

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 filing also will be available for inspection and copying at the principal office of the Exchange. 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-BOX-2020-03, and should be submitted on or before March 10, 2020.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>60</sup>

**J. Matthew DeLesDernier,**  
Assistant Secretary.

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-88158; File No. SR-CFE-2020-001]

### Self-Regulatory Organizations; Cboe Futures Exchange, LLC; Notice of Filing of a Proposed Rule Change Regarding Quoting Functionality

February 11, 2020.

Pursuant to Section 19(b)(7) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> notice is hereby given that on January 29, 2020 Cboe Futures Exchange, LLC ("CFE" or "Exchange") filed with the Securities and Exchange Commission ("Commission") the proposed rule change described in Items I, II, and III below, which Items have been prepared by CFE. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons. CFE also has filed this proposed rule change with the Commodity Futures Trading Commission ("CFTC"). CFE filed a written certification with the CFTC under Section 5c(c) of the Commodity

Exchange Act ("CEA")<sup>2</sup> on January 29, 2020.

#### I. Self-Regulatory Organization's Description of the Proposed Rule Change

The Exchange proposes to specify the information that is required to be included within a Bulk Message and within a Quote in connection with the implementation of quoting functionality on CFE's trading system ("CFE System").

The scope of this filing is limited solely to the application of the rule amendments to security futures that may be traded on CFE. Although no security futures are currently listed for trading on CFE, CFE may list security futures for trading in the future.

CFE is making the rule amendments included in this proposed rule change in conjunction with other rule amendments being made by CFE in connection with its implementation of quoting functionality that are not required to be submitted to the Commission pursuant to Section 19(b)(7) of the Act<sup>3</sup> and thus are not included as part of this rule change.

The rule amendments included as part of this proposed rule change are to apply to all products traded on CFE, including both non-security futures and any security futures that may be listed for trading on CFE. CFE is submitting these rule amendments to the Commission under Section 19(b)(7) of the Act<sup>4</sup> because they relate to reporting requirements that would apply with respect to any security futures that may be traded on CFE.

The text of the proposed rule change is attached as Exhibit 4 to the filing but is not attached to the publication of this notice.

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

In its filing with the Commission, CFE 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. CFE 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

CFE Trading Privilege Holders ("TPHs") currently utilize match capacity allocations to submit Orders to the CFE System. These match capacity allocations may be used for the submission of single Orders to the CFE System utilizing either the Financial Information Exchange ("FIX") or Binary Order Entry ("BOE") protocol. A single Order refers to an Order that is submitted to the CFE System through a message type that may include one Order in each message. Going forward, these match capacity allocations will be referred to as order match capacity allocations.

In connection with the implementation of quoting functionality on the CFE System, CFE will provide all TPHs with the option to use order match capacity allocations and/or quoting match capacity allocations. A quoting match capacity allocation is an additional type of match capacity allocation that will provide the ability to submit single Orders and Bulk Messages to the CFE System utilizing the BOE protocol. A Bulk Message is a new message type that may be utilized to submit multiple Quotes to the CFE System in a single message. A Quote refers to the entry, modification, or cancellation of a bid or offer for a CFE Contract through a Bulk Message. A Quote will be treated the same as an Order, and the term "Order" encompasses a Quote, unless the Exchange rules specify otherwise.

CFE Rule 403 (Order Entry and Maintenance of Front-End Audit Trail Information) currently requires that Orders contain specified information and that Orders that do not contain this information are rejected or canceled back to the sender. CFE is proposing to modify Rule 403 to provide that these existing provisions apply to single Orders, to set forth the information that is required to be included within a Bulk Message and within a Quote, and to provide that Bulk Messages and Quotes that do not contain the required information will be rejected or canceled back to the sender.

Specifically, CFE is proposing to amend Rule 403 in the following ways:

Rule 403(a) currently provides, in pertinent part, that each Order must contain the following information: (i) Whether such Order is a buy or sell Order; (ii) Order type; (iii) price or premium (if the Order is not a Market Order); (iv) quantity; (v) Contract

<sup>2</sup> 7 U.S.C. 7a-2(c).

<sup>3</sup> 15 U.S.C. 78s(b)(7).

<sup>4</sup> 15 U.S.C. 78s(b)(7).

<sup>60</sup> 17 CFR 200.30-3(a)(12).

<sup>1</sup> 15 U.S.C. 78s(b)(7).

identifier or product and contract expiration(s); (vi) Client Order ID; (vii) Executing Firm ID (“EFID”); (viii) Order Entry Operator ID; (ix) Clearing Corporation origin code (C for Customer or F for Firm); (x) Customer Type Indicator code; (xi) manual Order indicator; (xii) account designation (which is the account number of the account of the party for which the Order was placed, except that a different account designation may be included in the case of a bunched Order or in the case of an Order for which there will be a post-trade allocation of the resulting trade(s) to a different clearing member); (xiii) in the case of Orders for Options, either Contract identifier or each of strike price, type of option (put or call) and expiration; and (xiv) such additional information as may be prescribed from time to time by the Exchange. CFE is proposing to move the above provisions from current Rule 403(a) to new Rule 403(b) and to provide in new Rule 403(b) that the above provisions will apply to single Orders.

