enter into CCLF Transactions with a Netting Member in an amount that is up to such Netting Member's maximum funding obligation. This amount would be based on each Netting Member's observed peak historical liquidity need. Initially, FICC would calculate the Netting Member's peak historical liquidity need based on a six-month look-back period.

FICC's liquidity need during a CCLF Event would be determined by the cash settlement obligations presented by the default of a Netting Member and an Affiliated Family. FICC would include an additional amount (*i.e.*, a buffer) to account for changes in Netting Members' cash settlement obligations that may not be observed during the six-month look-back period during which CCLF would be sized. The buffer would also account for the possibility that the defaulting Netting Member is the largest CCLF contributor. FICC would allocate its observed liquidity need among all Netting Members based on their historical settlement activity. Netting Members that present the highest cash settlement obligations would be required to maintain higher funding obligations.

Listed below are the steps that FICC would take to size and allocate each Netting Member's CCLF requirement.

##### Step 1: CCLF Sizing

##### Historical Cover 1 Liquidity Requirement

FICC's historical liquidity need for the six-month look-back period would be an amount equal to the dollar amount of the largest sum of an Affiliated Family's obligation to receive GSD eligible securities plus the net dollar amount of its Funds-Only Settlement Amount<sup>15</sup> (collectively, the "Historical Cover 1 Liquidity Requirement"). FICC believes that it is appropriate to calculate the Historical Cover 1 Liquidity Requirement in this manner because the default of the largest Affiliated Family would generate the highest liquidity need for FICC.

##### Liquidity Buffer

The Historical Cover 1 Liquidity Requirement would be based on the largest Affiliated Family's activity during a six-month look-back period. However, FICC is cognizant that the Historical Cover 1 Liquidity Requirement would not account for changes in a Netting Member's current trading behavior, which may result in a liquidity need that is greater than the Historical Cover 1 Liquidity Requirement. As a result, FICC proposes

<sup>15</sup> The Funds-Only Settlement Amount reflects the amount that FICC collects and passes to the contra-side once FICC marks the securities in a Netting Member's portfolio to the current market value. This amount is the difference between the contract value vs. the current market value of a Netting Member's GSD portfolio. FICC would consider this amount when calculating the Historical Cover 1 Liquidity Requirement because in the event that an Affiliated Family defaults, the Funds-Only Settlement Amount would also reflect the cash obligation to non-defaulting Netting Members.

to add an additional amount to the Historical Cover 1 Liquidity Requirement as a buffer (the "Liquidity Buffer") to arrive at FICC's anticipated total liquidity need for GSD during a CCLF Event.

Under the proposed rule change, the Liquidity Buffer would be 20% to 30% of the Historical Cover 1 Liquidity Requirement, subject to a minimum amount of \$15 billion. FICC believes that 20% to 30% of the Historical Cover 1 Liquidity Requirement is appropriate based on its analysis of the calculated coefficient of variation<sup>16</sup> with respect to Affiliated Families' liquidity needs throughout 2015 and 2016.<sup>17</sup> FICC also believes that the \$15 billion minimum dollar amount is necessary to cover changes in a Netting Member's trading activity that could exceed the amount that is implied by the calculated coefficient of variation.

FICC would have the discretion to adjust the Liquidity Buffer based on its analysis of the stability of the Historical Cover 1 Liquidity Requirement over the look-back periods of 3-, 6-, 12-, and 24-months. Should FICC observe changes in the stability of the Historical Cover 1 Liquidity Requirements, FICC would have the discretion to increase the six-month look-back period to help ensure that the calculation of its liquidity need appropriately accounts for variability in the Historical Cover 1 Liquidity Requirement. This would help FICC to ensure that its liquidity resources are sufficient under a wide range of potential market scenarios that may lead to a change in Netting Member behavior. FICC would also analyze the trading behavior of Netting Members that present larger liquidity needs than the majority of the Netting Members (as described below).

##### Aggregate Total Amount

FICC's anticipated total liquidity need during a CCLF Event (*i.e.*, the sum of the Historical Cover 1 Liquidity Requirement plus the Liquidity Buffer)

<sup>16</sup> The "coefficient of variation" is a statistical measurement that is calculated as the standard deviation divided by the mean. It is a typical approach used to compare variability across different data sets.

<sup>17</sup> In connection with this proposed rule change, the coefficient of variation would be used to set the Liquidity Buffer by quantifying the variance of each Affiliated Family's daily liquidity need. During this period, FICC observed that the coefficient of variation ranged from an average of 15%–19% for Affiliated Families with liquidity needs above \$50 billion, and an average of 18%–21% for Affiliated Families with liquidity needs above \$35 billion. Based on the calculated coefficient of variation, FICC believes that an amount equaling 20% to 30% of the Historical Cover 1 Liquidity Requirement subject to a minimum of \$15 billion would be an appropriate Liquidity Buffer.

would be referred to as the “Aggregate Total Amount.”

