

at least once every second over GIDS.<sup>25</sup> Information regarding market price and trading volume of the Alpha Index-Linked Securities will be continually available on a real-time basis throughout the day on brokers' computer screens and other electronic devices, and the previous day's closing prices and trading volume information for the Alpha Index-Linked Securities will be published daily in the financial section of newspapers.<sup>26</sup> The Commission also notes that information concerning the components of the Specified Alpha Indexes is widely available.

In addition, the Exchange will commence delisting or removal proceedings if the value of the underlying Alpha Index is no longer calculated or widely disseminated on at least a one second basis, provided, however, that if the official index value does not change during some or all of the period when trading is occurring on NASDAQ, then the last calculated official index value must remain available throughout NASDAQ trading hours.<sup>27</sup> Further, pursuant to Exchange Rule 5710(h), if the value of an Alpha Index is not being disseminated as required, the Exchange may halt trading during the day on which such interruption occurs, and will halt trading no later than the beginning of trading following the trading day when the interruption commenced if the interruption persists at that time.<sup>28</sup>

The Commission believes that the listing standards for Alpha Index-Linked Securities should minimize the potential for manipulation. Specifically, for initial listing, the Target Component's and the Benchmark Component's trading volume—in all markets in which the components are traded—must have each averaged at least 2,250,000 shares each day in the preceding twelve months.<sup>29</sup> Further, options overlying each of the components must have been listed and traded on a national securities exchange with an average daily trading volume of at least 10,000 contracts during the three previous months.<sup>30</sup> Following the initial listing, each component's trading volume (in all markets in which the components are traded) must have averaged at least 2,000,000 shares each day in the preceding twelve months.<sup>31</sup> Options overlying each of the

components must maintain an average daily trading volume of at least 10,000 contracts over the three previous months.<sup>32</sup> Moreover, the Exchange will commence delisting or removal proceedings with respect to any Alpha Index-Linked Security if the aggregate market value or principal amount of the Alpha Index-Linked Security publicly held is less than \$400,000.<sup>33</sup>

In support of this proposal, the Exchange has made representations, including:

(1) The Exchange deems Alpha Index-Linked Securities to be equity securities, and therefore trading in Alpha Index-Linked Securities will be subject to the Exchange's existing rules governing the trading of equity securities.<sup>34</sup>

(2) The Exchange has appropriate rules to facilitate transactions in the Alpha Index-Linked Securities during all trading sessions.<sup>35</sup>

(3) Trading of Alpha Index-Linked Securities will be subject to surveillance procedures, and such procedures are adequate to properly monitor trading in the Alpha Index-Linked Securities and to deter and detect violations of Exchange rules and applicable federal securities laws.<sup>36</sup>

(4) Prior to the commencement of trading, the Exchange will inform its members in an information circular of the special characteristics and risks associated with trading the Alpha Index-Linked Securities.<sup>37</sup> Specifically, the information circular will discuss the following: (a) Nasdaq Rule 2310, which imposes suitability obligations on Nasdaq members with respect to recommending transactions in the Alpha Index-Linked Securities to customers; (b) that Nasdaq members should be mindful of applicable prospectus delivery requirements under the federal securities laws with respect to transactions in Alpha-Index Linked Securities; and (c) trading information.<sup>38</sup>

(5) The Exchange may obtain information via the Intermarket Surveillance Group ("ISG") from other exchanges that are members of ISG or with which the Exchange has entered into a comprehensive surveillance

sharing agreement.<sup>39</sup> Target Components, Benchmark Components, and options on the Target and Benchmark Components are traded on exchanges that are ISG members.<sup>40</sup>

This approval order is based on all of the Exchange's representations and description of Alpha Index-Linked Securities, including those set forth above and in the Notice.