CFE is proposing to add new Rule 403(c) to provide that each Bulk Message must contain the following information: (i) Quote Update ID; (ii) EFID; (iii) Order Entry Operator ID; (iv) Clearing Corporation origin code (C for Customer or F for Firm); (v) Customer Type Indicator code; (vi) manual Order indicator; (vii) account designation (which shall be the account number of the account of the party for which the Quotes in the Bulk Message were placed, except that a different account designation may be included in the case of a Quote that is a bunched Order or in the case of a Quote for which there will be a post-trade allocation of the resulting trade(s) to a different clearing member); (viii) at least one Quote; and (vii) such additional information as may be prescribed from time to time by the Exchange.

CFE is proposing to add new Rule 403(d) to provide that each Quote must contain the following information: (i) Whether the Quote is to buy or sell; (ii) price or premium; (iii) quantity; (iv) Contract identifier; and (v) such additional information as may be prescribed from time to time by the Exchange.

Rule 403(a) currently provides that any Order that does not contain required information in a form and manner prescribed by the Exchange will be rejected or canceled back to the sender by the CFE System. CFE is proposing to delete that provision from Rule 403(a) and to add an equivalent provision to new Rule 403(e) that will apply to single Orders, Bulk Messages,

and Quotes. Specifically, CFE proposes that new Rule 403(e) provide that any single Order, Bulk Message, or Quote that does not contain required information in a form and manner prescribed by the Exchange will be rejected or canceled back to the sender by the CFE System.

Finally, CFE is proposing to change the paragraph lettering of current Rule 403(b) to Rule 403(f) and to change the paragraph lettering of current Rule 403(c) to Rule 403(g) without changing the text of either provision.

## 2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Act,<sup>5</sup> in general, and furthers the objectives of Sections 6(b)(1)<sup>6</sup> and 6(b)(5)<sup>7</sup> in particular in that it is designed:

- To enable the Exchange to enforce compliance by its TPHs and persons associated with its TPHs with the provisions of the rules of the Exchange,
- to prevent fraudulent and manipulative acts and practices,
- to promote just and equitable principles of trade,
- to foster cooperation and coordination with persons engaged in facilitating transactions in securities,
- to remove impediments to and perfect the mechanism of a free and open market and a national market system,
- and in general, to protect investors and the public interest.

The Exchange believes that the proposed rule change serves to enhance CFE’s market by contributing to CFE’s ability to implement quoting functionality by requiring the provision of information that the CFE System needs in order to process Bulk Messages and Quotes submitted through that quoting functionality.

The Exchange also believes that the proposed rule change serves to strengthen CFE’s ability to carry out its responsibilities as a self-regulatory organization. First, the proposed rule change provides guidance to TPHs regarding the type of information that must be included within Bulk Messages and Quotes. Second, the proposed rule change contributes to enhancing the effectiveness of CFE’s audit trail program by helping to assure that required information is included within Bulk Messages and Quotes. Third, the proposed rule change furthers CFE’s ability to enforce compliance with CFE rules since the Exchange plans to utilize

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

<sup>6</sup> 15 U.S.C. 78f(b)(1).

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

this audit trail information in connection with its surveillance of CFE’s market and in connection with reviewing trading activity on CFE’s market for rule compliance.

## B. Self-Regulatory Organization’s Statement on Burden on Competition

CFE does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act, in that the proposed rule change will enhance CFE’s ability to carry out its responsibilities as a self-regulatory organization. The Exchange believes that the proposed rule change is equitable and not unfairly discriminatory in that the rule amendments included in the proposed rule change would apply equally to all TPHs.

## C. Self-Regulatory Organization’s Statement on Comments on the Proposed Rule Change Received From Members, Participants, or Others

No written comments were solicited or received with respect to the proposed rule change.

## III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

The proposed rule change will become operative on February 12, 2020. At any time within 60 days of the date of effectiveness of the proposed rule change, the Commission, after consultation with the CFTC, may summarily abrogate the proposed rule change and require that the proposed rule change be refiled in accordance with the provisions of Section 19(b)(1) of the Act.<sup>8</sup>

## 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](mailto:rule-comments@sec.gov). Please include File Number SR–CFE–2020–001 on the subject line.

### Paper Comments

- Send paper comments in triplicate to Secretary, Securities and Exchange

<sup>8</sup> 15 U.S.C. 78s(b)(1).

Commission, 100 F Street NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-CFE-2020-001. 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 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. 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-CFE-2020-001, and should be submitted on or before March 10, 2020.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>9</sup>

**J. Matthew DeLesDernier,**  
Assistant Secretary.

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-88162; File No. SR-NSCC-2019-801]

### Self-Regulatory Organizations; National Securities Clearing Corporation; Notice of No Objection To Advance Notice To Enhance National Securities Clearing Corporation's Haircut-Based Volatility Charge Applicable to Municipal Bonds

February 11, 2020.

