

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–82871; File No. SR–NASDAQ–2017–088]

Self-Regulatory Organizations; The Nasdaq Stock Market LLC; Notice of Designation of a Longer Period for Commission Action on Proceedings To Determine Whether To Approve or Disapprove a Proposed Rule Change, as Modified by Amendment No. 1, To Allow Participants To Designate When an Order With a RTFY or SCAN Routing Order Attribute Will be Activated During Pre-Market Hours

March 14, 2018.

On August 30, 2017, The Nasdaq Stock Market LLC (“Exchange” or “Nasdaq”) filed with the Securities and Exchange Commission (“Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b–4 thereunder,² a proposed rule change to amend Nasdaq Rule 4703(a) to allow participants to designate when an order with a RTFY or SCAN routing order attribute will be activated during Pre-Market Hours. The proposed rule change was published for comment in the **Federal Register** on September 18, 2017.³ On October 31, 2017, pursuant to Section 19(b)(2) of the Act,⁴ the Commission designated a longer period within which to approve the proposed rule change, disapprove the proposed rule change, or institute proceedings to determine whether to approve or disapprove the proposed rule change.⁵ On December 13, 2017, the Exchange filed Amendment No. 1 to the proposed rule change.⁶ On December 15, 2017, the Commission published notice of Amendment No. 1 and instituted proceedings under Section 19(b)(2)(B) of the Act⁷ to determine whether to approve or disapprove the proposed rule change, as modified by Amendment No. 1.⁸ The Commission has received no comments on the proposed rule change.

Section 19(b)(2) of the Act⁹ provides that, after initiating disapproval proceedings, the Commission shall issue an order approving or disapproving the proposed rule change not later than 180 days after the date of publication of notice of filing of the proposed rule change. The Commission may extend the period for issuing an order approving or disapproving the proposed rule change, however, by not more than 60 days if the Commission determines that a longer period is appropriate and publishes the reasons for such determination. The proposed rule change was published for notice and comment in the **Federal Register** on September 18, 2017. March 17, 2018 is 180 days from that date, and May 16, 2018 is 240 days from that date.

The Commission finds it appropriate to designate a longer period within which to issue an order approving or disapproving the proposed rule change so that it has sufficient time to consider the proposed rule change, as modified by Amendment No. 1. Accordingly, the Commission, pursuant to Section 19(b)(2) of the Act,¹⁰ designates May 16, 2018 as the date by which the Commission shall either approve or disapprove the proposed rule change (File No. SR–NASDAQ–2017–088), as modified by Amendment No. 1.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹¹

Eduardo A. Aleman,
Assistant Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–82876; File No. SR–FICC–2018–001]

Self-Regulatory Organizations; Fixed Income Clearing Corporation; Order Instituting Proceedings To Determine Whether To Approve or Disapprove a Proposed Rule Change to the Required Fund Deposit Calculation in the Government Securities Division Rulebook

March 14, 2018.

I. Introduction

On January 12, 2018, Fixed Income Clearing Corporation (“FICC”) filed with the Securities and Exchange Commission (“Commission”) proposed rule change SR–FICC–2018–001

(“Proposed Rule Change”) pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),¹ and Rule 19b–4 thereunder,² to make changes to the method by which the Government Securities Division (“GSD”) of FICC calculates the margin requirement of its members.³ The Proposed Rule Change was published for comment in the **Federal Register** on February 1, 2018.⁴ As of March 14, 2018, the Commission has received two comment letters to the Proposed Rule Change.⁵ This order institutes proceedings under Section 19(b)(2)(B) of the Act⁶ to determine whether to approve or disapprove the Proposed Rule Change.

II. Description of the Proposed Rule Change

FICC proposes to amend the FICC GSD Rulebook (“GSD Rules”)⁷ to make changes to GSD’s method of calculating GSD members’ (“Members”) margin.⁸

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b–4.

³ On January 12, 2018, FICC also filed the proposal contained in the Proposed Rule Change as advance notice SR–FICC–2018–801 (“Advance Notice”) 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 (“Clearing Supervision Act”), 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). Notice of filing of the Advance Notice was published for comment in the **Federal Register** on March 2, 2018. Securities Exchange Act Release No. 82779 (February 26, 2018), 83 FR 9055 (March 2, 2018) (SR–FICC–2018–801). On March 7, 2018, the Commission extended its review period of the Advance Notice for an additional 60 days pursuant to Section 806(e)(1)(H) of the Clearing Supervision Act. Securities Exchange Act Release No. 82820 (March 7, 2018), 83 FR 10761 (March 12, 2018) (SR–FICC–2018–801). The proposal contained in the Proposed Rule Change and the Advance Notice shall not take effect until all regulatory actions required with respect to the proposal are completed.