#### IV. Conclusion

*It is therefore ordered*, pursuant to Section 19(b)(2) of the Act,<sup>41</sup> that the proposed rule change (SR-NASDAQ-2012-058) be, and hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>42</sup>

**Kevin M. O'Neill,**

*Deputy Secretary.*

[FR Doc. 2012-19859 Filed 8-13-12; 8:45 am]

BILLING CODE 8011-01-P

#### SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-67621; File No. SR-FICC-2012-05]

#### Self-Regulatory Organizations; Fixed Income Clearing Corporation; Order Approving Proposed Rule Change To Amend the Rules Regarding the GCF Repo Service To Adopt Changes Recommended by the Tri-Party Repo Infrastructure Reform Task Force

August 8, 2012.

#### I. Introduction

On June 8, 2012, the Fixed Income Clearing Corporation ("FICC") filed with the Securities and Exchange Commission ("Commission") the proposed rule change SR-FICC-2012-05 pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act").<sup>1</sup> The proposed rule change was published for comment in the **Federal Register** on June 26, 2012.<sup>2</sup> The Commission received no comment letters. For the reasons discussed below, the Commission is granting approval of the proposed rule change.

#### II. Description

On July 12, 2011, FICC submitted a proposed rule change filing to the Commission (SR-FICC-2011-05) proposing to make certain changes to its GCF Repo service in order to comply

<sup>32</sup> See *id.*

<sup>33</sup> See new Exchange Rule 5712(c)(i). The Commission also notes that Alpha Index-Linked Securities must have a minimum public distribution of 1,000,000 trading units, unless they are traded in \$1,000 denominations or are redeemable at the option of the holders on at least a weekly basis. See Exchange Rule 5710(a), incorporating Exchange Rule 5730(a)(1)(C).

<sup>34</sup> See Notice, *supra* note 3, 77 FR at 38349.

<sup>35</sup> See Nasdaq email, *supra* note 14.

<sup>36</sup> See Notice, *supra* note 3, 77 FR at 38349.

<sup>37</sup> See Nasdaq email, *supra* note 14.

<sup>38</sup> See *id.*

<sup>39</sup> See Notice, *supra* note 3, 77 FR at 38349.

<sup>40</sup> See *id.*

<sup>41</sup> 15 U.S.C. 78s(b)(2).

<sup>42</sup> 17 CFR 200.30-3(a)(12).

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

<sup>2</sup> Securities Exchange Act Release No. 34-67277 (June 20, 2012), 77 FR 38108 (June 26, 2012).

<sup>25</sup> See new Exchange Rule 5712(a)(ii).

<sup>26</sup> See Nasdaq email, *supra* note 14.

<sup>27</sup> See new Exchange Rule 5712(c)(ii).

<sup>28</sup> The Commission notes that Exchange Rules 4120 and 4121 also govern trading halts on the Exchange.

<sup>29</sup> See new Exchange Rule 5712(a)(ii).

<sup>30</sup> See *id.*

<sup>31</sup> See new Exchange Rule 5712(b).

with the recommendations that had been made by the Tri-Party Repo Infrastructure Reform Task Force ("TPR"), an industry group formed and sponsored by the Federal Reserve Bank of New York.<sup>3</sup> Because the GCF Repo service operates as a tri-party mechanism, FICC was requested to incorporate changes to the GCF Repo service to align the service with the other TPR recommended changes for the overall tri-party repo market.

The rule change described in SR-FICC-2011-05 was proposed to be run as a pilot program ("Pilot Program") for one year starting from the date on which the Commission approved the filing.<sup>4</sup> During this past year, FICC implemented a portion of the rule changes that were included in SR-FICC-2011-05 and wishes to continue to have these aspects of the GCF Repo service continue as part of the renewed Pilot Program. FICC also wishes to make certain modifications to the Pilot Program as noted below.

#### *A. Background: Description of the GCF Repo Service and History*

##### *(1) Creation of the GCF Repo Service*

The GCF Repo service allows Government Securities Division ("GSD") dealer members to trade general collateral repos<sup>5</sup> throughout the day without requiring intra-day, trade-for-trade settlement on a delivery-versus-payment (DVP) basis. The service allows the dealers to trade such general collateral repos, based on rate and term, throughout the day with inter-dealer broker netting members on a blind basis. Standardized, generic CUSIP numbers have been established exclusively for GCF Repo processing and are used to specify the acceptable type of underlying Fedwire book-entry eligible collateral, which includes Treasuries, Agencies, and certain mortgage-backed securities.<sup>6</sup>

<sup>3</sup> The main purpose of the TPR was to develop recommendations to address the risk presented by tri-party repo transactions due to the current morning reversal or "unwind" process and to move to a process by which tri-party repo transactions are collateralized all day.