#### Step 2: FICC’s Allocation of the Aggregate Total Amount Among Netting Members

##### (A) FICC’s Allocation of the Aggregate Regular Amount Among Netting Members

After FICC determines the Aggregate Total Amount, which initially would be set to the Historical Cover 1 Liquidity Requirement plus the greater of 20% of the Historical Cover 1 Liquidity Requirement or \$15 billion. FICC would allocate the Aggregate Total Amount among Netting Members in order to arrive at each Netting Member’s Individual Total Amount. FICC would take a two-tiered approach in its allocation of the Aggregate Total Amount. First, FICC would determine the portion of the Aggregate Total Amount that should be allocated among all Netting Members (“Aggregate Regular Amount”). Then, FICC would allocate the remainder of the Aggregate Total Amount (the “Aggregate Supplemental Amount”) among Netting Members that incur liquidity needs above the Aggregate Regular Amount within the six-month look-back period. FICC believes that this two-tiered approach reflects FICC’s consideration of fairness, transparency and the burdens of the funding obligations on each Netting Member’s management of its own liquidity.

Under the proposed rule change, FICC would set the Aggregate Regular Amount at \$15 billion. FICC believes that this amount is appropriate because FICC observed that from 2015 to 2016, the average Netting Member’s liquidity need was approximately \$7 billion, with a majority of Netting Members’ liquidity needs not exceeding an amount of \$15 billion.<sup>18</sup> Based on that analysis, FICC believes that the Aggregate Regular Amount should capture the liquidity needs of a majority of the Netting Members. Thus, FICC believes that setting the Aggregate Regular Amount at \$15 billion is appropriate.

Under the proposal, the Aggregate Regular Amount would be allocated among all Netting Members, but Netting Members with larger Receive Obligations would be required to contribute a larger amount. FICC believes that this approach is appropriate because a defaulting Netting

<sup>18</sup> From 2015 to 2016, 59% of all Netting Members presented average liquidity needs between \$0 to \$5 billion, 78% of all Netting Members presented average liquidity needs between \$0 and \$10 billion, and 85% of all Netting Members presented average liquidity needs between \$0 and \$15 billion.

Member’s Receive Obligations are the primary cash settlement obligations that FICC would have to satisfy as a result of the default of a Netting Member or an Affiliated Family. However, FICC also believes that some portion of the Aggregate Regular Amount should be allocated based on Netting Members’ aggregate Deliver Obligations since FICC guarantees both sides of a GSD Transaction and all Netting Members benefit from FICC’s risk mitigation. As a result, FICC is proposing to allocate the Aggregate Regular Amount based on a scaling factor. Given that the Aggregate Regular Amount is sized at \$15 billion and covers approximately 80% of Netting Members’ observed liquidity needs, FICC proposes to set the scaling factor in the range of 65%–85% to the value of Netting Members’ Receive Obligations and set the scaling factor in the range of 15%–35% to the value of Netting Members’ Deliver Obligations.

Initially, FICC would assign a 20% weighting percentage to a Netting Member’s aggregate Deliver Obligations (the “Deliver Scaling Factor”) and the remaining percentage difference, 80% in this case, to a Netting Member’s aggregate Receive Obligations (“Receive Scaling Factor”). FICC would have the discretion to adjust these scaling factors based on a quarterly analysis that would, in part, assess Netting Members’ observed liquidity needs that are at or below \$15 billion. This assessment would ensure that the Aggregate Regular Amount would be appropriately allocated across all Netting Members.

FICC would calculate a Netting Member’s portion of the Aggregate Regular Amount (its “Individual Regular Amount”) by adding (a) and (b) below.

(a) FICC would (x) divide the absolute value of a Netting Member’s peak Receive Obligations by the absolute value of the sum of all Netting Members’ peak Receive Obligations, then (y) multiply such resulting value by the Aggregate Regular Amount, then (z) multiply the resulting value by the Receive Scaling Factor (which would initially be 80%).

(b) FICC would (x) divide the absolute value of a Netting Member’s peak Deliver Obligations by the absolute value of the sum of all Netting Members’ peak Deliver Obligations, then (y) multiply such resulting value by the Aggregate Regular Amount, then (z) multiply the resulting value by the Deliver Scaling Factor (which would initially be 20%).

##### (B) FICC’s Allocation of the Aggregate Supplemental Amount Among Netting Members

The remainder of the Aggregate Total Amount (*i.e.*, the Aggregate Supplemental Amount) would be allocated among Netting Members that present liquidity needs in excess of the Aggregate Regular Amount.

FICC would allocate the Aggregate Supplemental Amount across liquidity tiers (“Liquidity Tiers”). The allocation to each Liquidity Tier would be based on how many times (*i.e.*, “observations”) the Netting Members’ daily liquidity needs have reached the respective Liquidity Tier. This assignment would result in a larger proportion of the Aggregate Supplemental Amount being borne by those Netting Members who present the highest liquidity needs.

FICC would set the Liquidity Tiers in \$5 billion increments. FICC believes that this increment would appropriately distinguish Netting Members that present the highest liquidity needs on a frequent basis and allocate more of the Individual Supplemental Amount to Netting Members in the top Liquidity Tiers. Increments set to an amount greater than \$5 billion would provide FICC with less ability to allocate the Aggregate Supplemental Amount to Netting Members with the highest liquidity needs.<sup>19</sup>

FICC would have the discretion to reduce any one or all of the Liquidity Tiers to \$2.5 billion if FICC determines that the majority of the Netting Members’ liquidity needs in such Liquidity Tiers are above or below the midpoint of the Liquidity Tier.