⁴ Securities Exchange Act Release No. 82588 (January 26, 2018), 83 FR 4687 (February 1, 2018) (SR–FICC–2018–001) (“Notice”).

⁵ Letter from Robert E. Pooler, Chief Financial Officer, Ronin Capital LLC, dated February 22, 2018, to Robert W. Errett, Deputy Secretary, Commission, available at <https://www.sec.gov/comments/sr-ficc-2018-001/ficc2018001-3133039-161947.pdf> (“Ronin Letter”); letter from Michael Santangelo, Chief Financial Officer, Amherst Pierpont Securities LLC, dated February 22, 2018, to Brent J. Fields, Secretary, Commission, available at <https://www.sec.gov/comments/sr-ficc-2018-001/ficc2018001-3130095-161938.pdf> (“Amherst Pierpont Letter”). Because the proposal contained in the Proposed Rule Change was also filed as an Advance Notice, *supra* note 3, the Commission is considering all public comments received on the proposal regardless of whether the comments were submitted to the Advance Notice or the Proposed Rule Change.

⁶ 15 U.S.C. 78s(b)(2)(B).

⁷ Available at <http://www.dtcc.com/legal/rules-and-procedures>.

⁸ See Notice, *supra* note 4, at 4687.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b–4.

³ See Securities Exchange Act Release No. 81579 (September 12, 2017), 82 FR 43584.

⁴ 15 U.S.C. 78s(b)(2).

⁵ See Securities Exchange Act Release No. 81986, 82 FR 51453 (November 6, 2017). The Commission designated December 17, 2017 as the date by which the Commission shall approve or disapprove, or institute proceedings to determine whether to approve or disapprove, the proposed rule change.

⁶ Amendment No. 1 is available at <https://www.sec.gov/comments/sr-nasdaq-2017-088/nasdaq2017088-2798107-161689.pdf>.

⁷ 15 U.S.C. 78s(b)(2)(B).

⁸ See Securities Exchange Act Release No. 82335, 82 FR 60637 (December 21, 2017).

⁹ 15 U.S.C. 78s(b)(2).

¹⁰ *Id.*

¹¹ 17 CFR 200.30–3(a)(57).

Specifically, FICC proposes to (1) change GSD's method of calculating the Value-at-Risk ("VaR") Charge component; (2) add a new component referred to as the "Blackout Period Exposure Adjustment;" (3) eliminate the Blackout Period Exposure Charge and the Coverage Charge components; (4) amend the Backtesting Charge component to (i) include the backtesting deficiencies of certain GCF Counterparties during the Blackout Period, and (ii) give GSD the ability to assess the Backtesting Charge on an intraday basis for all Netting Members; and (5) amend the calculation for determining the Excess Capital Premium for Broker Members, Inter-Dealer Broker Members, and Dealer Members.⁹ In addition, FICC proposes to provide transparency with respect to GSD's existing authority to calculate and assess Intraday Supplemental Fund Deposit amounts.¹⁰ The proposed QRM Methodology document would reflect the proposed VaR Charge calculation and the proposed Blackout Period Exposure Adjustment calculation.¹¹

A. Changes to GSD's VaR Charge Component

FICC states that the changes proposed in the Proposed Rule Change are designed to improve GSD's current VaR Charge so that it responds more effectively to market volatility.¹² Specifically, FICC proposes to (1) replace GSD's current full revaluation approach with a sensitivity approach;¹³ (2) employ the Margin Proxy as an alternative (*i.e.*, a back-up) VaR Charge calculation; (3) eliminate GSD's current augmented volatility adjustment multiplier; (4) utilize a haircut method for securities cleared by GSD that lack

sufficient historical data; and (5) establish a VaR Floor calculation that would serve as a minimum VaR Charge for Members, as discussed below.¹⁴

For the proposed sensitivity approach to the VaR Charge, FICC would source sensitivity data and relevant historical risk factor time series data generated by an external vendor based on its econometric, risk and pricing models.¹⁵ FICC would conduct independent data checks to verify the accuracy and consistency of the data feed received from the vendor.¹⁶ In the event that the external vendor is unable to provide the sourced data in a timely manner, FICC would employ its existing Margin Proxy as a back-up VaR Charge calculation.¹⁷

¹⁴ *Id.*

¹⁵ See Notice, *supra* note 4, at 4690. The following risk factors would be incorporated into GSD's proposed sensitivity approach: Key rate, convexity, implied inflation rate, agency spread, mortgage-backed securities spread, volatility, mortgage basis, and time risk factor. These risk factors are defined as follows:

- Key rate measures the sensitivity of a price change to changes in interest rates;
- convexity measures the degree of curvature in the price/yield relationship of key interest rates;
- implied inflation rate measures the difference between the yield on an ordinary bond and the yield on an inflation-indexed bond with the same maturity;
- agency spread is yield spread that is added to a benchmark yield curve to discount an Agency bond's cash flows to match its market price;
- mortgage-backed securities spread is the yield spread that is added to a benchmark yield curve to discount a to-be-announced ("TBA") security's cash flows to match its market price;
- volatility reflects the implied volatility observed from the swaption market to estimate fluctuations in interest rates;
- mortgage basis captures the basis risk between the prevailing mortgage rate and a blended Treasury rate; and
- time risk factor accounts for the time value change (or carry adjustment) over the assumed liquidation period. *Id.*

The above-referenced risk factors are similar to the risk factors currently utilized in MBSD's sensitivity approach; however, GSD has included other risk factors that are specific to the U.S. Treasury securities, Agency securities and mortgage-backed securities cleared through GSD. *Id.* Concerning U.S. Treasury securities and Agency securities, FICC would select the following risk factors: Key rates, convexity, agency spread, implied inflation rates, volatility, and time. *Id.* For mortgage-backed securities, each security would be mapped to a corresponding TBA forward contract and FICC would use the risk exposure analytics for the TBA as an estimate for the mortgage-backed security's risk exposure analytics. *Id.* FICC would use the following risk factors to model a TBA security: Key rates, convexity, mortgage-backed securities spread, volatility, mortgage basis, and time. *Id.* To account for differences between mortgage-backed securities and their corresponding TBA, FICC would apply an additional basis risk adjustment.

¹⁶ *Id.*

¹⁷ See Notice, *supra* note 4, at 4692. In the event that the data used for the sensitivity approach is unavailable for a period of more than five days, FICC proposes to revert back to the Margin Proxy as an alternative VaR Charge calculation. *Id.*

Additionally, FICC proposes to look at the historical changes of specific risk factors during the look-back period in order to generate risk scenarios to arrive at the market value changes for a given portfolio.¹⁸ A statistical probability distribution would be formed from the portfolio's market value changes, which would then be calibrated to cover the projected liquidation losses at a 99 percent confidence level.¹⁹ The portfolio risk sensitivities and the historical risk factor time series data would then be used by FICC's risk model to calculate the VaR Charge for each Member.²⁰

FICC also proposes to eliminate the augmented volatility adjustment multiplier. FICC states that the multiplier would not be necessary because the proposed sensitivity approach would have a longer look-back period and the ability to include an additional stressed market condition to account for periods of market volatility.²¹

According to FICC, in the event that a portfolio contains classes of securities that do not have sufficient volume and price information available, a historical simulation approach would not generate VaR Charge amounts that reflect the risk profile of such securities.²² Therefore, FICC proposes to calculate the VaR Charge for these securities by utilizing a haircut approach based on a market benchmark with a similar risk profile as the related security.²³ The proposed haircut approach would be calculated separately for U.S. Treasury/Agency securities and mortgage-backed securities.²⁴

Finally, FICC proposes to amend the existing calculation of the VaR Charge to include a VaR Floor, which would be the amount used as the VaR Charge when the sum of the amounts calculated by the proposed sensitivity approach and haircut method is less than the proposed VaR Floor.²⁵ The VaR Floor would be calculated as the sum of (1) a U.S. Treasury/Agency bond

¹⁸ See Notice, *supra* note 4, at 4690.

¹⁹ *Id.*

²⁰ *Id.*

²¹ See Notice, *supra* note 4, at 4692.

²² *Id.*

²³ See Notice, *supra* note 4, at 4692–93.

²⁴ See Notice, *supra* note 4, at 4693.

²⁵ *Id.*

⁹ See Notice, *supra* note 4, at 4687–88.

¹⁰ See Notice, *supra* note 4, at 4688. Pursuant to the GSD Rules, FICC has the existing authority and discretion to calculate an additional amount on an intraday basis in the form of an Intraday Supplemental Clearing Fund Deposit. See GSD Rules 1 and 4, *supra* note 7.

¹¹ See Notice, *supra* note 4, at 4688.

¹² See Notice, *supra* note 4, at 4690. FICC proposes to amend its calculation of GSD's VaR Charge because during the fourth quarter of 2016, FICC's current methodology for calculating the VaR Charge did not respond effectively to the market volatility that existed at that time. As a result, the VaR Charge did not achieve backtesting coverage at a 99 percent confidence level and, therefore, yielded backtesting deficiencies beyond FICC's risk tolerance.

