2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with the provisions of Section 6(b)(5) of the Act,[31] which require, among other things, that the Exchange's rules must be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, and, in general, to protect investors and the public interest, and Section 6(b)(8) of the Act,[32] which requires that the Exchange's rules not impose any burden on competition that is not necessary or appropriate.

The Exchange believes that this proposal is consistent with the Act because it implements, interprets or clarifies the provisions of the Plan, and is designed to assist the Exchange and its Industry Members in meeting regulatory obligations pursuant to the Plan. In approving the Plan, the SEC noted that the Plan ''is necessary and appropriate in the public interest, for the protection of investors and the maintenance of fair and orderly markets, to remove impediments to, and perfect the mechanism of a national market system, or is otherwise in furtherance of the purposes of the Act.'' [33] To the extent that this proposal implements, interprets or clarifies the Plan and applies specific requirements to Industry Members, the Exchange believes that this proposal furthers the objectives of the Plan, as identified by the SEC, and is therefore consistent with the Act.

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. The Exchange notes that the proposed rule change implements provisions of the CAT NMS Plan, and is designed to assist the Exchange in meeting its regulatory obligations pursuant to the Plan. The Exchange also notes that the rules contained in proposed Chapter 9 implementing provisions of the CAT NMS Plan will apply equally to all firms that trade NMS Securities and OTC Equity Securities. In addition, all national securities exchanges and FINRA are proposing the rules contained in proposed Chapter 9. Therefore, this is not a competitive rule filing, and, therefore, it does not impose a burden on competition.

[31] 15 U.S.C. 78f(b)(6).

[32] 15 U.S.C. 78f(b)(8).

[33] Approval Order at 84697.

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 (i) as the Commission may designate up to 90 days of such date 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. Please include File Number SR–ISE–2017–08 on the subject line.*

Paper Comments

• Send paper comments in triplicate to Brent J. Fields, Secretary, Securities and Exchange Commission, 100 F Street NE., Washington, DC 20549–1090.

All submissions should refer to File Number SR–ISE–2017–08. 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–ISE–2017–08 and should be submitted on or before March 2, 2017.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[34]

Eduardo A. Aleman,

Assistant Secretary.

[FR Doc. 2017–02648 Filed 2–8–17; 8:45 am]

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–79958; File No. SR–FICC–2017–001]

Self-Regulatory Organizations; Fixed Income Clearing Corporation; Notice of Filing of Proposed Rule Change To (1) Implement the Margin Proxy, (2) Modify the Calculation of the Coverage Charge in Circumstances Where the Margin Proxy Applies, and (3) Make Certain Technical Corrections

February 3, 2017.

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 February 2, 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.[3] The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

[34] 17 CFR 200.30–3(a)(12).

[1] 15 U.S.C. 78s(b)(1).

[2] 17 CFR 240.19b–4.

[3] On February 2, 2017, FICC filed this proposed rule change as an advance notice (SR–FICC–2017–801) 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 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.*

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

The proposed rule change consists of amendments to the FICC Government Securities Division (''GSD'') Rulebook (''GSD Rules'') [4] in order to include a minimum volatility calculation called the ''Margin Proxy.'' Under the proposed rule change, FICC would apply the greater of the amount calculated by the current model-based volatility calculation (''Current Volatility Calculation'') and the Margin Proxy when determining a GSD Netting Member's (''Netting Member's'') daily VaR Charge,[5] as further described below. In addition, FICC would modify the calculation of the Coverage Charge [6] in circumstances where the Margin Proxy applies, as further described below.

In order to effectuate the proposed rule changes described above, FICC proposes to (1) add a new defined term for Margin Proxy in Rule 1 (Definitions); (2) amend the definition of VaR Charge in Rule 1 to reference the Margin Proxy; and (3) amend Section 1b of Rule 4 (Clearing Fund and Loss Allocation) to modify the calculation of the Coverage Charge when the Margin Proxy is applied.

In addition, FICC proposes to make certain technical corrections to Rule 1 and Rule 4, as further described 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 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 introduce the Margin Proxy, which would constitute a Netting Member's daily VaR Charge in circumstances where the Margin Proxy would be greater than the Current Volatility Calculation. In circumstances where the Margin Proxy is applied by FICC, FICC also proposes to reduce the Coverage Charge by the amount that the Margin Proxy exceeds the sum of the Current Volatility Calculation and Coverage Charge, but not by an amount greater than the total Coverage Charge, as further described below.