Once the Liquidity Tiers are set, FICC would first allocate the Aggregate Supplemental Amount to each Liquidity Tier in proportion to the total number of observations across all Liquidity Tiers. Next, FICC would allocate the Individual Supplemental Amount to each Netting Member in accordance with each Netting Member’s liquidity needs within each Liquidity Tier. This allocation would be based on such Netting Member’s number of observations within each Liquidity Tier in proportion to the aggregate of all

<sup>19</sup> For example, assume that there are two Netting Members and each Netting Member has 125 liquidity observations each across a six-month period. Member A has 125 observations within the \$15–\$20 billion Liquidity Tier and Member B has 125 observations equally dispersed between the \$15–\$20 billion and \$20–\$25 billion Liquidity Tiers. Under the proposed rule change, Member B would have a higher Individual Supplemental Amount than Member A, because Member B would be allocated a pro-rata share of the Aggregate Supplemental Amount for the \$20–\$25 billion Liquidity Tier.

Netting Member's observations within a particular Liquidity Tier. The sum of a Netting Member's allocation across all Liquidity Tiers would be such Netting Member's Individual Supplemental Amount.

FICC would sum each Netting Member's Individual Regular Amount and its Individual Supplemental Amount (if any) to arrive at such Netting Member's Individual Total Amount.

CCLF Parameters as of January 2017

Table 1 includes the actual values FICC would set for each step described above, as of January 1, 2017.<sup>20</sup> These values would be reset every six months.

*Table 1:  
\$ billion*

#### CCLF Sizing: Components of the Aggregate Total Amount

Step	Component	Size	
1 .....	Historical Cover 1 Liquidity Requirement .....	\$58.84	15.00
	Liquidity Buffer (20% of the Historical Cover 1 Liquidity Requirement subject to a minimum of \$15B).	15.00	
2 .....	Aggregate Total Amount .....	73.84	
2a .....	Aggregate Regular Amount .....	15.00	
2b .....	Receive Scaling Factor (80% of the Aggregate Regular Amount) .....	.....	
	Deliver Scaling Factor (20% of the Aggregate Regular Amount) .....	.....	
2c .....	Aggregate Supplemental Amount .....	58.84	
	Liquidity Tier 1 (\$15–\$20B) .....	.....	21.04
	Liquidity Tier 2 (\$20–\$25B) .....	.....	14.29
	Liquidity Tier 3 (\$25–\$30B) .....	.....	10.32
	Liquidity Tier 4 (\$30–\$35B) .....	.....	6.14
	Liquidity Tier 5 (\$35–\$40B) .....	.....	3.32
	Liquidity Tier 6 (\$40–\$45B) .....	.....	1.86
	Liquidity Tier 7 (\$45–\$50B) .....	.....	1.10
	Liquidity Tier 8 (\$50–\$55B) .....	.....	0.62
	Liquidity Tier 9 (\$55–\$60B) .....	.....	0.14

The example in Table 2 reflects the allocation of the CCLF size for a hypothetical Netting Member. This

example is based on a six-month look-back period of July 1, 2016 through December 31, 2016.

*Table 2:  
\$ billion*

Step	Component	Allocation of aggregate total amount hypothetical member A			
		(X)	Member A's percentage		
2a .....	Aggregate Regular Amount .....	\$15.00	5.0	\$0.60	
2b .....	Receive Scaling Factor (80% of the Aggregate Regular Amount). Deliver Scaling Factor (20% of the Aggregate Regular Amount). .....	\$12.00 3.00	2.5	0.08	
			Member A's individual regular amount	0.68	
2c .....	Aggregate Supplemental Amount .....	58.84	21.04 14.29 10.32 6.14 3.32 1.86 1.10 0.62 0.14	8.5 13.0 16.0 20.0 35.0 52.0 65.0 80.0 100.0	
			Member A's individual supplemental amount	10.01	

<sup>20</sup> As noted above, FICC would use a six-month look-back period. On January 1, 2017, the look-back

period would be July 1, 2016 through December 31, 2016.

CCLF Sizing: Components of the aggregate total amount				Allocation of aggregate total amount hypothetical member A	
Step	Component	Size		Member A's percentage	Member A's allocation of the component (Y)
			(X)		
					Member A's individual total amount 10.68

#### D. FICC's Ongoing Assessment of the Sufficiency of CCLF

As described above, the Aggregate Total Amount and each Netting Member's Individual Total Amount (*i.e.*, each Netting Member's allocation of the Aggregate Total Amount) would initially be calculated using a six-month look-back period that FICC would reset every six months ("reset period"). On a quarterly basis, FICC's Liquidity Product Risk Unit<sup>21</sup> would assess the following parameters that it uses to calculate the Aggregate Total Amount and may recommend to the Board's Risk Committee changes to such parameters:

- Peak daily liquidity need for the largest Affiliated Family;

- the Liquidity Buffer;
- the Aggregate Regular Amount;
- the Aggregate Supplemental Amount;
- the Deliver Scaling Factor and the Receive Scaling Factor used to allocate the Aggregate Regular Amount;
- the increments for the Liquidity Tiers; and
- the length of the look-back period and the reset period for the Aggregate Total Amount.

In the event that any changes to the above-referenced parameters result in an increase in a Netting Member's Individual Total Amount, such increase would be effective as of the next reset.