¹³ *Id.* GSD's proposed sensitivity approach is similar to the sensitivity approach that FICC's Mortgage-Backed Securities Division ("MBSD") uses to calculate the VaR Charge for MBSD clearing members. See Securities Exchange Act Release No. 79868 (January 24, 2017), 82 FR 8780 (January 30, 2017) (SR-FICC-2016-007) and Securities Exchange Act Release No. 79643 (December 21, 2016), 81 FR 95669 (December 28, 2016) (SR-FICC-2016-801).

margin floor²⁶ and (2) a mortgage-backed securities margin floor.²⁷

B. Addition of the Blackout Period Exposure Adjustment Component

FICC proposes to add a new component to GSD's margin calculation—the Blackout Period Exposure Adjustment.²⁸ FICC states that the Blackout Period Exposure Adjustment would be calculated to address risks that could result from overstated values of mortgage-backed securities that are pledged as collateral for GCF Repo Transactions²⁹ during a Blackout Period.³⁰ A Blackout Period is the period between the last business day of the prior month and the date during the current month upon which a government-sponsored entity that issues mortgage-backed securities publishes its updated Pool Factors.³¹ The proposed Blackout Period Exposure Adjustment would result in a charge that either increases a Member's VaR Charge or a credit that decreases the VaR Charge.³²

C. Elimination of the Blackout Period Exposure Charge and Coverage Charge Components

FICC proposes to eliminate the existing Blackout Period Exposure Charge component from GSD's margin calculation.³³ The Blackout Period Exposure Charge only applies to Members with GCF Repo Transactions

that have two or more backtesting deficiencies during the Blackout Period and whose overall 12-month trailing backtesting coverage falls below the 99 percent coverage target.³⁴ FICC would eliminate this charge because the proposed Blackout Period Exposure Adjustment would apply to all Members with GCF Repo Transactions collateralized with mortgage-backed securities during the Blackout Period.³⁵

FICC also proposes to eliminate the existing Coverage Charge component from GSD's margin calculation.³⁶ FICC states that the Coverage Charge is based on historical portfolio activity, which may not be indicative of a Member's current risk profile.³⁷ FICC would eliminate the Coverage Charge because, as FICC states, the proposed sensitivity approach would provide overall better margin coverage, rendering the Coverage Charge unnecessary.³⁸

D. Amendment of the Backtesting Charge Component

FICC proposes to amend GSD's existing Backtesting Charge component of its margin calculation to (1) include the backtesting deficiencies of certain Members during the Blackout Period and (2) give GSD the ability to assess the Backtesting Charge on an intraday basis.³⁹

Currently, the Backtesting Charge does not apply to Members with mortgage-backed securities during the Blackout Period because such Members would be subject to a Blackout Period Exposure Charge.⁴⁰ In response to FICC's proposal to eliminate the Blackout Period Exposure Charge, FICC proposes to amend the applicability of the Backtesting Charge.⁴¹ Specifically, FICC proposes to apply the Backtesting Charge to Members that experience backtesting deficiencies that are attributed to the Member's GCF Repo Transactions collateralized with mortgage-backed securities during the Blackout Period.⁴²

FICC also proposes to amend the Backtesting Charge to apply to Members that experience backtesting deficiencies during the trading day because of such

Member's intraday trading activities.⁴³ The Intraday Backtesting Charge would be assessed on Members with portfolios that experience at least three intraday backtesting deficiencies over the prior 12-month period and would generally equal a Member's third largest historical intraday backtesting deficiency.⁴⁴

E. Amendment of the Excess Capital Premium Charge

FICC proposes to amend GSD's calculation for determining the Excess Capital Premium. Currently, GSD assesses the Excess Capital Premium when a Member's VaR Charge exceeds the Member's Excess Capital.⁴⁵ Only Members that are brokers or dealers are required to report Excess Net Capital figures to FICC while other Members report net capital or equity capital, based on the type of regulation to which the Member is subject.⁴⁶ If a Member is not a broker or dealer, FICC uses the net capital or equity capital in order to calculate each Member's Excess Capital Premium.⁴⁷ FICC proposes to move to a net capital measure for broker Members, inter-dealer broker Members, and dealer Members.⁴⁸ FICC states that such a change would make the Excess Capital Premium for those Members more consistent with the equity capital measure that is used for other Members in the Excess Capital Premium calculation.⁴⁹

F. Additional Transparency Surrounding the Intraday Supplemental Fund Deposit

Separate from the above changes to GSD's margin calculation, FICC proposes to provide transparency in the GSD Rules with respect to GSD's existing calculation of the Intraday Supplemental Fund Deposit.⁵⁰ FICC proposes to provide more detail in the GSD rules surrounding both GSD's calculation of the Intraday Supplemental Fund Deposit charge and its determination of whether to assess the charge.⁵¹

