

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-72657; File No. SR-NSCC-2014-07]

### Self-Regulatory Organizations; National Securities Clearing Corporation; Order Approving Proposed Rule Change To Implement a New Scorecard Feature to the Mutual Fund Profile Service

July 23, 2014.

On May 30, 2014, National Securities Clearing Corporation (“NSCC”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change SR-NSCC-2014-07 pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder.<sup>2</sup> The proposed rule change was published for comment in the **Federal Register** on June 12, 2014.<sup>3</sup> The Commission did not receive any comments on the proposed rule change. This order approves the proposed rule change.

#### I. Description

NSCC is adding a section to Rule 52.D of its Rules & Procedures<sup>4</sup> to implement a new scorecard feature to its Mutual Fund Profile Service (“MFPS”). The purpose of the new scorecard feature is to encourage more reliable data in MFPS.

MFPS is a data repository that provides members with a way of transmitting and receiving information about funds and other pooled investment vehicles (“Funds”).<sup>5</sup> MFPS includes a database, the “security issue profile database,” which contains Fund information, including, security ID number, security name, fee structure, investment objectives, breakpoint schedule data, and blue sky eligibility (collectively, “Security Issue Data”).<sup>6</sup> Generally, Fund members populate the

database (“Data Providers”)<sup>7</sup> and the Funds’ distribution partners receive and use the information in the database (“Data Receivers”).

Over the last several months, Data Receivers have expressed concern to NSCC that the Security Issue Data appears to be unreliable because of certain discrepancies. For example, the Security Issue Data does not always match information in the Data Providers’ public filings. As a result, Data Receivers requested that NSCC implement a mechanism to encourage Data Providers to provide more reliable Security Issue Data.

To respond to these concerns and encourage Data Providers to provide more reliable data, NSCC is amending Rule 52.D of its Rules & Procedures<sup>8</sup> to implement a new scorecard feature to MFPS. NSCC will score each Data Provider based on the types and number of discrepancies between MFPS data and other information, such as, for example, the Data Provider’s public filings (“Discrepancies”). NSCC will share this score with both the Data Providers and Data Receivers through a scorecard, which NSCC will distribute regularly.

NSCC will score Data Providers in the following ways. NSCC will issue a perfect score to a Data Provider who either has no Discrepancies or who addressed all of its Discrepancies and will reduce a score if a Data Provider fails to take action on its Discrepancies. NSCC will regularly recalculate both the Data Providers’ score as well as an industry average score as new Discrepancies are identified or addressed.

Scorecards distributed to Data Providers will contain: (i) The Data Provider’s score; (ii) the Data Provider’s number of Discrepancies by category; and (iii) the combined average score of all Data Providers. Data Providers will not see individual, numerical scores issued to other Data Providers nor other Data Providers’ Discrepancies.

Scorecards distributed to Data Receivers will contain: (i) Each Data Provider’s score; (ii) each Data Provider’s number of Discrepancies by category; and (iii) the combined average score of all Data Providers.

NSCC’s rule will provide that NSCC makes no representation or warranty with respect to the value or usefulness of any score or scorecard, nor will NSCC be subject to any damages or liabilities

whatsoever with respect to any person’s use of or reliance upon any score or scorecard. According to NSCC, it is including this information because the scores are based solely on action or inaction of Data Providers.<sup>9</sup>

In addition, NSCC’s rule will state that all information contained in the scorecards is copyrighted and any form of copying, other than for each NSCC member’s personal reference, without the express written permission of NSCC, is prohibited, and further distribution or redistribution of the scorecard or any information contained therein by any means or in any manner is strictly prohibited. According to NSCC, it is including the information because the scorecards are intended solely for members’ use and are not intended to be made public.<sup>10</sup>

#### II. Discussion

Section 19(b)(2)(C) of the Act<sup>11</sup> directs the Commission to approve a proposed rule change of a self-regulatory organization if it finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to such organization.

The Commission finds that the proposed rule change is consistent with Section 17A(b)(3)(F) of the Act,<sup>12</sup> which requires that the rules of a clearing agency be designed to, in part, foster cooperation and coordination with persons engaged in the clearance and settlement of securities transactions. NSCC’s proposed rule is designed to foster cooperation and coordination with persons engaged in the clearance and settlement of securities transactions because it is designed to encourage reliable and accurate data about securities.

#### III. Conclusion

On the basis of the foregoing, the Commission finds that the proposal is consistent with the requirements of the Act and in particular with the requirements of Section 17A of the Act<sup>13</sup> and the rules and regulations thereunder.

*It is therefore ordered*, pursuant to Section 19(b)(2) of the Act, that the proposed rule change (SR-NSCC-2014-07) be, and it hereby is, approved.

<sup>9</sup> See Notice, *supra* note 3, 79 FR at 33793-4.

<sup>10</sup> See Notice, *supra* note 3, 79 FR at 33794.

<sup>11</sup> 15 U.S.C. 78s(b)(2)(C).

<sup>12</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>13</sup> In approving this proposed rule change, the Commission has considered the proposed rule’s impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

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

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

<sup>3</sup> Securities Exchange Act Release No. 72344 (June 6, 2014), 79 FR 33793 (June 12, 2014) (SR-NSCC-2014-07) (“Notice”).