Additionally, on a daily basis, FICC would examine the Aggregate Total Amount to ensure that such amount is sufficient to satisfy FICC's liquidity needs. If FICC determines that the Aggregate Total Amount is insufficient to satisfy its liquidity needs, FICC may modify the length of the look-back or reset periods or otherwise increase the Aggregate Total Amount.

Any increase in the Aggregate Total Amount resulting from the Liquidity Product Risk Unit's quarterly assessments or FICC's daily monitoring would be subject to the approvals, as set forth in Table 3 below.

Table 3:

Increase in aggregate total amount	Required approval level
≤\$500 mil .....	Managing Director, Financial Risk Management.
\$501 mil to \$1.0 B .....	Group Chief Risk Officer.
\$1.1 B to \$1.9 B .....	Management Risk Committee, or designee.
≥\$2.0 B .....	Chair of the Board Risk Committee, or designee.

If FICC increases a Netting Member's Individual Total Amount as a result of its daily monitoring, such increase will not be effective until ten (10) Business Days after FICC provides an Important Notice regarding the increase.

If FICC determines that its liquidity needs may be satisfied with a lower Aggregate Total Amount, a reduction in the Aggregate Total Amount would be reflected at the conclusion of the reset period.

#### E. Implementation of the Proposed Rule Change and Required Attestation From Each Netting Member

The CCLF proposal would become operative 12 months after the later date of the Commission's approval of this proposed rule change or its no objection of the Advance Notice Filing. During this 12-month period, FICC would periodically provide each Netting Member with estimated Individual Total Amounts. The delayed implementation

and the estimated Individual Total Amounts are designed to give Netting Members the opportunity to assess the impact that the CCLF proposal would have on their business profile.

Prior to the effective date, FICC would add a legend to the GSD Rules to state that the specified changes to the GSD Rules are approved but not yet operative and to provide the date such approved changes would become operative. The legend would also include the file numbers of the approved proposed rule change and Advance Notice Filing and would state that once operative, the legend would automatically be removed from the GSD Rules.

As of the implementation date and annually thereafter, FICC would require that each Netting Member attest that its Individual Total Amount has been incorporated into its liquidity plans.<sup>22</sup> This required attestation would be from authorized officers of the Netting Member or otherwise in form and

substance satisfactory to FICC making the following certification: (1) Such officers have read and understand the GSD Rules, including the CCLF rules, (2) the Netting Member's Individual Total Amount has been incorporated into the Netting Member's liquidity planning, (3) the Netting Member acknowledges and agrees that its Individual Total Amount may be changed at the conclusion of any reset period or otherwise upon ten (10) Business Days' Notice, (4) the Netting Member will incorporate any changes to its Individual Total Amount into its liquidity planning, and (5) the Netting Member will continually reassess its liquidity plans and related operational plans, including in the event of any changes to such Netting Member's Individual Total Amount, to ensure such Netting Member's ability to meet its Individual Total Amount. FICC may require any Netting Member to provide FICC with a new certification in the

<sup>21</sup> FICC's Liquidity Product Risk Unit is responsible for assessing the liquidity needs of GSD and MBSD.

<sup>22</sup> The attestation would not refer to the actual dollar amount that has been allocated as the Individual Total Amount. Each Netting Member's

Individual Total Amount would be made available to such Member via GSD's access controlled portal Web site.

foregoing form at any time, including upon a change to a Netting Member's Individual Total Amount or in the event that a Netting Member undergoes a change in its corporate structure.

In addition to the above, on a quarterly basis, FICC's Counterparty Credit Risk Management group would conduct due diligence to assess each Netting Member's ability to meet its Individual Total Amount. This due diligence would include a review of all information that the Netting Member has provided FICC in connection with its ongoing reporting obligations pursuant to the GSD Rules and a review of other publicly available information. Additionally, FICC would test its operational procedures for invoking a CCLF Event. Pursuant to GSD Rule 3 Section 6, Netting Members would be required to participate in such tests. If a Netting Member fails to participate in such testing when required by FICC, FICC may take disciplinary measures as set forth in GSD Rule 3 Section 7.

#### F. FICC's Commitment to Enhanced Transparency

FICC understands that each Netting Member must be able to evaluate the risks of its membership and plan for its funding obligations. Additionally, FICC believes that it is critical that each Netting Member understands the risks that its activity presents to FICC, and that each Netting Member should be prepared to monitor its activity and alter its behavior in order to minimize the liquidity risk that it presents to FICC. Accordingly, on each Business Day, FICC would make a liquidity funding report available to each Netting Member that would include the following:

1. The Netting Member's Individual Total Amount, Individual Regular Amount and, if applicable, its Individual Supplemental Amount;
2. FICC's Aggregate Total Amount, Aggregate Regular Amount and Aggregate Supplemental Amount; and
3. FICC's regulatory liquidity requirements as of the prior Business Day.

The liquidity funding report would be provided for informational purposes only. Pursuant to the proposed rule change, upon a CCLF Event, each Netting Member would be required to enter into CCLF Transactions having an aggregate purchase price up to its Individual Total Amount as calculated by FICC.