FICC calculates the Intraday Supplemental Fund Deposit by tracking three criteria for each Member.⁵² The

²⁶ *Id.* The U.S. Treasury/Agency bond margin floor would be calculated by mapping each U.S. Treasury/Agency security to a tenor bucket, then multiplying the gross positions of each tenor bucket by its bond floor rate, and summing the results. *Id.* The bond floor rate of each tenor bucket would be a fraction (initially set at 10 percent) of an index-based haircut rate for such tenor bucket. *Id.*

²⁷ *Id.* The mortgage-backed securities margin floor would be calculated by multiplying the gross market value of the total value of mortgage-backed securities in a Member's portfolio by a designated amount, referred to as the pool floor rate, (initially set at 0.05 percent). *Id.*

²⁸ See Notice, *supra* note 4, at 4694. The proposed Blackout Period Exposure Adjustment would be calculated by (1) projecting an average pay-down rate of mortgage loan pools (based on historical pay down rates) for the government sponsored enterprises (Fannie Mae and Freddie Mac) and the Government National Mortgage Association (Ginnie Mae), respectively, then (2) multiplying the projected pay-down rate by the net positions of mortgage-backed securities in the related program, and (3) summing the results from each program.

²⁹ GCF Repo Transactions refer to transactions made on FICC's GCF Repo Service that enables dealers to trade general collateral repos, based on rate, term, and underlying product, throughout the day, without requiring intra-day, trade-for-trade settlement on a Delivery-versus-Payment basis.

³⁰ See Notice, *supra* note 4, at 4694.

³¹ *Id.* Pool Factors are the percentage of the initial principal that remains outstanding on the mortgage loan pool underlying a mortgage-backed security, as published by the government-sponsored entity that is the issuer of such security.

³² *Id.*

³³ *Id.*

³⁴ *Id.*

³⁵ *Id.*

³⁶ *Id.*

³⁷ *Id.* FICC states that it previously determined the Coverage Charge to be appropriate to address potential shortfalls in margin charges under the current, full revaluation approach.

³⁸ *Id.*

³⁹ See Notice, *supra* note 4, at 4695.

⁴⁰ *Id.*

⁴¹ *Id.*

⁴² *Id.* Additionally, during the Blackout Period, the Blackout Period Exposure Adjustment Charge, as described in Section I.C, will be applied to all applicable Members.

⁴³ See Notice, *supra* note 4, at 4695.

⁴⁴ *Id.*

⁴⁵ See Notice, *supra* note 4, at 4696. The term "Excess Capital" means Excess Net Capital, net assets, or equity capital as applicable, to a Member based on its type of regulation. GSD Rules, Rule 1, *supra* note 7.

⁴⁶ See Notice, *supra* note 4, at 4696.

⁴⁷ *Id.*

⁴⁸ *Id.*

⁴⁹ *Id.*

⁵⁰ *Id.*

⁵¹ *Id.*

⁵² *Id.*

first criteria, the “Dollar Threshold,” evaluates whether a Member’s Intraday VaR Charge equals or exceeds a set dollar amount when compared to the VaR Charge that was included in the most recent margin collection.⁵³ The second criteria, the “Percentage Threshold,” evaluates whether the Intraday VaR Charge equals or exceeds a percentage increase of the VaR Charge that was included in the most recent margin collection.⁵⁴ The third criteria, the “Coverage Target,” evaluates whether a Member is experiencing backtesting results below a 99 percent confidence level.⁵⁵ In the event that a Member’s additional risk exposure breaches all three criteria, FICC assess an Intraday Supplemental Fund Deposit.⁵⁶ FICC also assess an Intraday Supplemental Fund Deposit if, under certain market conditions, a Member’s Intraday VaR Charge breaches both the Dollar Threshold and the Percentage Threshold.⁵⁷

G. Description of the QRM Methodology

The QRM Methodology document provides the methodology by which FICC would calculate the VaR Charge, with the proposed sensitivity approach, as well as other components of the Required Fund Deposit calculation.⁵⁸ The QRM Methodology document specifies (i) the model inputs, parameters, assumptions and qualitative adjustments; (ii) the calculation used to generate margin amounts; (iii) additional calculations used for benchmarking and monitoring purposes; (iv) theoretical analysis; (v) the process by which the VaR methodology was developed as well as its application and limitations; (vi) internal business requirements associated with the implementation and ongoing monitoring of the VaR methodology; (vii) the model change management process and governance framework (which includes the escalation process for adding a stressed period to the VaR calculation); (viii) the haircut methodology; (ix) the Blackout Period Exposure Adjustment calculations; (x) intraday margin calculation; and (xi) the Margin Proxy calculation.⁵⁹

III. Summary of Comments Received

The Commission received two comment letters in response to the Proposed Rule Change.⁶⁰ One comment

letter, the Amherst Pierpont Letter, requested additional time to provide comments on the proposal.⁶¹ A second comment letter, the Ronin Letter, objects to the Proposed Rule Change.

