

the loans' duration will be no more than 7 days.<sup>2</sup>

2. Applicants anticipate that the proposed facility would provide a borrowing Fund with a source of liquidity at a rate lower than the bank borrowing rate at times when the cash position of the Fund is insufficient to meet temporary cash requirements. In addition, Funds making short-term cash loans directly to other Funds would earn interest at a rate higher than they otherwise could obtain from investing their cash in repurchase agreements or certain other short-term money market instruments. Thus, applicants assert that the facility would benefit both borrowing and lending Funds.

3. Applicants agree that any order granting the requested relief will be subject to the terms and conditions stated in the application. Among others, the Adviser, through a designated committee, would administer the facility as a disinterested fiduciary as part of its duties under the investment management agreements with the Funds and would receive no additional fee as compensation for its services in connection with the administration of the facility. The facility would be subject to oversight and certain approvals by the Funds' Board, including, among others, approval of the interest rate formula and of the method for allocating loans across Funds, as well as review of the process in place to evaluate the liquidity implications for the Funds. A Fund's aggregate outstanding interfund loans will not exceed 15% of its net assets, and the Fund's loans to any one Fund will not exceed 5% of the lending Fund's net assets.<sup>3</sup>

4. Applicants assert that the facility does not raise the concerns underlying section 12(d)(1) of the Act given that the Funds are part of the same group of investment companies and there will be no duplicative costs or fees to the Funds.<sup>4</sup> Applicants also assert that the proposed transactions do not raise the concerns underlying sections 17(a)(1), 17(a)(3), 17(d) and 21(b) of the Act as the Funds would not engage in lending transactions that unfairly benefit insiders or are detrimental to the Funds. Applicants state that the facility will offer both reduced borrowing costs and enhanced returns on loaned funds to all

participating Funds and each Fund would have an equal opportunity to borrow and lend on equal terms based on an interest rate formula that is objective and verifiable. With respect to the relief from section 17(a)(2) of the Act, applicants note that any collateral pledged to secure an interfund loan would be subject to the same conditions imposed by any other lender to a Fund that imposes conditions on the quality of or access to collateral for a borrowing (if the lender is another Fund) or the same or better conditions (in any other circumstance).<sup>5</sup>

5. Applicants also believe that the limited relief from section 18(f)(1) of the Act that is necessary to implement the facility (because the lending Funds are not banks) is appropriate in light of the conditions and safeguards described in the application and because the Funds would remain subject to the requirement of section 18(f)(1) that all borrowings of a Fund, including combined interfund loans and bank borrowings, have at least 300% asset coverage.

6. Section 6(c) of the Act permits the Commission to exempt any persons or transactions from any provision of the Act if such exemption is necessary or appropriate in the public interest and consistent with the protection of investors and the purposes fairly intended by the policy and provisions of the Act. Section 12(d)(1)(J) of the Act provides that the Commission may exempt any person, security, or transaction, or any class or classes of persons, securities, or transactions, from any provision of section 12(d)(1) if the exemption is consistent with the public interest and the protection of investors. Section 17(b) of the Act authorizes the Commission to grant an order permitting a transaction otherwise prohibited by section 17(a) if it finds that (a) the terms of the proposed transaction are fair and reasonable and do not involve overreaching on the part of any person concerned; (b) the proposed transaction is consistent with the policies of each registered investment company involved; and (c) the proposed transaction is consistent with the general purposes of the Act. Rule 17d-1(b) under the Act provides that in passing upon an application filed under the rule, the Commission will consider whether the participation of the registered investment company in a joint enterprise, joint arrangement or profit sharing plan on the basis

proposed is consistent with the provisions, policies and purposes of the Act and the extent to which such participation is on a basis different from or less advantageous than that of the other participants.

For the Commission, by the Division of Investment Management, under delegated authority.

**Robert Errett,**

*Deputy Secretary.*

[FR Doc. 2018-06661 Filed 4-2-18; 8:45 am]

**BILLING CODE 8011-01-P**

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-82960; File No. SR-ICC-2018-002]

### Self-Regulatory Organizations; ICE Clear Credit LLC; Order Approving Proposed Rule Change Relating to ICC's End-of-Day Price Discovery Policies and Procedures

March 28, 2018.