A. Overview of the Required Fund Deposit and Clearing Fund Calculation

A key tool that FICC uses to manage market risk is the daily calculation and collection of Required Fund Deposits from Netting Members. The objective of a Netting Member's Required Fund Deposit is to mitigate potential losses to FICC associated with liquidation of such Netting Member's Margin Portfolio in the event that FICC ceases to act for such Netting Member (hereinafter referred to as a ''default'').[7]

A Netting Member's Required Fund Deposit consists of several components, including the VaR Charge and Coverage Charge. The VaR Charge comprises the largest portion of a Netting Member's Required Fund Deposit amount. The VaR Charge is calculated using a risk-based margin methodology that is intended to cover the market price risk associated with the securities in a Netting Member's Margin Portfolio.

The Coverage Charge is calculated based on the Netting Member's daily backtesting results. FICC employs daily backtesting to determine the adequacy of each Netting Member's Required Fund Deposit. The backtesting compares the Required Fund Deposit for each Netting Member with actual price changes in the Netting Member's Margin Portfolio. The Margin Portfolio values are calculated using the actual positions in such Netting Member's Margin Portfolio on a given day and the observed security price changes over the following three days. These backtesting results are reviewed as part of FICC's VaR model performance monitoring and assessment of the adequacy of each Netting Member's Required Fund Deposit.

The Coverage Charge is incorporated in the Required Fund Deposit for each Netting Member to increase the Required Fund Deposit so that the Netting Member's backtesting coverage may achieve the 99 percent confidence level (*i.e.,* greater than two backtesting deficiency days in a rolling twelve-month period).

B. Proposed Change to the Existing VaR Charge Calculation

During the fourth quarter of 2016, FICC's Current Volatility Calculation did not respond effectively to the level of market volatility at that time, and the VaR Charge amounts that were calculated using the profit and loss scenarios generated by the Current Volatility Calculation did not achieve backtesting coverage at a 99 percent confidence level. As a result, the Required Fund Deposit yielded backtesting deficiencies beyond FICC's risk tolerance. Therefore, FICC proposes to use the Margin Proxy as the VaR Charge when the Margin Proxy calculation would exceed the Current Volatility Calculation.

The Margin Proxy would cover circumstances where the Current Volatility Calculation is lower than market price volatility from corresponding U.S. Treasury and to-be-announced (''TBA'') [8] securities benchmarks.

More specifically, the Margin Proxy would reflect separate calculations for U.S. Treasury securities and agency pass-through mortgage backed securities (''MBS''). The purpose of the separate calculations would be to cover the historical market prices of each of those asset classes to a 99 percent confidence level, on a standalone basis, because the historical price changes of the two asset classes are different due to market factors, such as credit spreads and prepayment risk. This separate calculation would also allow FICC to monitor the performance of each of those asset classes individually.

The Margin Proxy would be calculated per Netting Member. Each security in a Netting Member's Margin Portfolio would be mapped to a respective benchmark based on the security's asset class and maturity.[9] All securities within each benchmark would be aggregated into a net exposure.[10] Next, FICC would apply an applicable haircut [11] to the net exposure per benchmark to determine the net price risk for each benchmark (''Net Price Risk''). Finally, FICC would

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

[5] The Margin Proxy would be calculated as part of the determination of the VaR Charge that occurs twice daily, based on start-of-day positions and noon positions.

[6] *See* description of Coverage Charge in GSD Rule 1, Definitions, *supra* note 4.

[7] GSD Rule 22A.

[8] Specified pool trades are mapped to the corresponding positions in TBA securities for determining the VaR Charge.

[9] U.S. Treasury and agency securities would be mapped to a U.S. Treasury benchmark security/index. Mortgage-backed securities would be mapped to a TBA security/index.

[10] Net exposure is the aggregate market value of securities to be purchased by the Netting Member minus the aggregate market value of securities to be sold by the Netting Member.

[11] The haircut is calculated using historical market price changes of the respective benchmark to cover the expected market price volatility at 99 percent confidence level.

determine the asset class price risk (''Asset Class Price Risk'') for U.S. Treasury and MBS benchmarks separately by aggregating the respective Net Price Risk, and for the U.S. Treasury benchmarks, the calculation includes a correlation adjustment, to provide risk diversification across tenor buckets, that has been historically observed across the U.S. Treasury benchmarks. The Margin Proxy would represent the sum of the U.S. Treasury and MBS Asset Class Price Risk. FICC would compare the Margin Proxy to the Current Volatility Calculation. FICC would apply the greater of the Margin Proxy or the Current Volatility Calculation for each asset class as the VaR Charge for each Netting Member's Margin Portfolio.