Ronin states that the Proposed Rule Change would “unduly burden competition” and be “unnecessary and unfair” because the VaR model redesign would necessitate higher margin requirements than are necessary for Members, specifically Members with a higher cost of capital.⁶² Ronin states that FICC is tasked with determining that each Member’s margin is adequate to satisfy losses that may arise from the liquidation of that Member’s portfolio under a default scenario, but Ronin emphasizes that FICC must also ensure that “backtesting practices are appropriate for determining the adequacy of [FICC’s] margin resources.”⁶³ Ronin states that certain “flaws” in FICC’s current backtesting methodology should be carefully examined before using backtesting deficiencies as justification for the proposed sensitivity VaR model.⁶⁴

Ronin also states that FICC’s assumption that it would take three days to liquidate or hedge the portfolio of a defaulted Member is incorrect.⁶⁵ Specifically, Ronin states that FICC incorrectly assumes that liquidity needs following a default will be identical for all Members.⁶⁶ Ronin states that the three-day liquidation period creates an “arbitrary and extremely high hurdle” for historical backtesting by overestimating the closeout-period risk posed to FICC by many of its Members by “triple-counting” a single event.⁶⁷

Ronin also states that FICC lacks visibility into its Members’ “true risk” because FICC only has access to a subset of a Members’ portfolio and, consequently, FICC does not have a VaR model issue, but, instead, a “data sharing problem.”⁶⁸ Ronin states that due to a lack of information regarding Members’ entire portfolios, FICC is “improperly” applying its VaR model to only a subset of a Member’s portfolio, resulting in incomplete margin calculations, which FICC should rectify through “cross-margin integration” with

the Chicago Mercantile Exchange and FICC’s Mortgage-Backed Securities Division.⁶⁹

Finally, Ronin states that the VaR model input is “biased” because it continuously retains a “stressed period” in the proposed 10-year look-back period.⁷⁰ This results in higher than necessary margin withholdings because it “treats every day for risk-related purposes as if the market is continuously in the midst of a financial crisis.”⁷¹

IV. Proceedings To Determine Whether to Approve or Disapprove the Proposed Rule Change and Grounds for Disapproval Under Consideration

The Commission is instituting proceedings pursuant to Section 19(b)(2)(B) of the Act⁷² to determine whether the Proposed Rule Change should be approved or disapproved. Institution of proceedings is appropriate at this time in view of the legal and policy issues raised by the Proposed Rule Change. Institution of proceedings does not indicate that the Commission has reached any conclusions with respect to any of the issues involved. Rather, the Commission seeks and encourages interested persons to comment on the Proposed Rule Change, and provide the Commission with arguments to support the Commission’s analysis as to whether to approve or disapprove the Proposed Rule Change.

Pursuant to Section 19(b)(2)(B) of the Act,⁷³ the Commission is providing notice of the grounds for disapproval under consideration. The Commission is instituting proceedings to allow for additional analysis of, and input from commenters with respect to, the Proposed Rule Change’s consistency with Section 17A of the Act,⁷⁴ and the rules thereunder, including the following provisions:

- Section 17A(b)(3)(F) of the Act,⁷⁵ which requires, among other things, that the rules of a clearing agency must be designed to assure the safeguarding of securities and funds which are in the custody or control of the clearing agency and, in general, protect investors and the public interest;
- Section 17A(b)(3)(I) of the Act,⁷⁶ which requires that the rules of a clearing agency do not impose any burden on competition not necessary or

⁶¹ The Commission is extending the period for review and public comment for the Proposed Rule Change associated with this proposal through this Order and has also extended the period for review and public comment on the Advanced Notice associated with this proposal, *supra* note 3.

⁶² Ronin Letter at 1–9.

⁶³ Ronin Letter at 2.

⁶⁴ *Id.*

⁶⁵ *Id.*

⁶⁶ *Id.*

⁶⁷ Ronin Letter at 3.

⁶⁸ *Id.*

⁶⁹ Ronin Letter at 3–4.

⁷⁰ Ronin Letter at 4.

⁷¹ *Id.*

⁷² 15 U.S.C. 78s(b)(2)(B).

⁷³ *Id.*

⁷⁴ 15 U.S.C. 78q–1.

⁷⁵ 15 U.S.C. 78q–1(b)(3)(F).