#### G. Proposed Changes to the GSD Rules

##### GSD Rule 1—Definitions

In order to help effectuate the proposed changes, FICC proposes to add

the following defined terms to the GSD Rule 1: Affected Member; Aggregate Regular Amount; Aggregate Supplemental Amount; Aggregate Total Amount; CCLF Event; CCLF MRA; CCLF MRA Termination Date; CCLF Transaction; Deliver Scaling Factor; Direct Affected Member; Financed Securities; Financing Amount; Historical Cover 1 Liquidity Requirement; Indirect Affected Member; Individual Regular Amount; Individual Supplemental Amount; Individual Total Amount; Liquidating Trade; Liquidity Buffer; Liquidity Need; Liquidity Percentage; Liquidity Tier; Look-Back Period; Observation; Receive Scaling Factor; Relative Inter-Tier Frequency; Relative Intra-Tier Frequency; Relevant Securities; Remaining Financing Amount; Required Attestation; and SIFMA MRA.

#### Rule 22A—Procedures for When the Corporation Ceases To Act

FICC is proposing to amend Rule 22A to include a new section in this Rule. This new section would be entitled "Section 2a." Proposed Section 2a would incorporate the CCLF MRA into the GSD Rules subject to the amendments proposed therein. In addition, the proposed section would include (1) the notification process that would occur once FICC invokes a CCLF Event; (2) the CCLF Transactions that FICC would enter into once it invokes a CCLF Event; (3) disclosure of each relevant CCLF sizing component that FICC would assess; (4) the calculation that FICC would use to determine each Netting Member's Individual Regular Amount and Individual Supplemental Amount, if applicable; and (5) a description of the officers' certificate that each Netting Member would be required to provide certifying that, among other things, its Individual Total Amount has been incorporated into its liquidity plans.

#### 2. Statutory Basis

Section 17A(b)(3)(F) of the Exchange Act requires, in part, that the rules of a clearing agency be designed to assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible.<sup>23</sup>

FICC believes that the CCLF proposal would enable FICC to access additional liquidity in the event that its other liquidity resources are insufficient upon the default of a Netting Member, which would help ensure that FICC has sufficient funds to meet its cash settlement obligations to its non-

defaulting Netting Members. As a result, FICC believes that the proposal has been designed to assure the safeguarding of securities and funds in FICC's custody or control, consistent with Section 17A(b)(3)(F) of the Exchange Act.<sup>24</sup>

Rule 17Ad–22(b)(3) under the Exchange Act requires a registered clearing agency that performs central counterparty services to establish, implement, maintain and enforce written policies and procedures reasonably designed to maintain sufficient financial resources to withstand, at a minimum, a default by the participant family to which it has the largest exposure in extreme but plausible market conditions.<sup>25</sup> As described above, FICC would size CCLF based on the peak liquidity need that would be generated by the default of its largest participant family (its Historical Cover 1 Liquidity Requirement), plus an additional Liquidity Buffer to account for unexpected Netting Member trading behavior that could increase FICC's Historical Cover 1 Liquidity Requirement or a situation in which its largest Netting Member defaults and cannot contribute to the CCLF. Thus, FICC believes that the proposal would be consistent with Rule 17Ad–22(b)(3) because it is designed to provide FICC with sufficient financial resources to withstand a default by the participant family to which it has the largest exposure in extreme but plausible market conditions.

Rule 17Ad–22(d)(9) under the Exchange Act requires a registered clearing agency that performs central counterparty services to establish, implement, maintain and enforce written policies and procedures to provide market participants with sufficient information for them to identify and evaluate the risks and costs associated with using its services.<sup>26</sup> As described above, on each Business Day, FICC would make a liquidity funding report available to each Netting Member. This report would include (1) the Netting Member's Individual Total Amount, Individual Regular Amount and, to the extent applicable, its Individual Supplemental Amount; (2) FICC's Aggregate Total Amount, Aggregate Regular Amount and Aggregate Supplemental Amount; and (3) FICC's regulatory liquidity requirements as of the prior Business Day. This report would enable each Netting Member to prepare for its maximum funding obligations and alter its trading behavior should it desire to

<sup>23</sup> *Id.*

<sup>25</sup> See 17 CFR 240.17Ad–22(b)(3).

<sup>26</sup> See 17 CFR 240.17Ad–22(d)(9).

minimize the liquidity risk it presents to FICC. FICC believes that the proposed rule change would be consistent with Rule 17Ad–22(d)(9) because the liquidity funding report would provide Netting Members with sufficient information to identify and evaluate the risks and costs associated with using the services that FICC provides through GSD.

Rule 17Ad–22(e)(7) under the Exchange Act, which was recently adopted by the Commission, will require FICC to establish, implement, maintain and enforce written policies and procedures reasonably designed to effectively measure, monitor, and manage liquidity risk that arises in or is borne by FICC, including measuring, monitoring, and managing its settlement and funding flows on an ongoing and timely basis, and its use of intraday liquidity.<sup>27</sup>

Rule 17Ad–22(e)(7)(i) will require FICC to maintain sufficient liquid resources to effect same-day settlement of payment obligations in the event of a default of the participant family that would generate the largest aggregate payment obligation for the covered clearing agency in extreme but plausible market conditions.<sup>28</sup> FICC believes that the proposal would be consistent with Rule 17Ad–22(e)(7)(i) because CCLF would be sized based on the peak liquidity need that would be generated by the default of its largest participant family (its Historical Cover 1 Liquidity Requirement), plus an additional Liquidity Buffer, which would help FICC maintain sufficient liquid resources to settle the cash obligations of an Affiliated Family that would generate the largest aggregate payment obligation for FICC in extreme but plausible market conditions.

