

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-73877; File No. SR-ICC-2014-18]

Self-Regulatory Organizations; ICE Clear Credit LLC; Order Granting Approval of Proposed Rule Change To Revise the ICC Risk Management Framework

December 18, 2014.

I. Introduction

On October 22, 2014, ICE Clear Credit LLC (“ICC”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change SR-ICC-2014-18 pursuant to section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder.² The proposed rule change was published for comment in the **Federal Register** on November 3, 2014.³ The Commission received no comment letters regarding the proposed change. For the reasons discussed below, the Commission is granting approval of the proposed rule change.

II. Description of the Proposed Rule Change

ICC is proposing to revise the ICC Risk Management Framework to incorporate certain risk model enhancements. The revisions do not require any changes to the ICC Clearing Rules.

ICC proposes revising the ICC Risk Management Framework to facilitate compliance with requirements under the European Market Infrastructure Regulations, specifically anti-procyclicality conditions described in Article 28 of the Regulatory Technical Standards.⁴ Currently, according to ICC, it considers three levels of volatility in its Risk Management Framework to account for stable but prudent margin requirements. ICC proposes adding a fourth volatility scale that assigns a 25% weight to a stress period (currently the stress period is set to January 14, 2008 to December 31, 2008) and the remaining 75% to the immediate most recent 250 observations, consistent with Article 28(b) of the Regulatory Technical Standards. According to ICC,

the revised initial margin requirements are expected to result in more conservative initial margin figures for some risk factors. In addition, ICC proposes introducing devolatilization enhancements to describe spread log-return time series that span market periods associated with different volatility regimes.

Additionally, ICC proposes a revised approach to computing index liquidity charges. As described by ICC, the enhancement consists of reducing the portfolio liquidity benefits across different index series. As part of its product offering, ICC clears credit default swap (“CDS”) index series. A new series of CDS indices is issued every six months, and the new series is referred to as being “on-the-run,” while previous series are referred to as being “off-the-run.” ICC states that the revised calculation establishes series-specific liquidity charges by considering the series-specific positions and establishing series-specific position directionality based on the corresponding 5-year equivalent notional amount directionality. Further, to capture the market behavior around index rolls when the bid/offer width for index-roll transactions (*i.e.*, trading the on-the-run vs. first off-the-run indices) is typically smaller than the bid/offer width of each individual leg, ICC proposes implementing time-dependent long/short liquidity charge portfolio benefits for the on-the-run and the first off-the-run series. The proposed revisions to the liquidity charges are expected by ICC to result in more conservative requirements than the ones associated with the current approach.

ICC also proposes enhancements to the calculation of its concentration charges by introducing index series-specific concentration charges. According to ICC, the revised calculation establishes series-specific concentration charges for positions exceeding series-specific concentration threshold limits based on the direction of the 5-year equivalent notional amount or the net notional amount. Under the revised calculation, ICC states it will estimate series-specific concentration charge threshold limits based on the distribution of series-specific open interest information at the Clearing House. ICC believes that the estimated series-specific concentration charge threshold limits reflect the average open interest over a 5-day period. ICC expects the proposed revisions to the concentration charge will result in more conservative requirements than the ones associated with the current approach.

III. Discussion and Commission Findings

Section 19(b)(2)(C) of the Act⁵ directs the Commission to approve a proposed rule change of a self-regulatory organization if the Commission finds that such proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to such self-regulatory organization. Section 17A(b)(3)(F) of the Act⁶ requires, among other things, that the rules of a clearing agency are designed to promote the prompt and accurate clearance and settlement of securities transactions and, to the extent applicable, derivative agreements, contracts, and transactions, 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 and, in general, to protect investors and the public interest.

The Commission finds that the proposed rule change is consistent with section 17A of the Act⁷ and the rules thereunder applicable to ICC. The proposed changes to the ICC Risk Management Framework are expected to impose more prudent initial margin requirements, meeting the requirements of Rule 17Ad-22(b)(1) and (2).⁸ The proposed changes, when considered together with ICC’s existing Guaranty Fund methodology, are expected to result in total financial resources maintained by ICC sufficient to withstand, at a minimum, a default by the two participant families to which it has the largest exposures in extreme but plausible market conditions in accordance with Rule 17Ad-22(b)(3).⁹ Therefore, ICC’s proposed changes are reasonably designed to meet the margin and financial resource requirements of Rule 17Ad-22(b)(1)–(3).¹⁰ The Commission therefore believes that the changes will promote the prompt and accurate settlement of securities and derivatives transactions, consistent with the requirements of section 17A(b)(3)(F) of the Act.¹¹

IV. 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

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ Securities Exchange Act Release No. 34-73444 (Oct. 28, 2014), 79 FR 65270 (Nov. 3, 2014) (SR-ICC-2014-18).

⁴ Commission Delegated Regulation (EU) No. 153/2013 of 19 December 2012 Supplementing Regulation (EU) No. 648/2012 of the European Parliament and of the Council with regard to Regulatory Technical Standards on Requirements for Central Counterparties (the “Regulatory Technical Standards”).

⁵ 15 U.S.C. 78s(b)(2)(C).