FICC believes that this proposal would provide the adequate Required Fund Deposit per Netting Member because the backtesting coverage including the Margin Proxy has been above the 99 percent confidence level for the past four years. Additionally, the Margin Proxy would be transparent to Netting Members because it would use industry standard benchmarks that can be observed by Netting Members.

The Margin Proxy methodology would be subject to performance reviews by FICC. Specifically, FICC would monitor each Netting Member's Required Fund Deposit and the aggregate Clearing Fund requirements versus the requirements calculated by the Margin Proxy. Consistent with the current GSD Rules,[12] FICC would review the robustness of the Margin Proxy by comparing the results versus the three-day profit and loss of each Netting Member's Margin Portfolio based on actual market price moves. If the Margin Proxy's backtesting results do not meet FICC's 99 percent confidence level, FICC would consider adjustments to the Margin Proxy, including increasing the look-back period and/or applying a historical stressed period to the Margin Proxy calibration, as appropriate.

C. Proposed Modification to the Coverage Charge When the Margin Proxy Is Applied

FICC also proposes to modify the calculation of the Coverage Charge when the Margin Proxy is applied as the VaR Charge. Specifically, FICC would reduce the Coverage Charge by the amount that the Margin Proxy exceeds the sum of the Current Volatility Calculation and Coverage Charge, but not by an amount greater than the total Coverage. FICC's backtesting analysis demonstrates that the proposed Margin Proxy would provide sufficient margin coverage without the addition of the Coverage Charge because FICC backtest results inclusive of the Margin Proxy achieve the 99 percent confidence level without the inclusion of the Coverage Charge.

FICC would not modify the Coverage Charge if the Margin Proxy is not applied as the VaR Charge.

D. Technical Corrections

FICC also proposes technical corrections to the GSD Rules. Specifically, FICC proposes to: (1) Capitalize certain words in the definition of VaR Charge in Rule 1 in order to reflect existing defined terms, (2) add ''Netting'' before ''Member'' in the definition of VaR Charge to reflect the application of the VaR Charge on Netting Members, and (3) correct typographical errors in Section 1b(a) of Rule 4.

2. Statutory Basis

Section 17A(b)(3)(F) of the 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.[13] The proposal would increase FICC's collection of margin when its Margin Proxy calculation exceeds the Current Volatility Calculation. As such, this proposal would help ensure that the Required Fund Deposit that FICC collects from Netting Members is sufficient to mitigate the credit exposure presented by the Netting Members. Therefore, FICC believes that the proposed rule changes associated with the Margin Proxy and Coverage Charge would help assure the safeguarding of securities and funds which are in the custody or control of FICC, consistent with Section 17A(b)(3)(F) of the Act.

Section 17A(b)(3)(F) of the Act also requires, in part, that the GSD Rules promote the prompt and accurate clearance and settlement of securities transactions.[14] The proposed rule changes that constitute technical corrections would correct typographical errors and capitalize terms so that existing defined terms are accurately referenced and used in the applicable rule provisions. As such, the proposed technical rule changes would help ensure that the GSD Rules remain accurate and clear, which helps to avoid potential interpretation differences and possible disputes between FICC and its Netting Members. Thus, FICC believes that the proposed technical rule changes would promote the prompt and accurate clearance and settlement of securities transactions, consistent with Section 17A(b)(3)(F) of the Act.

In addition, FICC believes that the proposed rule changes associated with the Margin Proxy and Coverage Charge are consistent with the requirements of Rules 17Ad–22(b)(1) and (b)(2) under the Act.[15] Rule 17Ad–22(b)(1) requires a registered clearing agency that performs central counterparty services to establish, implement, maintain and enforce written policies and procedures reasonably designed to measure its credit exposures to its participants at least once a day and limit its exposures to potential losses from defaults by its participants under normal market conditions so that the operations of the clearing agency would not be disrupted and non-defaulting participants would not be exposed to losses that they cannot anticipate or control.[16] The proposed rule changes associated with the Margin Proxy and Coverage Charge would continue FICC's practice of measuring its credit exposures at least once a day and would enhance GSD's risk-based margining framework, the objective of which is to calculate each Netting Member's Required Fund Deposit such that, in the event of a Netting Member's default, the defaulting Netting Member's own Required Fund Deposit would mitigate potential losses to FICC and non-defaulting Netting Members associated with the liquidation of such defaulted Netting Member's portfolio. Therefore, FICC believes that these proposed changes are consistent with Rule 17Ad–22(b)(1) under the Act.