⁷⁶ 15 U.S.C. 78q–1(b)(3)(I).

⁵³ *Id.*

⁵⁴ See Notice, *supra* note 4, at 4697.

⁵⁵ *Id.*

⁵⁶ *Id.*

⁵⁷ *Id.*

⁵⁸ See Notice, *supra* note 4, at 4697.

⁵⁹ *Id.*

⁶⁰ See *supra*, note 5.

appropriate in furtherance of the purpose of the Act;

- Rule 17Ad-22(e)(4)(i) under the Act,⁷⁷ which requires a clearing agency 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 by maintaining sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence;

- Rule 17Ad-22(e)(6)(i) under the Act,⁷⁸ which requires a clearing agency to establish, implement, maintain and enforce written policies and procedures reasonably designed to cover, if the covered clearing agency provides central counterparty services, its credit exposures to its participants by establishing a risk-based margin system that, at a minimum, considers, and produces margin levels commensurate with, the risks and particular attributes of each relevant product, portfolio, and market;

- Rule 17Ad-22(e)(6)(ii) under the Act,⁷⁹ which requires a clearing agency to establish, implement, maintain and enforce written policies and procedures reasonably designed to cover, if the covered clearing agency provides central counterparty services, its credit exposures to its participants by establishing a risk-based margin system that, at a minimum, marks participant positions to market and collects margin, including variation margin or equivalent charges if relevant, at least daily and includes the authority and operational capacity to make intraday margin calls in defined circumstances;

- Rule 17Ad-22(e)(6)(iii) under the Act,⁸⁰ which requires a clearing agency to establish, implement, maintain and enforce written policies and procedures reasonably designed to cover, if the covered clearing agency provides central counterparty services, its credit exposures to its participants by establishing a risk-based margin system that, at a minimum, calculates margin sufficient to cover its potential future exposure to participants in the interval between the last margin collection and the close out of positions following a participant default;

- Rule 17Ad-22(e)(6)(iv) under the Act,⁸¹ which requires a clearing agency to establish, implement, maintain and

enforce written policies and procedures reasonably designed to cover, if the covered clearing agency provides central counterparty services, its credit exposures to its participants by establishing a risk-based margin system that, at a minimum, uses reliable sources of timely price data and procedures and sound valuation models for addressing circumstances in which pricing data are not readily available or reliable; and

- Rule 17Ad-22(e)(6)(v) under the Act,⁸² which requires a clearing agency to establish, implement, maintain and enforce written policies and procedures reasonably designed to cover, if the covered clearing agency provides central counterparty services, its credit exposures to its participants by establishing a risk-based margin system that, at a minimum, uses an appropriate method for measuring credit exposure that accounts for relevant product risk factors and portfolio effects across products.

V. Request for Written Comments

The Commission requests that interested persons provide written submissions of their views, data, and arguments with respect to the issues identified above, as well as any other concerns they may have with the Proposed Rule Change. In particular, the Commission invites the written views of interested persons concerning whether the Proposed Rule Change is consistent with Sections 17A(b)(3)(F) and (I) of the Act, Rules 17Ad-22(e)(4)(i) and (6)(i)-(v) under the Act, cited above, or any other provision of the Act, or the rules and regulations thereunder. Although there do not appear to be any issues relevant to approval or disapproval that would be facilitated by an oral presentation of views, data, and arguments, the Commission will consider, pursuant to Rule 19b-4(g) under the Act,⁸³ any request for an opportunity to make an oral presentation.⁸⁴

Interested persons are invited to submit written data, views, and arguments regarding whether the Proposed Rule Change should be approved or disapproved by April 4, 2018. Any person who wishes to file a rebuttal to any other person's

submission must file that rebuttal by April 16, 2018. 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-2018-001 on the subject line.

Paper Comments

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-FICC-2018-001. 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 website (<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 website 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 such filings also will be available for inspection and copying at the principal office of FICC and on DTCC's website (<http://dtcc.com/legal/sec-rule-filings.aspx>). All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-FICC-2018-001 and should be submitted on or before April 4, 2018. Rebuttal comments should be submitted by April 16, 2018.

⁷⁷ 17 CFR 240.17Ad-22(e)(4)(i).

⁷⁸ 17 CFR 240.17Ad-22(e)(6)(i).

⁷⁹ 17 CFR 240.17Ad-22(e)(6)(ii).

⁸⁰ 17 CFR 240.17Ad-22(e)(6)(iii).

⁸¹ 17 CFR 240.17Ad-22(e)(6)(iv).

⁸² 17 CFR 240.17Ad-22(e)(6)(v).

⁸³ 17 CFR 240.19b-4(g).