Rule 17Ad–22(e)(7)(ii) will require FICC to hold qualifying liquid resources sufficient to satisfy payment obligations owed to clearing members.<sup>29</sup> FICC believes that the proposed rule change would be consistent with Rule 17Ad–22(e)(7)(ii) because the CCLF MRA would be a committed arrangement and all CCLF Transactions entered into pursuant the CCLF MRA would be readily available and the related assets would be convertible into cash in order to settle cash obligations owed to non-defaulting Netting Members.

Rule 17Ad–22(e)(7)(iv) under the Exchange Act will require FICC to undertake due diligence that confirms that it has a reasonable basis to believe each of its liquidity providers has: (a)

Sufficient information to understand and manage the liquidity provider's liquidity risks; and (b) the capacity to perform as required under its commitments to provide liquidity.<sup>30</sup> As described above, on a quarterly basis, FICC would conduct due diligence to assess each Netting Member's ability to meet its Individual Total Amount. This due diligence would include a review of all information that the Netting Member has provided FICC in connection with its ongoing reporting requirements pursuant to the GSD Rules as well as a review of other publicly available information. As a result, FICC believes that its due diligence of Netting Members would be consistent with Rule 17Ad–22(e)(7)(iv).

Additionally, Rule 17Ad–22(e)(7)(v) under the Exchange Act will require FICC to maintain and test with each liquidity provider, to the extent practicable, FICC's procedures and operational capacity for accessing its relevant liquid resources.<sup>31</sup> As described above, FICC would test its operational procedures for invoking a CCLF Event and pursuant to GSD Rule 3 Section 6, Netting Members would be required to participate in such tests. As a result, FICC believes that its testing of its capability to invoke a CCLF MRA would be consistent with Rule 17Ad–22(e)(7)(v).

#### *(B) Clearing Agency's Statement on Burden on Competition*

FICC believes that the proposed rule change could have an impact upon competition because each Netting Member's Individual Total Amount would place a committed funding obligation on Netting Members and this obligation would increase the cost of participating in GSD. The proposed rule change could impose a larger burden on competition on Netting Members that are subject to an Individual Supplemental Amount because such Members would bear higher funding obligations than Netting Members who are not subject to an Individual Supplemental Amount.

FICC believes that the burden on competition that is created by the proposed rule change is necessary to comply with the requirements of the Exchange Act and rules thereunder. As noted above, FICC believes that the proposal would assure that FICC safeguards securities and funds in its custody or control by providing FICC with additional liquidity to meet its cash settlement obligations. Moreover, the proposal would support FICC's

compliance with Rule 17Ad–22(b)(3)<sup>32</sup> under the Exchange Act because the CCLF would be sized to provide FICC with sufficient financial resources to withstand, at a minimum, a default by the participant family to which it has the largest exposure in extreme but plausible market conditions.

Additionally, the proposed rule change would support FICC's compliance with Rule 17Ad–22(e)(7)(ii)<sup>33</sup> under the Exchange Act because the CCLF MRA would be a committed liquidity arrangement and all CCLF Transactions entered into pursuant the CCLF MRA would be readily available and the related assets would be convertible into cash in order to settle cash obligations owed to non-defaulting Netting Members. The proposed rule change would support FICC's compliance with Rules 17Ad–22(e)(7)(iv) and (v)<sup>34</sup> under the Exchange Act because FICC would conduct due diligence to assess each Netting Member's ability to meet its Individual Total Amount and FICC would test its procedures and operational capability to invoke a CCLF Event. Pursuant to GSD Rule 3 Section 6, Netting Members would be required to participate in such tests.

FICC believes that the burden on competition created by the Individual Total Amount and Individual Supplemental Amount would be appropriate in furtherance of the Exchange Act. While the proposal may result in FICC requiring each Netting Member to contribute different amounts to CCLF, those contributions would be calculated in proportion to the liquidity needs that each Netting Member presents to FICC over a given six-month look-back period. Moreover, the Individual Supplemental Amount would only be applied to Netting Members that place the largest liquidity needs on FICC, and these needs are a direct result of such Members' trading behavior during the six-month look-back period. As a result, the proposal would ensure that all Netting Members fairly and equitably contribute to FICC's liquid financial resources based on the liquidity need they present to FICC.

#### *(C) Clearing Agency's Statement on Comments on the Proposed Rule Change Received From Members, Participants, or Others*

*The proposal addresses a risk that spans beyond "extreme but plausible."*

FICC has received feedback that the proposed rule change seeks to address a risk that is not reasonable given the

<sup>27</sup> See 17 CFR 240.17Ad–22(e)(7).

<sup>28</sup> See 17 CFR 240.17Ad–22(e)(7)(i).

<sup>29</sup> See 17 CFR 240.17Ad–22(e)(7)(ii).

<sup>30</sup> See 17 CFR 240.17Ad–22(e)(7)(iv).

<sup>31</sup> See 17 CFR 240.17Ad–22(e)(7)(v).