#### I. Introduction

On January 26, 2018, ICE Clear Credit LLC ("ICC") filed with the Securities and Exchange Commission ("Commission"), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> a proposed rule change (SR-ICC-2018-002) to revise its End-of-Day Price Discovery Policies and Procedures ("Pricing Policy") with respect to the bid-offer width ("BOW") methodology applicable to single-name ("SN") instruments. The proposed rule change was published for comment in the **Federal Register** on February 12, 2018.<sup>2</sup> The Commission did not receive comments on the proposed rule change. For the reasons discussed below, the Commission is approving the proposed rule change.<sup>3</sup>

#### II. Description of the Proposed Rule Change

ICC proposes to revise its Pricing Policy to amend the methodology used to calculate end-of-day BOWs for its SN instruments. As part of its end-of-day pricing process, ICC calculates a BOW for each clearing-eligible instrument. These BOWs are then used as an input in determining end-of-day levels, which are used for mark-to-market and risk

<sup>2</sup> Any Fund, however, will be able to call a loan on one business day's notice.

<sup>3</sup> Under certain circumstances, a borrowing Fund will be required to pledge collateral to secure the loan.

<sup>4</sup> Applicants state that the obligation to repay an interfund loan could be deemed to constitute a security for the purposes of sections 17(a)(1) and 12(d)(1) of the Act.

<sup>5</sup> Applicants state that any pledge of securities to secure an interfund loan could constitute a purchase of securities for purposes of section 17(a)(2) of the Act.

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

<sup>2</sup> Securities Exchange Act Release No. 34-82641 (February 6, 2018), 83 FR 6078 (February 12, 2016) (SR-ICC-2018-002) ("Notice").

<sup>3</sup> Capitalized terms used herein but not otherwise defined have the meaning set forth in the ICC rulebook, which is available at [https://www.theice.com/publicdocs/clear\\_credit/ICE\\_Clear\\_Credit\\_Rules.pdf](https://www.theice.com/publicdocs/clear_credit/ICE_Clear_Credit_Rules.pdf), or in the Pricing Policy.

management purposes, including calculation of certain margin requirements, and for firm trade determinations.<sup>4</sup> ICC's current approach to calculating a BOW for SN instruments starts by calculating a "Consensus BOW," which is a spread-based BOW derived from intraday quotes (taken from trader emails) for the most actively traded instrument for a given SN instrument. Once the Consensus BOW has been determined, ICC applies a "scrape factor" to the Consensus BOW to capture differences between BOWs provided in intraday quotes taken from trader emails and BOWs achieved in the market. Thereafter, ICC applies additional scaling factors to capture differences in instrument liquidity for longer and shorter maturities, and for higher and lower coupons.<sup>5</sup> Scaling across maturities is performed in spread terms, while scaling across coupons is performed in price terms.<sup>6</sup> ICC uses the ISDA Standard Model for the transformations from spread to price.<sup>7</sup>

Under the proposed revisions, ICC would still start its calculation of end-of-day BOWs for SN instruments by calculating a Consensus BOW, but it would change the calculation of the Consensus BOW from being based on intraday quotes taken from trader emails to being computed as (i) a price-based floor, plus (ii) a relative BOW that is multiplied by the average of price-space mid-levels submitted by Clearing Participants through the end-of-day price discovery process.<sup>8</sup>

The relative BOW would be determined by ICC's Risk Management Department in consultation with ICC's Trade Advisory Committee, and would be designed to reflect observed variability in SN instrument levels for the most actively traded instruments. The price-based floor would reflect BOWs established for index products representing baskets of the most

distressed SN instruments.<sup>9</sup> In addition, ICC proposes to extend the application of the price-based BOW floors from the 0/3-month, 6-month, and 1-year benchmark tenors to cover the entire set of benchmark tenors from 0 month to 10 years.<sup>10</sup>

Under the proposed enhancements, ICC would continue to apply certain scaling factors, other than the scrape factor, to the Consensus BOW. Specifically, ICC would apply a tenor scaling factor to the Consensus BOW for each benchmark instrument at the most actively traded coupon.<sup>11</sup> For benchmark instruments at other coupons, ICC would apply a combination of tenor and coupon scaling factors. The coupon and tenor scaling factors would be determined by the ICC Risk Management Department in consultation with the Trading Advisory Committee.<sup>12</sup> Once the applicable scaling factor or factors have been applied, ICC would then apply a Single Name Variability Factor, with the resulting BOW being deemed the "systematic BOW."<sup>13</sup>

ICC also proposes to introduce a new component to its Pricing Policy: The "dynamic BOW," which would be the dispersion of price-space mid-levels submitted as part of its end-of-day price discovery process.<sup>14</sup> As the last step of its process, ICC would compare the systematic BOW with the dynamic BOW and would select the greater of the two as the end-of-day BOW for a given SN instrument.<sup>15</sup>