⁸⁴ Section 19(b)(2) of the Act grants to the Commission flexibility to determine what type of proceeding—either oral or notice and opportunity for written comments—is appropriate for consideration of a particular proposal by a self-regulatory organization. See Securities Act Amendments of 1975, Senate Comm. on Banking, Housing & Urban Affairs, S. Rep. No. 75, 94th Cong., 1st Sess. 30 (1975).

⁸⁵ 17 CFR 200.30-3(a)(57).

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.⁸⁵

Eduardo A. Aleman,

Assistant Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-82875; File No. SR-CBOE-2018-022]

Self-Regulatory Organizations; Cboe Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Rule 6.56, Compression Forums

March 14, 2018.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”),¹ and Rule 19b-4 thereunder,² notice is hereby given that on March 8, 2018, Cboe Exchange, Inc. (the “Exchange” or “Cboe Options”) filed with the Securities and Exchange Commission (the “Commission”) the proposed rule change as described in Items I and II below, which Items have been prepared by the Exchange. The Exchange filed the proposal as a “non-controversial” proposed rule change pursuant to Section 19(b)(3)(A)(iii) of the Act³ and Rule 19b-4(f)(6) thereunder.⁴ 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 Rule 6.56. The text of the proposed rule change is provided below.

(additions are *italicized*; deletions are [bracketed])

* * * * *

Cboe Exchange, Inc. Rules

* * * * *

Rule 6.56. Compression Forums

(a) Procedure.

(1) Prior to 4:30 p.m. Chicago time on the *second to last business day of each calendar week; the second, third, and fourth to last business day of each calendar month; and the second, third, fourth, fifth, and sixth to last business day of each calendar quarter*, in a manner and format determined by the

Exchange, a Trading Permit Holder may provide the Exchange with a list of open SPX options positions that it would like to close through the compression forum for that calendar month (“compression-list positions”). Trading Permit Holders may also permit their Clearing Trading Permit Holders or the Clearing Corporation to submit a list of these positions to the Exchange on their behalf.

(2) Prior to the open of Regular Trading Hours on the last business day of each calendar week; each of the last three business days of each calendar month; and each of the last five business days of each calendar quarter, [second to last business day, and third to last business day of each calendar month,] the Exchange will make available to all Trading Permit Holders a list including the size of the offsetting compression-list positions (including all possible combinations of offsetting multi-leg positions) in each series (and multi-leg position) for which both long and short compression-list positions have been submitted to the Exchange (“compression-list positions file”).

(3)–(5) No change.

(6) The Exchange will make available an open outcry “compression forum” in which all Trading Permit Holders may participate on *the last business day of each calendar week, each of the last three business days of every calendar month, and each of the last five business days of every calendar quarter*, at a location on the trading floor determined by the Exchange. The compression forum will be held for four (4) hours during Regular Trading Hours on *the last business day of each calendar week, each of the last three business days of every calendar month, and each of the last five business days of every calendar quarter, unless* [or three (3) hours if] any of those days is an abbreviated trading day, as [times] determined by the Exchange, *in which case the compression forum will be held for three (3) hours.*

(b)–(c) (No change).

* * * * *

The text of the proposed rule change is also available on the Exchange’s website (<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 proposes to amend rule 6.56 (Compression Forums) to increase the number of compression forums that are held on the Exchange.

Currently, compression forums are held on each of the last three business days of every calendar month.⁵ In addition to holding compression forums on each of the last three business days of every calendar month, the Exchange seeks to hold compression forums on the last business day of every calendar week and each of the last five business days of every calendar quarter. In order to increase the frequency of compression forums the Exchange also proposes to increase the frequency with which TPHs submit compression-list positions to the Exchange and the frequency with which the Exchange generates the compression-list positions file. The Exchange notes that it is not proposing any modification to the type of information TPHs submit to the Exchange pursuant to Rule 6.56 nor modifying the manner by which the Exchange generates files and information pursuant to Rule 6.56. Rather, the Exchange is simply increasing the frequency with which TPHs may submit compression-list positions, the frequency with which the Exchange generates the compression-list positions file, and the number of compression forums that will be held on the Exchange. The Exchange believes that more frequent compression forums will further encourage the closing of positions, which, once closed, may serve to alleviate the capital requirement constraints on TPHs and improve overall market liquidity by freeing capital currently tied up in certain SPX positions.

The Exchange proposes to implement this rule change on March 22, 2018, in order to allow a compression forum to be held on March 23rd and each of the last five business days of March.

⁵ See Rule 6.56(a)(6).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 15 U.S.C. 78s(b)(3)(A)(iii).

⁴ 17 CFR 240.19b-4(f)(6).