Rule 17Ad–22(b)(2) under the Act requires a registered clearing agency that performs central counterparty services to establish, implement, maintain and enforce written policies and procedures reasonably designed to use margin requirements to limit its credit exposures to participants under normal market conditions and use risk-based models and parameters to set margin requirements and review such margin requirements and the related risk-based models and parameters at least monthly.[17] The proposed rule changes associated with the Margin Proxy and Coverage Charge would enhance the risk-based model and parameters that establish margin requirements for Netting Members. This enhancement to the risk-based model

[12] *See* definition of VaR Charge in GSD Rule 1, Definitions, *supra* note 4.

[13] *See* 15 U.S.C. 78q–1(b)(3)(F).

[14] *Id.*

[15] *See* 17 CFR 240.17Ad–22(b)(1) and (b)(2).

[16] *See* 17 CFR 240.17Ad–22(b)(1).

[17] *See* 17 CFR 240.17Ad–22(b)(2).

and parameters would use margin requirements to limit FICC's credit exposure to its Netting Members. Since the proposed changes are designed to calculate each Netting Member's Required Fund Deposit at a 99 percent confidence level, FICC believes each Netting Member's Required Fund Deposit could mitigate its own losses in the event that such Netting Member defaults under normal market conditions. Therefore, FICC believes that these proposed changes are consistent with Rule 17Ad–22(b)(2) under the Act.

FICC also believes that the proposed changes are consistent with Rules 17Ad–22(e)(4) and (e)(6) of the Act, which were recently adopted by the Commission.[18] Rule 17Ad–22(e)(4) will require FICC to establish, implement, maintain and enforce written policies and procedures reasonably designed to effectively identify, measure, monitor, and manage its credit exposures to participants and those exposures arising from its payment, clearing, and settlement processes.[19] The Margin Proxy methodology would be subject to performance reviews by FICC. If the Margin Proxy's backtesting results do not meet FICC's 99 percent confidence level, FICC would consider adjustments to the Margin Proxy, including increasing the look-back period and/or applying a historical stressed period to the Margin Proxy calibration, as appropriate. Therefore, the proposed rule changes associated with the Margin Proxy and Coverage Charge would enhance FICC's ability to identify, measure, monitor and manage its credit exposures to Netting Members and those exposures arising from its payment, clearing, and settlement processes by maintaining financial resources to cover a wide range of foreseeable price moves under both normal and stressed market conditions. Therefore, FICC believes the proposed changes are consistent with the requirements of Rule 17Ad–22(e)(4), promulgated under the Act.

Rule 17Ad–22(e)(6) will require FICC to establish, implement, maintain and enforce written policies and procedures reasonably designed to cover its credit exposures to its participants by establishing a risk-based margin system that is monitored by management on an ongoing basis and regularly reviewed, tested, and verified.[20] The proposed rule changes associated with the Margin Proxy enhance GSD's risk-based margin system that would continue to be monitored by FICC management on an ongoing basis and regularly reviewed, tested, and verified. Therefore, FICC believes that the proposed changes are consistent with the requirements of Rule 17Ad–22(e)(6), promulgated under the Act.

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

FICC believes that the proposed rule changes associated with the Margin Proxy and the Coverage Charge could have an impact upon competition. Specifically, FICC believes that those proposed changes could burden competition because they would result in larger Required Fund Deposit amounts for Netting Members when the Margin Proxy calculates a VaR Charge that is greater than the amount calculated pursuant to the Current Volatility Calculation. When application of the Margin Proxy increases Required Fund Deposits for Netting Members that have lower operating margins or higher costs of capital compared to other Netting Members, the proposed rule changes could burden competition. However, FICC does not believe that the proposed rule changes associated with the Margin Proxy and Coverage Charge would impose a significant burden on competition because the increase in the Required Fund Deposit would be in direct relation to the market risk presented by each Netting Member's Margin Portfolio. Moreover, the Required Fund Deposit would be calculated with the same parameters and at the confidence level for all Netting Members. Therefore, Netting Members that present similar Margin Portfolios would have similar impacts on their Required Fund Deposit amounts.