<sup>4</sup> Securities Exchange Act Release No. 34-65213 (August 29, 2011), 76 FR 54824 (September 2, 2011).

<sup>5</sup> A general collateral repo is a repo in which the underlying securities collateral is nonspecific, general collateral whose identification is at the option of the seller. This is in contrast to a specific collateral repo.

<sup>6</sup> In 2009, the Commission approved FICC rule filing 2009-04 to add debt securities issued under the Debt Guaranty Program component of the Federal Deposit Insurance Corporation's ("FDIC") Temporary Liquidity Guarantee Program ("TLGP") to the GCF Repo service. See Securities Exchange Act Release No. 34-59558 (March 11, 2009), 74 FR 11385 (March 17, 2009). The TLGP, one of the steps

The GCF Repo service was developed as part of a collaborative effort among the Government Securities Clearing Corporation ("GSCC") (GSD's predecessor), its two clearing banks (The Bank of New York Mellon ("BNY") and JPMorgan Chase Bank, National Association ("Chase")), and industry representatives. GSCC introduced the GCF Repo service on an intra-clearing bank basis in 1998.<sup>7</sup> Under the intrabank service, dealers could only engage in GCF Repo transactions with other dealers that cleared at the same clearing bank.

##### *(2) Creation of the Interbank Version of the GCF Repo Service*

In 1999, GSCC expanded the GCF Repo service to permit dealer participants to engage in GCF Repo trading on an interbank basis, meaning that dealers using different clearing banks could enter into GCF Repo transactions (on a blind brokered basis).<sup>8</sup> Because dealer members that participate in the GCF Repo service do not all clear at the same clearing bank, introducing the service as an interbank service necessitated the establishment of a mechanism to permit after-hours movements of securities between the two clearing banks to deal with the fact that GSCC would likely have unbalanced net GCF securities and cash positions within each clearing bank (that is, it is likely that at the end of GCF Repo processing each business day, the dealers in one clearing bank will be net funds borrowers, while the dealers at the other clearing bank will be net funds lenders). To address this issue, GSCC and its clearing banks established, and the Commission approved, a legal mechanism by which securities would "move" across the clearing banks without the use of the Fedwire Securities Service ("Fedwire Securities").<sup>9</sup> (Movements of cash do not present the same issue because the Fedwire Funds Service ("Fedwire Funds") is open later than Fedwire Securities). Therefore, at the end of the

taken by the U.S. Government to stabilize the credit markets and stimulate lending, was designed to allow banks to issue FDIC-insured debt, ensuring that the banks would be able to roll over any debt coming due in the coming months. The guarantee consists of timely payment of principal and interest. The expiration of the FDIC's guarantee is the earlier of either the maturity date of the issued debt or June 2012.

<sup>7</sup> See Securities Exchange Act Release No. 34-40623 (October 30, 1998), 63 FR 59831 (November 5, 1998).

<sup>8</sup> See Securities Exchange Act Release No. 34-41303 (April 16, 1999), 64 FR 20346 (April 26, 1999).

<sup>9</sup> See *id.* for a detailed description of the clearing bank and FICC accounts needed to effect the after-hour movement of securities.

day, after the GCF net results are produced, securities are pledged via a tri-party-like mechanism and the interbank cash component is moved via Fedwire Funds. In the morning, the pledges are unwound, that is, funds are returned to the net funds lenders and securities are returned to the net funds borrowers.

##### *(3) Issues With Morning Unwind Process*

In 2003, FICC shifted the GCF Repo service back to intrabank status only.<sup>10</sup> By that time, the service had grown significantly in participation and volume. However, with the increase in use of the interbank service, certain payments systems risk issues arose from the inter-bank funds settlements related to the service, namely, the large interbank funds movement in the morning. FICC shifted the service back to intrabank status to enable management to study the issues presented and identify a satisfactory solution for bringing the service back to interbank status.