On December 13, 2019, National Securities Clearing Corporation ("NSCC") filed with the Securities and Exchange Commission ("Commission") advance notice SR-NSCC-2019-801 ("Advance Notice") pursuant to Section 806(e)(1) of Title VIII of the Dodd-Frank Wall Street Reform and Consumer Protection Act, entitled Payment, Clearing and Settlement Supervision Act of 2010 ("Clearing Supervision Act")<sup>1</sup> and Rule 19b-4(n)(1)(i)<sup>2</sup> under the Securities Exchange Act of 1934 ("Exchange Act")<sup>3</sup> to revise NSCC's methodology for calculating margin amounts applicable to municipal bonds. The Advance Notice was published for public comment in the **Federal Register** on January 14, 2020,<sup>4</sup> and the Commission has received no comments regarding the changes proposed in the Advance Notice.<sup>5</sup> This publication serves as notice of no objection to the Advance Notice.

#### I. The Advance Notice

The proposals reflected in the Advance Notice would revise NSCC's Rules and Procedures ("Rules")<sup>6</sup> to

<sup>1</sup> 12 U.S.C. 5465(e)(1).

<sup>2</sup> 17 CFR 240.19b-4(n)(1)(i).

<sup>3</sup> 15 U.S.C. 78a *et seq.*

<sup>4</sup> Securities Exchange Act Release No. 87911 (January 8, 2020), 85 FR 2197 (January 14, 2020) (File No. SR-NSCC-2019-801) ("Notice of Filing"). On December 13, 2019, NSCC also filed a related proposed rule change (SR-NSCC-2019-004) with the Commission pursuant to Section 19(b)(1) of the Exchange Act and Rule 19b-4 thereunder ("Proposed Rule Change"). See 15 U.S.C. 78s(b)(1) and 17 CFR 240.19b-4 respectively. In the Proposed Rule Change, which was published in the **Federal Register** on January 2, 2020, NSCC seeks approval of proposed changes to its rules necessary to implement the Advance Notice. Securities Exchange Act Release No. 87858 (December 26, 2019), 85 FR 149 (January 2, 2020). The comment period for the related Proposed Rule Change filing closed on January 23, 2020, and the Commission received no comments.

<sup>5</sup> As the proposal contained in the Advance Notice was also filed as a proposed rule change, all public comments received on the proposal are considered regardless of whether the comments are submitted on the proposed rule change or the Advance Notice.

<sup>6</sup> Capitalized terms not defined herein are defined in the Rules, available at [http://dtcc.com/~media/Files/Downloads/legal/rules/nsc\\_rules.pdf](http://dtcc.com/~media/Files/Downloads/legal/rules/nsc_rules.pdf).

change the methodology NSCC uses for calculating the haircut-based margin charge applicable to municipal bonds.

#### A. Background

NSCC provides clearing, settlement, risk management, central counterparty services, and a guarantee of completion for virtually all broker-to-broker trades involving equity securities, corporate and municipal debt securities, and certain other securities. NSCC manages its credit exposure to its members by determining an appropriate Required Fund Deposit (*i.e.*, margin) for each member.<sup>7</sup> The aggregate of all NSCC members' Required Fund Deposits (together with certain other deposits required under the Rules) constitute NSCC's Clearing Fund, which NSCC would access should a defaulting member's own Required Fund Deposit be insufficient to satisfy losses to NSCC caused by the liquidation of the defaulting member's portfolio.<sup>8</sup> NSCC collects each member's Required Fund Deposit to mitigate potential losses to NSCC associated with the liquidation of the member's portfolio in the event of the member's default.<sup>9</sup>

Each member's Required Fund Deposit consists of a number of applicable components, which are calculated to address specific risks that the member's portfolio presents to NSCC.<sup>10</sup> Generally, the largest component of a member's Required Fund Deposit is the volatility component.<sup>11</sup> The volatility component is designed to calculate the potential losses on a portfolio over a given period of time assumed necessary to liquidate the portfolio, within a 99% confidence level.

The methodology for calculating the volatility component of the Required Fund Deposit depends on the type of security.<sup>12</sup> Specifically, for certain

<sup>7</sup> See Rule 4 (Clearing Fund) and Procedure XV (Clearing Fund Formula and Other Matters) of the Rules ("Procedure XV"), *supra* note 6.

<sup>8</sup> See *id.*

<sup>9</sup> The Rules identify when NSCC may cease to act for a member and the types of actions NSCC may take. For example, NSCC may suspend a firm's membership with NSCC or prohibit or limit a member's access to NSCC's services in the event that member defaults on a financial or other obligation to NSCC. See Rule 46 (Restrictions on Access to Services) of the Rules, *supra* note 6.

<sup>10</sup> Procedure XV, *supra* note 6.

<sup>11</sup> See *id.*

<sup>12</sup> For most securities (*e.g.*, equity securities), NSCC calculates the volatility component as the greater of (1) the larger of two separate calculations that utilize a parametric Value at Risk ("VaR") model, (2) a gap risk measure calculation based on the largest non-index position in a portfolio that exceeds a concentration threshold, which addresses concentration risk that can be present in a member's portfolio, and (3) a portfolio margin floor calculation based on the market values of the long

<sup>9</sup> 17 CFR 200.30-3(a)(73).