<sup>4</sup> Rule 52.D is titled, “Mutual Fund Profile Services.”

<sup>5</sup> See Securities Exchange Act Release No. 37171 (May 8, 1996), 61 FR 24343 (May 14, 1996) (SR-NSCC-96-04) (establishing MFPS); Securities Exchange Act Release No. 40614 (October 28, 1998), 63 FR 59615 (November 4, 1998) (SR-NSCC-98-09) (increasing the information available on MFPS); Securities Exchange Act Release No. 59321 (January 30, 2009), 74 FR 6933 (February 11, 2009) (SR-NSCC-2008-08) (adding an agreement that requires fund members to have taken reasonable steps to validate the accuracy of the data they submit to the MFPS).

<sup>6</sup> See Notice, *supra* note 3, 79 FR at 33793.

<sup>7</sup> Data Providers also include a Fund’s principal underwriter or other entities authorized to process transactions on behalf of the Funds.

<sup>8</sup> Rule 52.D is titled “Mutual Fund Profile Services.”

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>14</sup>

**Kevin M. O'Neill,**  
Deputy Secretary.

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-72660; File No. SR-CBOE-2014-058]

### Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating to Bandwidth Allowance

July 23, 2014.

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 July 10, 2014, Chicago Board Options Exchange, Incorporated (the "Exchange" or "CBOE") filed with the Securities and Exchange Commission (the "Commission") the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The Exchange proposes to amend its rule governing bandwidth allowance. The text of the proposed rule change is available on the Exchange's Web site (<http://www.cboe.com/AboutCBOE/CBOELegalRegulatoryHome.aspx>), at the Exchange's Office of the Secretary, and at the Commission's Public Reference Room.

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

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

the most significant aspects of such statements.

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

##### 1. Purpose

The Exchange is proposing to make an amendment to Rule 6.23B to state that certain order messages are not subject to bandwidth limitations and do not count towards the maximum number of orders allowed per second(s). Specifically, paired order messages, meaning orders that come into the Exchange already matched with a contra side order (i.e., Qualified Contingent Cross ("QCC") orders<sup>3</sup> and orders submitted to initiate the Solicitation Auction Mechanism<sup>4</sup> or Automated Improvement Mechanism ("AIM")<sup>5</sup> (i.e., AIM Sweep orders and Sweep and AIM orders)), will not be subject to any bandwidth limitations and are not counted towards the maximum number of orders allowed per second(s). Currently, Rule 6.23B does not specify that paired order messages do not count towards total bandwidth allocation.

The Exchange does not have unlimited system bandwidth to support an unlimited number of order and quote entries per second. For this reason, the Exchange limits each Trading Permit to a maximum number of messages per second(s). Paired order messages however, are not counted towards the maximum number of messages per second(s). The Exchange represents that not including paired order messages as part of the maximum number of orders allowed per second(s), as compared to non-paired orders, will not jeopardize Exchange systems capacity. Specifically, the Exchange notes that paired order messages are not submitted at the same velocity or frequency as non-paired orders or quotes and thus do not result in message traffic that is overly burdensome to the Exchange's systems. Accordingly, the Exchange systems have the necessary capability to handle paired order message traffic, even if such orders are not subjected to bandwidth limitations. The Exchange established bandwidth allowances for the purpose of protecting its systems and ensuring its systems were capable of handling all its message traffic. As the Exchange's systems do not need to be "protected" from paired order message traffic, the Exchange believes that,

unlike non-paired orders, it is not necessary to subject paired orders to bandwidth allowance. If, in the future, the Exchange determines that the lack of a bandwidth limitation on paired order messages challenges the Exchange's systems capacity or capabilities, the Exchange would submit a proposed rule change to establish such a limitation and modify its systems accordingly. The Exchange lastly notes that the exclusion of paired order messages from the bandwidth limitation applies to all Trading Permit Holders ("TPHs").

##### 2. Statutory Basis

The Exchange believes the proposed rule change is consistent with the Securities Exchange Act of 1934 (the "Act") and the rules and regulations thereunder applicable to the Exchange and, in particular, the requirements of Section 6(b) of the Act.<sup>6</sup> Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)<sup>7</sup> requirements that the rules of an exchange 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 securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest. Additionally, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)<sup>8</sup> requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

In particular, the Exchange believes that not imposing a bandwidth limitation regarding paired order messages perfects the mechanism of a free and open market by permitting investors to send in as many paired messages as they like (without threatening the Exchange's systems capacity). As noted above, paired order messages are not submitted at the same velocity or frequency as non-paired orders or quotes and thus do not result in message traffic that is overly burdensome to the Exchange's systems. Accordingly, the Exchange systems have the necessary capability to handle paired order message traffic, even if such orders are not subjected to bandwidth limitations. In addition, the proposed rule change does not

<sup>3</sup> See CBOE Rule 6.53(u) for a description of QCC orders.

<sup>4</sup> See CBOE Rule 6.74B for a description of the Solicitation Auction Mechanism.

<sup>5</sup> See CBOE Rule 6.74A for a description of AIM.

<sup>6</sup> 15 U.S.C. 78f(b).

<sup>7</sup> 15 U.S.C. 78f(b)(5).

<sup>8</sup> *Id.*

<sup>14</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.