##### *(4) The NFE Filing and Restoration of Service to Interbank Status*

In 2007, FICC submitted to the Commission a proposed rule change to address the issues raised by the interbank morning funds movement and return the GCF Repo service to interbank status ("2007 NFE Filing").<sup>11</sup> The 2007 NFE Filing addressed these issues by using a hold against a dealer's "net free equity" ("NFE") at the clearing bank to collateralize its GCF Repo cash obligation to FICC on an intraday basis.<sup>12</sup>

The 2007 NFE Filing replaced the Day 2 morning unwind process with an alternate process, which is currently in effect. Specifically, in lieu of making funds payments, the interbank dealers grant to FICC a security interest in their NFE-related collateral equal to their prorated share of the total interbank funds amount. FICC, in turn, grants to the other clearing bank (that was due to receive the funds) a security interest in the NFE-related collateral to support the debit in the FICC account at the clearing bank. The debit in the FICC account

<sup>10</sup> See Securities Exchange Act Release No. 34-48006 (June 10, 2003), 68 FR 35745 (June 16, 2003).

<sup>11</sup> See Securities Exchange Act Release No. 34-57652 (April 11, 2008), 73 FR 20999 (April 17, 2008).

<sup>12</sup> NFE is a methodology that clearing banks use to determine whether an account holder (such as a dealer) has sufficient collateral to enter into a specific transaction. NFE allows the clearing bank to place a limit on its customer's activity by calculating a value on the customer's balances at the bank. Bank customers have the ability to monitor their NFE balance throughout the day.

(“Interbank Cash Amount Debit”) occurs because the dealers who are due to receive funds in the morning must receive those funds at that time in return for their release of collateral. The debit in the FICC account at the clearing bank gets satisfied during the end of day GCF Repo settlement process. Specifically, that day’s new activity yields a new interbank funds amount that will move at end of day—however, this amount gets netted with the amount that would have been due in the morning, thus further reducing the interbank funds movement. The NFE holds are released when the interbank funds movement is made at end of day. The 2007 NFE Filing did not involve any changes to the after-hours movement of securities occurring at the end of the day on Day 1.

As part of the 2007 NFE Filing, FICC imposed certain additional risk management measures with respect to the GCF Repo service. First, FICC imposed a collateral premium (“GCF Premium Charge”) on the GCF Repo portion of the Clearing Fund deposits of all GCF participants to further protect FICC in the event of an intra-day default of a GCF Repo participant. FICC requires GCF Repo participants to submit a quarterly “snapshot” of their holdings by asset type to enable risk management staff to determine the appropriate Clearing Fund premium. As with all other instances of late submissions of required information, members who do not submit this required information by the deadlines established by FICC are subject to a fine and an increased Clearing Fund premium.

Second, the 2007 NFE Filing addressed the situation where FICC becomes concerned about the volume of interbank GCF Repo activity. Such a concern might arise, for example, if market events were to cause dealers to turn to the GCF Repo service for increased funding at levels beyond normal processing. The 2007 NFE Filing provides FICC with the discretion to institute risk mitigation and appropriate disincentive measures in order to bring GCF Repo levels to a comfortable level from a risk management perspective.<sup>13</sup>

<sup>13</sup> Specifically, the 2007 NFE Filing introduced the term “GCF Repo Event,” which will be declared by FICC if either of the following occurs: (i) The GCF interbank funds amount exceeds five times the average interbank funds amount over the previous ninety days for three consecutive days; or (ii) the GCF interbank funds amount exceeds fifty percent of the amount of GCF Repo collateral pledged for three consecutive days. FICC reviews these figures on a semi-annual basis to determine whether they remain adequate. FICC also has the right to declare a GCF Repo Event in any other circumstances where it is concerned about GCF Repo volumes and