FICC believes that the above described burden on competition that may be created by the proposed rule changes associated with the Margin Proxy and Coverage Charge would be necessary in furtherance of the Act, specifically Section 17A(b)(3)(F) of the Act, because, as described above, the GSD Rules must be designed to assure the safeguarding of securities and funds that are in FICC's custody or control or for which it is responsible.[21] FICC believes that the proposed rule changes associated with the Margin Proxy also would support FICC's compliance with Rules 17Ad–22(b)(1) and (2) under the Act, which require FICC to employ policies and procedures reasonably designed to limit its credit exposures to participants and use risk-based models and parameters to set margin requirements.[22] FICC believes that the proposed rule changes would also support FICC's compliance with Rules 17Ad–22(e)(4) and (e)(6) under the Act, which will require FICC to employ policies and procedures reasonably designed to (x) effectively identify, measure, monitor, and manage its credit exposures to participants and those arising from its payment, clearing, and settlement processes, and (y) cover its credit exposures to its participants by establishing a risk-based margin system that is monitored by management on an ongoing basis and regularly reviewed, tested, and verified.[23] Implementing the proposed Margin Proxy would improve the risk-based model that FICC employs to set margin requirements and would better limit FICC's credit exposures to participants.

FICC believes that the above described burden on competition that could be created by the proposed rule changes associated with the Margin Proxy and Coverage Charge would be appropriate in furtherance of the Act because such changes have been appropriately designed to assure the safeguarding of securities and funds which are in the custody or control of FICC or for which it is responsible, as described above.[24] Such proposed changes were designed so that: (i) No particular category of Netting Member would be expected to experience materially greater increases than any other category of Netting Members; (ii) the Net Price Risk will vary by benchmark, so there would be opportunities for Netting Members to limit the impact of the Margin Proxy if they can adjust their Margin Portfolio to securities with lower Net Price Risk; and (iii) the reduction of the Coverage Charge would alleviate the impact on the Required Fund Deposit from the Margin Proxy.

Therefore, FICC believes that it has designed the proposed changes in a reasonable and appropriate way in order to meet compliance with its obligations under the Act. Specifically, implementing the proposed changes would improve the risk-based model that FICC employs to set margin requirements and better limit FICC's credit exposures to its Netting Members. Therefore, FICC believes the proposed

[18] The Commission adopted amendments to Rule 17Ad–22, including the addition of new section 17Ad–22(e), on September 28, 2016. The amendments to Rule 17Ad–22 became effective on December 12, 2016. FICC is a "covered clearing agency" as defined in Rule 17Ad–22(a)(5) and must comply with new section (e) of Rule 17Ad–22 by April 11, 2017. *See* Securities Exchange Act Release No. 78961 (September 28, 2016), 81 FR 70786 (October 13, 2016) (S7–03–14).

[19] *Id.*

[20] *Id.*

[21] *See* 15 U.S.C. 78q–1(b)(3)(F).

[22] *See* 17 CFR 240.17Ad–22(b)(1) and (2).

[23] *Supra* note 18.

[24] *See* 15 U.S.C. 78q–1(b)(3)(F).

changes are necessary and appropriate in furtherance of FICC's obligations under the Act, specifically Section 17A(b)(3)(F)[25] and Rule 17Ad–22(b).[26]

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

In connection with this proposed rule change, FICC received a written letter from Ronin Capital LLC (''Ronin Capital'').[27] A copy of this letter is attached as Exhibit 2. The aspects of this letter that relate to the proposed rule change are described below.

Abbreviated Rule Approval Process

A. The New Backup Model Is Being Rushed Into Production

Ronin Capital has questioned whether the risk to FICC from the current full evaluation approach is so dire that a new backup model is required to be rushed into production.

FICC believes that the Current Volatility Calculation did not respond effectively to volatile market conditions and that it must implement the proposed Margin Proxy as described in this proposed rule change as soon as possible to effectively mitigate the market price risk of each Netting Member's Margin Portfolio. As described in Item II(A)1. above, FICC believes that the proposed changes associated with the Margin Proxy and the Coverage Charge would help to ensure that each Netting Member's Required Fund Deposit achieves a 99 percent confidence level and the proposed changes would mitigate potential losses to FICC and non-defaulting Netting Members associated with the liquidation of a defaulted Netting Member's portfolio. As described in Item II(A)2. above, the proposed changes would support FICC's compliance with Rule 17Ad–22(e)(4) because the Margin Proxy is designed to effectively identify, measure, monitor, and manage FICC's credit exposures to participants and those exposures arising from its payment, clearing, and settlement processes.[28]

B. An Abbreviated Rule Approval Process May Not Be Appropriate When There Are Known Flaws With the Margin Proxy

Ronin Capital has questioned whether an abbreviated rule approval process is appropriate when there are known flaws with the Margin Proxy. Ronin Capital notes that an example of a flaw is the inability of the Margin Proxy to reflect risk offsets among portfolio positions.