⁶ 15 U.S.C. 78q-1(b)(3)(F).

⁷ 15 U.S.C. 78q-1.

⁸ 17 CFR 240.17Ad-22(b)(1) and (2).

⁹ 17 CFR 240.17Ad-22(b)(3).

¹⁰ 17 CFR 240.17Ad-22(b)(1)–(3).

¹¹ 15 U.S.C. 78q-1(b)(3)(F).

Act¹² and the rules and regulations thereunder.

It is therefore ordered, pursuant to section 19(b)(2) of the Act,¹³ that the proposed rule change (File No. SR-ICC-2014-18) be, and hereby is, approved.¹⁴

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹⁵

Kevin M. O'Neill,

Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-73878; File No. SR-BOX-2014-28]

Self-Regulatory Organizations; BOX Options Exchange LLC; Notice of Filing of Proposed Rule Change To Adopt New Rule 7300 To Allow the Exchange To Trade Preferred Orders

December 18, 2014.

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 December 8, 2014, BOX Options Exchange LLC (the “Exchange”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the self-regulatory organization. The Commission is publishing this notice to solicit comments on the proposed rule from interested persons.

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

The Exchange proposes to adopt new Rule 7300 to allow the Exchange to trade Preferred Orders. The text of the proposed rule change is available from the principal office of the Exchange, at the Commission’s Public Reference Room and also on the Exchange’s Internet Web site at <http://boxexchange.com>.

¹² 15 U.S.C. 78q-1.

¹³ 15 U.S.C. 78s(b)(2).

¹⁴ In approving the proposed rule change, the Commission considered the proposal’s impact on efficiency, competition and capital formation. 15 U.S.C. 78c(f).

¹⁵ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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

In its filing with the Commission, the self-regulatory organization included statements concerning the purpose of, and basis for, the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The self-regulatory organization 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 the Statutory Basis for, the Proposed Rule Change

1. Purpose

The Exchange proposes to adopt new Rule 7300 (Preferred Orders) to allow BOX Options Participants (“Participants”) to submit orders for which a Market Maker is designated to receive an allocation preference on the Exchange (“Preferred Orders”). This proposal provides an enhanced allocation to a Preferred Market Maker when it is quoting at NBBO.

This is a competitive filing based on the rules of a number of competing options exchanges.³ This proposal will allow the Exchange to be competitive with other options exchanges that provide similar enhanced allocation opportunities to Market Makers to reward them for attracting order flow to the Exchange.

Preferred Orders

A Preferred Order, as proposed, is any order submitted by a Participant to the Exchange for which a Market Maker is designated (a “Preferred Market Maker”) to receive execution priority, with respect to a portion of the Preferred Order, upon meeting certain qualifications described below. Preferred Orders are submitted by a Participant by designating an order as such and identifying a Preferred Market Maker when entering the order.

Preferred Orders may be submitted by any Participant on the Exchange. All existing order types and designations may be entered as Preferred Orders, with the exception of Customer Cross Orders (which do not involve Market Makers) and Directed Orders (which relate to the PIP and COPIP matching algorithms). If a Market-on-Opening

³ See, e.g. Phlx Rule 1080(l), CBOE Rule 8.13, ISE Supplementary Material .03 to Rule 713, MIAX Rule 514.

Order or a Complex Order is submitted as a Preferred Order, the designation as a Preferred Order will be disregarded and such order will be treated on the Exchange the same as if it were not a Preferred Order. Preferred Orders may interact with auctions and other functionality of the Exchange.

Participants may designate an order as a Preferred Order and identify the applicable Preferred Market Maker across all forms of connectivity to the Exchange. Preferred Orders will be displayed on the Exchange’s High Speed Vendor Feed (“HSVF”) the same as orders that are not designated as Preferred Orders.

A Preferred Market Maker must maintain a continuous two-sided market, pursuant to Rule 8050(c)(1), throughout the trading day, in option classes for which it accepts Preferred Orders, for 99% of the time the Exchange is open for trading in each such option class; provided, however, that for purposes of this requirement, a Preferred Market Maker is not required to quote in intra-day add-on series or series that have a time to expiration of nine months or more in classes for which it receives Preferred Orders and a Market Maker may still be a Preferred Market Maker in any such series if the Market Maker otherwise complies with the Preferred Market Maker requirements. Compliance with this requirement will be determined on a monthly basis; however, determining compliance with this requirement on a monthly basis does not relieve a Preferred Market Maker from meeting this quoting requirement on a daily basis, nor does it prohibit the Exchange from taking disciplinary action against a Preferred Market Maker for failing to meet this requirement each trading day. If a technical failure or limitation of a system of the Exchange prevents a Market Maker from maintaining, or prevents a Market Maker from communicating to the Exchange, timely and accurate electronic quotes in an option class, the duration of such failure will be disregarded in determining whether the Market Maker has satisfied this requirement. The Exchange may consider other exceptions to this obligation based on a demonstrated legal or regulatory requirement or other mitigating circumstances.

Except as described below, orders submitted to the Exchange as Preferred Orders will be treated the same as other orders submitted to the Exchange, including being executed in price/time priority according to the existing matching algorithm on the Exchange.