#### *B. Changes to the GCF Repo Service to Implement the TPR’s Recommendations*

In SR-FICC-2011-05, FICC proposed the following rule changes with respect to the GCF Repo service to address the TPR’s Recommendations:

1. (a) To move the Day 2 unwind from 7:30 a.m. to 3:30 p.m.; (b) to move the NFE process<sup>14</sup> from morning to a time established by FICC as announced by notice to all members;<sup>15</sup> (c) to move the cut-off time of GCF Repo submissions from 3:35 p.m. to 3:00 p.m.; and (d) to move the cut-off time for dealer affirmation or disaffirmation from 3:45 p.m. to 3:00 p.m.; and

2. To establish rules for intraday GCF Repo collateral substitutions (i.e., SR-FICC-2011-05 stated that with respect to interbank GCF Repo transactions, the substitution process would only permit cash as an initial matter to accommodate current processing systems).

FICC has implemented the proposed changes referred to in subsections 1(c) and 1(d) above. FICC has not yet implemented the proposed changes referred to in subsections 1(a), 1(b) and 2 above. FICC is seeking the Commission’s approval to extend the Pilot Program for all of these changes for an additional year as noted above. FICC is working with its clearing banks with respect to the implementation of the changes that have not yet been implemented.

#### *(1) Change Regarding the Morning Unwind and Related Rule Changes*

The TPR has recommended that the Day 2 unwind for all tri-party transactions be moved from the morning to 3:30 p.m. The TPR has made this recommendation in order to reduce the clearing banks’ intraday credit exposure to the dealers. As previously stated,

believes it is necessary to declare a GCF Repo Event in order to protect itself and its members. FICC will inform its members about the declaration of the GCF Repo Event via important notice. FICC will also inform the Commission about the declaration of the GCF Repo Event.

<sup>14</sup> No other changes are being proposed to the NFE process that was in place by the 2007 NFE Filing; the risk management measures that were put in place by the 2007 NFE Filing remain in place with the present proposal.

<sup>15</sup> SR-FICC-2011-05 noted that the possible time range would be between 8:00 a.m. and 1:00 p.m. to coincide with the collateral substitution mechanism that was being developed between FICC and its clearing banks. FICC wishes to clarify that the 8:00 a.m. to 1:00 p.m. proposed time range in SR-FICC-2011-05 referred to the clearing bank hold on the FICC interest in the NFE (i.e., as part of the NFE process, FICC grants to the other clearing bank (that was due to receive the funds) a security interest in the NFE—related collateral to support the debit in the FICC account at the clearing bank). With respect to the NFE hold on the dealers, please see footnote 17 below.

because the GCF Repo service is essentially a tri-party repo mechanism, FICC has also been requested by the TPR to accommodate this time change. For the GSD rules, this extends the change to the GSD’s “Schedule of GCF Timeframes” (“Schedule”) implemented during the initial Pilot Program. Specifically, the 7:30 a.m. time in the Schedule was deleted and the language therein moved to a new time of 3:30 p.m.

The change to the time of the intrabank unwind also extends the change implemented during the initial Pilot Program to the cut-off time for GCF Repo trade submissions, which was 3:35 p.m. in the Schedule prior to the initial Pilot Program. FICC amended the Schedule to change the cut-off time to 3:00 p.m. to allow FICC to submit files to the clearing banks which, in turn, will provide files to the dealers by 3:30 p.m.; this will permit the dealers to have a complete picture of their positions as the unwind occurs at 3:30 p.m. The 3:45 p.m. cutoff for dealer affirmation or disaffirmation that was in the Schedule prior to the implementation of the initial Pilot Program was moved to 3:00 p.m. so that the new 3:00 p.m. cutoff for submissions is also the cutoff for dealer affirmations and disaffirmations.<sup>16</sup>

Because the Day 2 unwind is moving from the morning to 3:30 p.m. and because the NFE process established by the 2007 NFE Filing is tied to the moment of the interbank unwind, the NFE process will also move to the time established by FICC as announced by notice to all members.<sup>17</sup> Because the NFE process is a legal process and not an operational process, it is not reflected on the Schedule. FICC is deleting the reference to the “morning” timeframe on Day 2 with respect to the NFE process in Section 3 of Rule 20 and adding language referencing “at the time established by the Corporation.”