As described in Item II(A)1. above, FICC has identified a deficiency in the Current Volatility Calculation and FICC believes that it has a responsibility to rectify this deficiency as soon as possible. With this in mind, FICC is requesting that the Commission accelerate the effectiveness of the proposed rule change pursuant to Section 19(b)(2) of the Act[29] in order to address the impact that market volatility has had on the GSD VaR Charge. FICC believes that this request is appropriate because the proposed changes associated with the Margin Proxy and the Coverage Charge would help to protect FICC and its Netting Members by ensuring that FICC collects sufficient Required Fund Deposits in the event that the Current Volatility Calculation does not perform as expected during volatile market conditions.

Ronin Capital's assertion that the Margin Proxy does not provide for risk offsets is incorrect. As described in Item II(A)1. above, the proposed Margin Proxy accounts for risk offsets by including a correlation adjustment to provide risk diversification across tenor buckets that have been historically observed across the U.S. Treasury benchmarks. The VaR Charge would preserve the same diversification between U.S. Treasury and MBS asset classes that is provided by the Current Volatility Calculation. FICC is not aware of any flaws with the proposed Margin Proxy and thus FICC believes that it is prudent to request that the Commission accelerate the effectiveness of the proposed change associated with the Margin Proxy and Coverage Charge.

C. The deployment of the Margin Proxy for an Extended Time May Further Burden Competition

Ronin Capital has expressed concern that GSD's expedited need for a new VaR model may result in the deployment of the backup Margin Proxy methodology for an extended amount of time which may burden competition.

FICC acknowledges that the proposed rule change associated with the Margin Proxy and Coverage Charge may burden competition, however, FICC believes that this burden would be necessary and appropriate in furtherance of the Act.

As described in Item II(B) above, the proposed rule change associated with the Margin Proxy and the Coverage Charge could burden competition because the proposed change would result in larger Required Fund Deposit amounts for Netting Members when the Margin Proxy calculates a VaR Charge that is greater than the amount calculated pursuant to the Current Volatility Calculation. When application of the Margin Proxy increases Required Fund Deposits for Netting Members that have lower operating margins or higher costs of capital compared to other Netting Members, the proposed rule change could burden competition. However, FICC does not believe that the proposed rule change associated with the Margin Proxy and Coverage Charge would impose a significant burden on competition because the increase in the Required Fund Deposit would be in direct relation to the market risk presented by each Netting Member's Margin Portfolio. Moreover, the Required Fund Deposit would be calculated with the same parameters and at the confidence level for all Netting Members. Therefore, Netting Members that present similar Margin Portfolios would have similar impacts on their Required Fund Deposit amounts.

FICC believes that the burden on competition would be necessary and appropriate in furtherance of the Act, specifically Section 17A(b)(3)(F).[30] As described in Items II(A)2. and II(B) above, the proposed changes associated with the Margin Proxy and the Coverage Charge would be consistent with Section 17A(b)(3)(F) because the changes would help assure the safeguarding of securities and funds which are in the custody or control of FICC.[31] In addition, the proposed changes would support FICC's compliance with Rule 17Ad–22(b)(1) under the Act because the proposed changes would be reasonably designed to (x) measure FICC's credit exposures to its participants at least once a day and (y) limit FICC's exposures to potential losses from defaults by its participants under normal market conditions.[32] The proposed changes would also support FICC's compliance with Rule 17Ad–22(b)(2) under the Act because the proposed changes would reflect FICC's use of risk-based models and parameters to set margin

[25] *Id.*

[26] *See* 17 CFR 240.17Ad–22(b).

[27] *See* Letter from Ronin Capital LLC to Messrs. Murray Pozmanter and Timothy Cuddihy dated January 20, 2017. This letter expressed a wide range of concerns, which FICC has and will continue to consider. The aspects of this letter which do not relate to the proposed rule change will be addressed by FICC outside of the context of this filing.

[28] *Supra* note 18.

[29] *See* 15 U.S.C. 78s(b)(2).

[30] *See* 15 U.S.C. 78q–1(b)(3)(F).