<sup>32</sup> See 17 CFR 240.17Ad–22(b)(3).

<sup>33</sup> See 17 CFR 240.17Ad–22(e)(7)(ii).

<sup>34</sup> See 17 CFR 240.17Ad–22(e)(7)(iv) and (v).

current structure of the short-term tri-party repurchase market (“repo”) in U.S. Government securities. Commenters have explained that a committed liquidity tool such as CCLF is unnecessary because the repo market remained robust during periods of historical market stress and would continue to adequately perform during the next crisis. They have also noted that U.S. Treasury securities continue to be considered a “risk-free” instrument.

While FICC believes that historical market behavior allows market participants to observe trends in the repo market, FICC also believes that the adoption of CCLF would better position FICC to protect itself and its Netting Members should the repurchase financing market materially contract in the future. Additionally, the proposed rule change would adhere to Rule 17Ad-22(e)(7)(i) which requires FICC to maintain sufficient liquid resources to effect same-day settlement of payment obligations in the event of a default of the participant family that would generate the largest aggregate payment obligation for the covered clearing agency in extreme but plausible market conditions.<sup>35</sup>

*The proposal may impact behavior of smaller market participants.*

FICC has also received feedback that the proposed rule change would create concentration risk by forcing smaller Netting Members to clear through large financial institutions or exit the business. Commenters have explained that the funding obligation under the CCLF proposal may significantly impact their available capital or operating profiles. As a result, the CCLF proposal may force certain Netting Members to (1) clear through other financial institutions or (2) terminate their membership with FICC and engage in bilateral arrangements.

FICC values each Netting Member and does not wish to force any Netting Member to clear through larger Netting Members or exit the business as a result of this proposed rule change. However, FICC believes that all Netting Members should endeavor to maintain suitable capital to meet FICC’s enhanced participation requirements so that such Members do not have to clear through larger financial institutions or exit the business. Because each Netting Member is in the best position to monitor and manage the liquidity risks presented by its own activity, FICC believes that Netting Members should endeavor to manage their own liquidity. In an effort to enable each Netting Member to prepare for its liquidity funding

obligation, FICC would provide a liquidity funding report to each Netting Member on a daily basis. This report would enable each Netting Member to prepare for its maximum funding obligations and alter its trading behavior should it desire to minimize the liquidity risk that it presents to FICC.

FICC is cognizant that Netting Members would need to incorporate their respective funding obligation into their internal liquidity plans and evaluate the appropriate course of action for their firm based on the economic impact that such Netting Members believe the funding obligation imposes. Given the added liquidity cost, as noted in the feedback, FICC would implement the proposed rule change 12 months after the later date of the Commission’s approval of this filing or its no objection of the Advance Notice Filing. During this 12-month period, FICC would periodically provide Netting Members with estimates of their Individual Total Amounts. The deferred implementation and the estimate Individual Total Amounts are designed to give Netting Members the opportunity to assess the impact of their Individual Total Amount on their business profile and make any changes that such Netting Members deem necessary to lower their respective allocation.

As noted above, FICC understands that Netting Members must be able to plan for their funding obligations. At the same time, FICC also believes that it is critical that Netting Members understand the risks that their own activity presents to FICC, and be prepared to monitor their own activity and alter their behavior in order to minimize the liquidity risk they present to FICC.

### 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 (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.

The proposal shall not take effect until all regulatory actions required with respect to the proposal are completed.

### 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 Exchange 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](mailto:rule-comments@sec.gov). Please include File Number SR-FICC-2017-002 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-FICC-2017-002. 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/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 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 FICC and on DTCC’s Web site (<http://dtcc.com/legal/sec-rule-filings.aspx>). 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-FICC-2017-002 and should be submitted on or before April 10, 2017.

<sup>35</sup> See 17 CFR 240.17Ad-22(e)(7)(i).

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>36</sup>

**Robert W. Errett,**

*Deputy Secretary.*

[FR Doc. 2017-05401 Filed 3-17-17; 8:45 am]

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-80242; File No. SR-BatsBZX-2017-19]

### **Self-Regulatory Organizations; Bats BZX Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Related to Fees**

March 14, 2017.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on March 8, 2017, Bats BZX Exchange, Inc. (the “Exchange” or “BZX”) 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 Exchange has designated the proposed rule change as one establishing or changing a member due, fee, or other charge imposed by the Exchange under Section 19(b)(3)(A)(ii) of the Act<sup>3</sup> and Rule 19b-4(f)(2) thereunder,<sup>4</sup> which renders the proposed rule change effective upon filing with the Commission. 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 the Substance of the Proposed Rule Change**

The Exchange filed a proposal to amend the fee schedule applicable to Members<sup>5</sup> and non-members of the Exchange pursuant to BZX Rules 15.1(a) and (c).

The text of the proposed rule change is available at the Exchange’s Web site at [www.bats.com](http://www.bats.com), at the principal office of the Exchange, and at the Commission’s Public Reference Room.

<sup>36</sup> 17 CFR 200.30-3(a)(12).

<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> 15 U.S.C. 78s(b)(3)(A)(ii).

<sup>4</sup> 17 CFR 240.19b-4(f)(2).

<sup>5</sup> The term “Member” is defined as “any registered broker or dealer that has been admitted to membership in the Exchange.” See Exchange Rule 1.5(n).