#### *(2) Change Regarding Intraday GCF Repo Securities Collateral Substitutions*

As a result of the time change of the unwind (i.e., the reversal on Day 2 of

<sup>16</sup> This change updates the current Schedule to provide that the cutoff for submissions and dealer affirmations/disaffirmations is at the same time; the current practice is inconsistent with the current Schedule and the proposed rule change would remedy this inconsistency.

<sup>17</sup> Currently, the NFE hold is from the time the collateral is returned to the repo dealer (approximately 7:30 a.m.) until the time the funds move between the two clearing banks (approximately 5:00 p.m.). When the systems processing for the tri-party reform effort continues on the part of the clearing banks, the unwind will move to 3:30 p.m. and the funds will continue to move between the two clearing banks at 5:00 p.m.; when this occurs, the NFE hold which applies to dealers will be between 3:30 p.m. and 5:00 p.m.

collateral allocations established by FICC for each netting member's GCF net funds borrower positions and GCF net funds lender positions on Day 1) to 3:30 p.m., the provider of GCF Repo securities collateral in a GCF Repo transaction on Day 1 will no longer have access to such securities at the beginning of Day 2. Therefore, during Day 2 prior to the unwind of the Day 1 collateral allocations, the provider of GCF Repo securities collateral needs a substitution mechanism for the return of its posted GCF Repo securities collateral in order to make securities deliveries for utilization of such securities in its business activities. FICC is establishing a substitution process for this purpose in conjunction with its clearing banks. The language for the substitution mechanism is being added to Section 3 of GSD Rule 20. The rule change provides that all requests for substitution for the GCF Repo securities collateral must be submitted by the provider of the GCF Repo securities collateral by the applicable deadline on Day 2 (the "substitution deadline").<sup>18</sup>

#### (3) Substitutions on Intraday GCF Repos

If the GCF Repo transaction is between dealer counterparties effecting the transaction through the same clearing bank, on Day 2 such clearing bank will process each substitution request of the provider of GCF Repo securities collateral submitted prior to the substitution deadline promptly upon receipt of such request. The return of the GCF Repo securities collateral in exchange for cash and/or eligible securities of equivalent value can be accomplished by simple debits and credits to the accounts of the GCF Repo dealer counterparties at the clearing agent bank. Eligible securities for this purpose will be the same as those currently permitted under the GSD rules for collateral allocations, namely, Comparable Securities,<sup>19</sup> (ii) Other Acceptable Securities,<sup>20</sup> or (iii) U.S.

Treasury bills, notes or bonds maturing in a time frame no greater than that of the securities that have been traded (except where such traded securities are U.S. Treasury bills, substitution may be with Comparable Securities and/or cash only).

#### (4) Substitutions on Interbank GCF Repos

For a GCF Repo that was processed on an interbank basis and to accommodate a potential substitution request, FICC will initiate a debit of the securities in the account of the lender through the FICC GCF Repo accounts at the clearing bank of the lender and the FICC GCF Repo account at the clearing bank of the borrower ("Interbank Movement"). This Interbank Movement is being done so that a borrower who elects to substitute collateral will have access to the collateral for which it is substituting. The Interbank Movement is expected to occur in the morning, though the clearing banks and FICC have the capability to have the Interbank Movement occur at any point during the day up until 2:30 p.m. During the Pilot Program, FICC and the clearing banks will unwind the intraday GCF Repo transactions at 3:30 p.m. FICC and the clearing banks will determine the most appropriate timeframe for the Interbank Movement process to occur.

GCF Repo securities collateral will be debited from the securities account of the receiver of the collateral at its clearing bank and from a FICC account at the same clearing bank. If a substitution request is received by the clearing bank of the provider of GCF Repo securities collateral, prior to the substitution deadline at a time specified in FICC's procedures,<sup>21</sup> that clearing bank will process the substitution request by releasing the GCF Repo securities collateral from the FICC GCF

Repo account at such clearing bank and crediting it to the account of the provider of GCF Repo securities collateral. All cash and/or securities substituted for the GCF Repo securities collateral being released will be credited to FICC's GCF Repo account at the clearing bank of the provider of the GCF Repo securities collateral.