In addition to the proposed changes regarding the computation of the end-of-day BOW for SN instruments, ICC also proposes changes to the Governance section of its Pricing Policy. Specifically, ICC proposes to amend the Governance section to provide that the responsibilities of the ICC Risk Management Department include determining the price-based floors, relative BOWs, and tenor and coupon scaling factors used as inputs into the BOW determination.<sup>16</sup> ICC also proposes to amend language in the Governance section to provide that the ICC Risk Management Department has

the responsibility of ensuring that appropriate end-of-day levels are determined, and to clarify that the parameters used in the end-of-day pricing process are to be established by the Risk Management Department in consultation with the Trading Advisory Committee.<sup>17</sup> ICC also proposes revisions to the Governance section that would provide that the Trading Advisory Committee would review and provide input regarding revisions to the BOW price-based floors.<sup>18</sup>

Finally, ICC proposes certain clarifying edits. Specifically, ICC proposes to remove references to scrape factors, and to remove the requirement that the Trading Advisory Committee review scrape factors, as the scrape factors, which are applied to the Consensus BOW under ICC's current approach to account for differences between BOWs obtained from intraday quotes taken from trader emails and those achieved in the market, would no longer be applicable under the proposed changes as the Consensus BOW under the proposed amendments would not rely on such intraday quotes.<sup>19</sup> Other clarifying edits include the addition of a footnote to the Pricing Policy describing ICC's use of the ISDA Standard Model, the removal of outdated references, correcting certain typographical errors, and updates to section numbering, as well as certain other minor edits as described in greater detail in the Notice.<sup>20</sup>

### III. Discussion and Commission Findings

Section 19(b)(2)(C) of the Act directs the Commission to approve a proposed rule change of a self-regulatory organization if it finds that such proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to such organization.<sup>21</sup> For the reasons given below, the Commission finds that the proposed rule change is consistent with Section 17A(b)(3)(F) of the Act,<sup>22</sup> and Rules 17Ad-22(b)(2) and (d)(8) thereunder.<sup>23</sup>

#### A. Consistency With Section 17A(b)(3)(F) of the Act

Section 17A(b)(3)(F) of the Act requires, among other things, that the rules of a registered clearing agency be designed to promote the prompt and accurate clearance and settlement of

<sup>4</sup> Notice, 83 FR at 6078. According to ICC, to encourage Clearing Participants to provide the best possible EOD submissions, ICC selects a sub-set of the potential trades generated by the cross-and-lock algorithm and designates them as firm-trades, which Clearing Participants are entered into as cleared transactions. See Notice of Filing of Proposed Rule Change to Revise ICC End-of-Day Price Discovery Policies and Procedures, Securities Exchange Act Release No. 34-77771 (May 5, 2016), 81 FR 29309, 29310 (May 11, 2016) (SR-ICC-2016-007).

<sup>5</sup> *Id.*

<sup>6</sup> *Id.*

<sup>7</sup> *Id.*

<sup>8</sup> *Id.* at 6079. ICC would no longer apply a scrape factor to the Consensus BOW as the determination of Consensus BOWs would no longer rely on "scraped" intraday quotes. *Id.* at 6078.

<sup>9</sup> *Id.* at 6079. In addition, because ICC accepts SN instrument submissions from Clearing Participants only in price terms under the Pricing Policy, rather than in both spread and price terms, the need for spread-based BOWs would be eliminated, as would the need to use the ISDA Standard Model to achieve the transformations from spread to price during the scaling process. See *id.* at 6078.

<sup>10</sup> *Id.* at 6078.

<sup>11</sup> *Id.* at 6079.

<sup>12</sup> *Id.*

<sup>13</sup> *Id.*

<sup>14</sup> *Id.*

<sup>15</sup> *Id.*

<sup>16</sup> *Id.*

<sup>17</sup> *Id.*

<sup>18</sup> *Id.*

<sup>19</sup> *Id.*

<sup>20</sup> *Id.*

<sup>21</sup> 15 U.S.C. 78s(b)(2)(C).

<sup>22</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>23</sup> 17 CFR 240.17Ad-22(b)(2) and (d)(8).

securities transactions and, to the extent applicable, derivative agreements, contracts and transactions, and to assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible.<sup>24</sup> As discussed above, the proposed rule change would enhance ICC's end-of-day price discovery process for SN instruments in a number of ways, including but not limited to incorporating a price-based floor which would be applied to a wider range of instruments, adopting a new dynamic BOW component, and taking into consideration the dispersion of price-space mid-levels received from Clearing Participants, all while continuing to apply scaling tenor, coupon, and variability scaling factors.

Taken as a whole, the Commission believes the proposed changes should enhance ICC's ability to determine the end-of-day BOW for SN instruments. First, the proposed changes should permit ICC to determine BOWs consistently across SN instruments on all reference entities, including those for which only sparse intraday data is available.<sup>25</sup> In addition, by extending the application of the price-based BOW floor component to the entire set of benchmark tenors from the 0 month to 10 years instead of solely the 1/3 month, 6 month, and 1-year benchmark tenors, the Commission believes that ICC will be able to more consistently compute the end-of-day BOW for a wider range of SN instruments.