[31] *Id.*

[32] *See* 17 CFR 240.17Ad–22(b)(1).

requirements which would be reviewed monthly.[33] The proposed Margin Proxy would also support FICC's compliance with Rule 17Ad–22(e)(4) and (e)(6) under the Act because the Margin Proxy would be subject to a performance review by FICC and the Margin Proxy is a risk based margin system that would be monitored, regularly reviewed, tested and verified on an ongoing basis.[34]

For these reasons, FICC believes that any burden on competition as a result of the proposed changes associated with the Margin Proxy and Coverage Charge would be necessary and appropriate in furtherance in further of the Act as cited above.

D. The Margin Proxy Should Be Tested Before Filing a Rule Change and Netting Members Should Have the Opportunity to Prepare for the Temporary Model

Ronin Capital expressed concern about whether FICC conducted a study of the Margin Proxy's impact prior to filing a rule change. Ronin Capital also noted that Netting Members have experience with the idiosyncrasies of the current model and that it does not make sense to rush to a new temporary model without giving Netting Members any length of time to prepare.

FICC believes that it conducted sufficient analysis prior to the submission of this proposed rule change to the Commission. FICC evaluated the sufficiency of the proposed changes for a period that exceeded 2 months. FICC's study included historical analysis of the backtesting sufficiency of the Margin Proxy. In addition, FICC reviewed the impact that the Margin Proxy would have on each Netting Member's Required Fund Deposit. In an effort to help Netting Members prepare for this proposed rule change, FICC outlined the rationale for the Margin Proxy and provided each Netting Member with reports that reflect the impact that the proposed change would have on such Netting Member's Required Fund Deposit. Thus, FICC believes that it has provided Netting Members with sufficient information and advance notice regarding the proposed changes. FICC recognizes that Netting Members may have experience with the idiosyncrasies of the Current Volatility Calculation. Nonetheless, FICC believes that the proposed rule change must be employed to help ensure that FICC collects sufficient Required Fund Deposit amounts at all times, particularly during volatile market conditions.

[33] *See* 17 CFR 240.17Ad–22(b)(2).

[34] *Supra* note 18.

Lack of Transparency

A. Netting Members Should Have Access to Prospective Rule Changes Before Rules Are Filed

Ronin Capital acknowledged that it appreciates FICC's communication with Netting Members about sensitive topics before submitting rules for commentary; however, Ronin Capital also noted that it is important for Netting Members to have access to prospective rules changes before such rules are filed with regulatory authorities.

FICC notes that it has and continues to engage in ongoing discussion with Netting Members about how proposals would impact them. With respect to this proposed change, FICC's outreach to Netting Members included discussions regarding GSD's Clearing Fund calculation as well as the VaR Charge methodology. As described above, in an effort to help Netting Members prepare for this proposed rule change, FICC outlined the rationale for the Margin Proxy and provided each Netting Member with reports that reflect the impact that the proposed change would have on such Netting Member's Required Fund Deposit. FICC staff has always made itself available to answer all questions or concerns raised by Netting Members. FICC believes that it has provided Netting Members with an appropriate level of disclosure regarding this proposed rule change and such disclosure gives Netting Members the ability to manage their obligations under the proposed rule change.

B. FICC Should Provide Netting Members With the Ability To Conduct Scenario Analysis and FICC's Inability To Do So Could Be Anticompetitive

Ronin Capital noted that FICC should give Netting Members the ability to conduct margin based scenario analysis. Ronan Capital also noted that given the differing costs of capital across the membership, FICC's inability to provide Netting Members with the ability to conduct such analysis could be anticompetitive.

FICC does not have technology that would allow Netting Members to conduct margin based scenario analysis. While FICC recognizes that that there may be additional benefits that Netting Members could derive from the provision of such technology by FICC, FICC does not believe that the lack of availability of such technology is anticompetitive. FICC has provided sufficient disclosure regarding the proposed change to its Netting Members and each Netting Member has been provided with the same level of disclosure. In addition, FICC staff has made itself available to answer all questions regarding the proposed change. Thus, FICC believes that all Netting Members have the ability to manage their obligations based on the information that FICC has provided in connection with this proposed change. FICC recognizes there may be additional benefits that Netting Members could derive from margin based scenario analysis thus FICC will endeavor to explore the development of this technology in the future.