### **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 parts of such statements.

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

##### **1. Purpose**

The Exchange proposes to amend its fee schedule applicable to its equities trading platform (“BZX Equities”) to: (i) Modify the criteria required to meet the Market Depth Tier; (ii) add a new Cross-Asset Add Volume Tier 2 under footnote 1; and (iii) delete the alternate criteria to meet Tiers 1 through 6 under footnote 1.

##### **Modifications to Market Depth Tier**

The Exchange proposes to modify the required criteria for Market Depth Tier under footnote 1 of the fee schedule. The Exchange currently offers enhanced rebates ranging from \$0.0025 to \$0.0032 per share under eight Add Volume Tiers set forth in footnote 1 of the fee schedule. Under the Market Depth Tier, qualifying Members earn a rebate per share of \$0.0032 on displayed orders that add liquidity and yield fee codes B, V, or Y.<sup>6</sup> Currently, to qualify for this tier a Member must: (i) Add an ADV<sup>7</sup> greater than or equal to 1.00% of the TCV;<sup>8</sup> and (ii) add an ADV greater than or equal to 0.10% of the TCV in non-displayed orders that yield fee codes HA<sup>9</sup> or HI.<sup>10</sup> The Exchange now

<sup>6</sup> Fee codes B, V, and Y are appended to displayed orders that add liquidity in tape B, A, or C, respectively. See the Exchange’s fee schedule available at [http://www.bats.com/us/equities/membership/fee\\_schedule/bzx/](http://www.bats.com/us/equities/membership/fee_schedule/bzx/).

<sup>7</sup> “ADV” means average daily volume calculated as the number of shares added or removed, combined, per day, and is calculated on a monthly basis. *Id.*

<sup>8</sup> “TCV” means total consolidated volume calculated as the volume reported by all exchanges and trade reporting facilities to a consolidated transaction reporting plan for the month for which the fees apply. *Id.*

<sup>9</sup> Fee code HA is appended to non-displayed orders which add liquidity on the Exchange and receive a rebate of \$0.0017 per share. *Id.*

<sup>10</sup> Fee code HI is appended to non-displayed orders which receive price improvement and add

proposes to decrease the first prong of the tier’s criteria while increasing the second prong of the criteria for this tier, thus keeping the difficulty of achieving the tier the same while adjusting to current market dynamics. Specifically, to receive a rebate of \$0.0032 per share under the Market Depth Tier a Member must now: (i) Add an ADV greater than or equal to 0.70% of the TCV; and (ii) add an ADV greater than or equal to 0.12% of the TCV in non-displayed orders that yield fee codes HA or HI.

##### **Proposed Cross-Asset Add Volume Tier 2**

The Exchange proposes to offer an additional Cross-Asset Add Volume Tier under footnote 1 of the fee schedule. Included amongst the volume tiers offered by the Exchange under footnote 1 is a Cross-Asset Add Volume Tier which requires participation on the Exchange’s equity options platform (“BZX Options”). Under the Exchange’s current Cross-Asset Add Volume Tier, a Member’s order that yield fee codes B, V, or Y may receive an enhanced rebate of \$0.0028 per share where that Member has an: (i) ADAV<sup>11</sup> as a percentage of TCV greater than or equal to 0.15%; and (ii) Options Customer Add TCV<sup>12</sup> greater than or equal to 0.10%. Under proposed tier to be called the “Cross-Asset Add Volume Tier 2”,<sup>13</sup> a Member’s orders that yield fee codes B, V or Y may receive an enhanced rebate of \$0.0030 per share where the Member: (i) Has on BZX Options an ADAV in Customer<sup>14</sup> orders greater than or equal to 0.60% of average TCV; (ii) has on BZX Options an ADAV in Market Maker<sup>15</sup> orders greater than or equal to

liquidity. Orders that yield fee code HI are charged no fee nor do they receive a rebate. *Id.*

<sup>11</sup> “ADAV” means average daily added volume calculated as the number of contracts added and “ADV” means average daily volume calculated as the number of contracts added or removed, combined, per day. See the Exchange’s fee schedule available at [http://www.bats.com/us/options/membership/fee\\_schedule/bzx/](http://www.bats.com/us/options/membership/fee_schedule/bzx/).

<sup>12</sup> “Options Customer Add TCV” means, for purposes of equities pricing, ADAV resulting from Customer orders as a percentage of TCV, using the definitions of ADAV, Customer and TCV as provided under the Exchange’s fee schedule for BZX Options. *Id.*

<sup>13</sup> The Exchange proposes to rename the current Cross-Asset Add Volume Tier as “Cross-Asset Add Volume Tier 1”.

<sup>14</sup> “Customer” applies to any transaction identified by a Member for clearing in the Customer range at the OCC, excluding any transaction for a Broker Dealer or a “Professional” as defined in Exchange Rule 16.1. See the BZX Options fee schedule available at [http://www.bats.com/us/options/membership/fee\\_schedule/bzx/](http://www.bats.com/us/options/membership/fee_schedule/bzx/).

<sup>15</sup> “Market Maker” applies to any transaction identified by a Member for clearing in the Market Maker range at the OCC, where such Member is registered with the Exchange as a Market Maker as defined in Rule 16.1(a)(37). *Id.*