Consequently, the Commission believes that the proposed changes will improve ICC's end-of-day pricing process as a whole as additional relevant information will be taken into consideration and a wider range of instruments will be considered in the pricing process. Based on these improvements, the Commission believes that ICC's risk management processes related to the end-of-day pricing process, including the calculation and collection of certain margin requirements, will also be improved, resulting in an improved ability to safeguard the positions that ICC maintains from the default of a Clearing Participant. As a result, the Commission believes that the proposed changes will promote the prompt and accurate clearance and settlement of the products cleared by ICC, and will enhance ICC's ability to assure the safeguarding of securities and funds which are in the custody or control of ICC or for which it is responsible. Therefore, the Commission finds that the proposed

rule change is consistent with the requirements of Section 17A(b)(3)(F) of the Act.<sup>26</sup>

#### *B. Consistency With Rule 17Ad-22(b)(2)*

Rule 17Ad-22(b)(2) requires, in relevant part, 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. As noted above, ICC uses the end-of-day BOWs as part of its mark-to-market and risk management purposes, including the computation of certain margin requirements.<sup>27</sup>

The Commission believes that by improving the end-of-day pricing process, as described above, ICC will also improve its ability to calculate margin requirements that use the end-of-day BOWs as an input. Consequently, an improved margin calculation should lead to the collection of margin levels that enhance ICC's ability to limit its credit exposures to participants under normal market conditions. As a result, the Commission finds that the proposed rule change is consistent with the requirements of Rule 17Ad-22(b)(2).<sup>28</sup>

#### *C. Consistency With Rule 17Ad-22(d)(8)*

Rule 17Ad-22(d)(8) requires, in relevant part, that a registered clearing agency that is not a covered clearing agency to establish, implement, maintain, and enforce written policies and procedures reasonably designed to, as applicable, have governance arrangements that promote the effectiveness of the clearing agency's risk management procedures.<sup>29</sup> ICC proposed to amend the Governance section of its Pricing policy to clarify the responsibilities of the ICC Risk Management Department and the Trading Advisory Committee with respect to the determination of price-based floors, relative BOWs, and scaling factors. By updating the Governance section of the Pricing Policy to delineate the roles of the ICC Risk Management Department and the Trading Advisory Committee, the Commission believes that ICC will improve the governance structure surrounding the end-of-day pricing process.

Because the output of the end-of-day pricing process is used for mark-to-market and risk management purposes, the Commission believes that

improvements to the governance structure of the end-of-day pricing process will have the effect of promoting greater effectiveness of ICC's risk management procedures overall. Therefore, the Commission finds that the proposed rule change is consistent with the requirements of Rule 17Ad-22(d)(8).<sup>30</sup>

#### **IV. Conclusion**

On the basis of the foregoing, the Commission finds that the proposed rule change is consistent with the requirements of the Act, and in particular with the requirements of Section 17A of the Act<sup>31</sup> and Rules 17Ad-22(b)(2) and (d)(8)<sup>32</sup> thereunder.

*It is therefore ordered* pursuant to Section 19(b)(2) of the Act<sup>33</sup> that the proposed rule change (SR-ICC-2018-002) be, and hereby is, approved.<sup>34</sup>

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>35</sup>

**Jill Peterson,**

*Assistant Secretary.*

[FR Doc. 2018-06691 Filed 4-2-18; 8:45 am]

**BILLING CODE 8011-01-P**

#### **SECURITIES AND EXCHANGE COMMISSION**

[Release 34-82961; File No. SR-ISE-2018-21]

#### **Self-Regulatory Organizations; Nasdaq ISE, LLC; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change To Extend the Delay for Re-Introduction of Legging Functionality for Stock-Option Orders on INET by an Additional Year**

March 28, 2018.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on March 16, 2018, Nasdaq ISE, LLC ("ISE" or "Exchange") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I and II, below, which Items have been prepared

<sup>30</sup> *Id.*

<sup>31</sup> 15 U.S.C. 78q-1.

<sup>32</sup> 17 CFR 240.17Ad-22(b)(2) and (d)(8).

<sup>33</sup> 15 U.S.C. 78s(b)(2).

<sup>34</sup> In approving the proposed rule change, the Commission considered the proposal's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

<sup>35</sup> 17 CFR 200.30-3(a)(12).

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

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

<sup>24</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>25</sup> Notice, 83 FR at 6078.

<sup>26</sup> *Id.*

<sup>27</sup> 17 CFR 240.17Ad-22(b)(2).

<sup>28</sup> *Id.*

<sup>29</sup> 17 CFR 240.17Ad-22(d)(8).