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 Act. Comments may be submitted by any of the following methods:

Electronic Comments

- Use the Commission's Internet comment form (*http://www.sec.gov/rules/sro.shtml*); or
- Send an email to *rule-comments@sec.gov.* Please include File Number SR–FICC–2017–001 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–2017–001. 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–2017–001 and should be submitted on or before February 24, 2017.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[35]

Eduardo A. Aleman,

Assistant Secretary.

[FR Doc. 2017–02649 Filed 2–8–17; 8:45 am]

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–79978; File No. SR–MSRB–2017–01]

Self-Regulatory Organizations; Municipal Securities Rulemaking Board; Notice of Filing of a Proposed Rule Change To Add New MSRB Rule G–49, on Transactions Below the Minimum Denomination of an Issue, to the Rules of the MSRB, and To Rescind Paragraph (f), on Minimum Denominations, From MSRB Rule G–15

February 6, 2017.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the ''Exchange Act'' or ''Act'') [1] and Rule 19b–4 thereunder,[2] notice is hereby given that on January 24, 2017 the Municipal Securities Rulemaking Board (the ''MSRB'' or ''Board'') filed with the Securities and Exchange Commission (the ''SEC'' or ''Commission'') the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the MSRB. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The MSRB filed with the Commission a proposed rule change to add new MSRB Rule G–49, on transactions below the minimum denomination of an issue, to the rules of the MSRB, and, in MSRB Rule G–15, on confirmation, clearance, settlement and other uniform practice requirements with respect to transactions with customers, to rescind paragraph (f), on minimum denominations (the ''proposed rule change''). The MSRB requests that the proposed rule change be approved, with an effective date to be announced by the MSRB in a regulatory notice published no later than 60 days following the Commission's approval, which effective date shall be no sooner than six months following the Commission's approval.

The text of the proposed rule change is available on the MSRB's Web site at *www.msrb.org/Rules-and-Interpretations/SEC-Filings/2017-Filings.aspx,* at the MSRB's principal office, 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 MSRB included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The MSRB has prepared summaries, set forth in Sections A, B, and C below, of the most significant aspects of such statements.

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

1. Purpose

Minimum Denomination Requirements

The minimum denomination of an issue of municipal securities is the minimum amount that may be sold or otherwise transferred, and is determined by the issuer at issuance. Existing MSRB Rule G–15(f) generally prohibits a broker, dealer or a municipal securities dealer (''dealer'') from effecting a customer transaction in a municipal security in an amount lower than the minimum denomination of the issue (the ''prohibition''), and provides two exceptions to the prohibition. The policy underlying the prohibition is to protect investors from holding positions that are smaller than the limits established by the issuer.[3]

The exceptions to the prohibition are provided to help preserve the liquidity of customers' below-minimum denomination positions, without creating an additional number of below-minimum denomination positions where there once was one.[4] Under the first exception, Rule G–15(f)(ii), a dealer is not prohibited from purchasing from a customer a municipal security in an amount below the minimum denomination of the issue, if the dealer determines, either by relying upon customer account information in its possession or upon a written statement by the customer as to its position in the issue, that the customer is selling its entire position in such issue. Under the second exception, Rule G–15(f)(iii), a dealer is not prohibited from selling to a customer a municipal security in an amount below the minimum denomination of the issue if the dealer determines that the position being sold is the result of a customer—either the dealer's customer or the customer of another dealer—fully liquidating its position in such issue that was below the minimum denomination of the issue. In such sales of a below-minimum denomination position to a customer, the dealer must provide written disclosure to the customer that the quantity of securities being sold is below the minimum denomination of the issue of municipal securities, which may, unless the customer has other securities from the issue that can be combined to reach the minimum denomination, adversely affect the liquidity of the position (the ''minimum denomination sale disclosure'').[5]

[35] 17 CFR 200.30–3(a)(12).

[1] 15 U.S.C. 78s(b)(1).

[2] 17 CFR 240.19b–4.

[3] *See* Securities Exchange Act Release No. 45338 (January 25, 2002), 67 FR 6960 (February 14, 2002) (SR–MSRB–2001–07).

[4] *Id.*

[5] The exceptions in the rule do not purport to displace contractual restrictions as to minimum denominations set forth in a bond indenture of an issue. In addition, the rule does not resolve whether transfers of securities positions that are below the minimum denomination pursuant to the exceptions to the prohibition are legal or contractually binding under the indenture or other bond documents, or comply with any applicable state or other laws or regulation. In this regard, the MSRB's description of a transaction as permitted or allowed in the proposed rule change is limited to mean those transactions that are not prohibited under existing Rule G–15(f) or proposed Rule G–49.