Simultaneously, with the debit of the GCF Repo securities collateral from the account at the clearing bank of the original receiver of GCF Repo securities collateral, such clearing bank will effect a cash debit equal to the value of the securities collateral in FICC's GCF Repo account at such clearing bank and will credit the account of the original receiver of securities collateral at such clearing bank with such cash amount in order to make payment to the original receiver of securities collateral. (This is because when the original receiver of securities collateral is debited the securities, it must receive the funds.) In order to secure FICC's obligation to repay the balance in FICC's GCF Repo account at the clearing bank of the original receiver of the GCF Repo securities collateral, FICC will grant to such clearing bank a security interest in the cash and/or securities substituted for the GCF securities collateral in FICC's GCF repo account at the other clearing bank.

For substitutions that occur with respect to GCF Repo transactions that were processed on an inter-clearing bank basis, FICC and the clearing banks will permit cash substitutions as noted in SR-FICC-2011-05. However, as discussions have developed between FICC and its clearing banks, it has been determined that cash and securities may be used for substitutions. The rule change provides FICC with flexibility in this regard by referring to FICC's procedures. When interbank securities substitutions begin to be permitted, FICC will announce this to members by important notice.

#### Other Rule Changes

FICC is also making technical clean-up changes to Section 7 of GSD Rule 20, which relate to the GCF Repo collateral process. Specifically, FICC is changing reference to the defined term "Security" to "security" to conform to the use of "security" throughout the rule. The rule change also introduces a term that previously had not been included in the rules inadvertently, "GCF Collateral Excess Account." This term is defined as "the account established by a GCF Custodian Bank in the name of the Corporation to hold securities it credits to the GCF Securities Account the

<sup>18</sup> FICC will establish such deadline prior to the implementation of the changes to this service in conjunction with the clearing banks and the Federal Reserve in light of market circumstances. The initial substitution deadline is anticipated to be 1:00 p.m.; however, this will be finalized with the Federal Reserve and the clearing banks. The possible time range will be between 8:00 a.m. and 1:00 p.m. FICC will provide members advanced notice of the substitution deadline and any future changes thereto by important notice.

<sup>19</sup> The GSD rules define "Comparable Securities" as follows: The term "Comparable Securities" means, with respect to a security or securities that are represented by a particular Generic CUSIP Number, any other security or securities that are represented by the same Generic CUSIP Number.

<sup>20</sup> The GSD rules define "Other Acceptable Securities" as follows: The term "Other Acceptable

Securities" means, with respect to: (An) adjustable-rate mortgage-backed security or securities issued by Ginnie Mae, any fixed-rate mortgage-backed security or securities issued by Ginnie Mae, or (an) adjustable-rate mortgage-backed security or securities issued by either Fannie Mae or Freddie Mac: (a) Any fixed-rate mortgage-backed security or securities issued by Fannie Mae and Freddie Mac, (b) any fixed-rate mortgage-backed security or securities issued by Ginnie Mae, or (c) any adjustable-rate mortgage-backed security or securities issued by Ginnie Mae.

<sup>21</sup> This timeframe will also be established in consultation with the clearing banks and the Federal Reserve. The parties are considering whether to have the substitution process be accomplished in two batches during the day depending upon the time of submission of the notifications for substitution. In any event, substitution requests will be subject to the substitution deadline. The details of the batches, if applied, will be announced to members by important notice. The deadline for submission of GCF Repo substitution requests will be the same for intraday and interbank processing.

Corporation establishes for another GCF Clearing Bank.”

### III. Discussion

Section 17A(b)(3)(F) of the Act<sup>22</sup> requires, among other things, that the rules of a clearing agency be designed to promote the prompt and accurate clearance and settlement of security transactions and assure the safeguarding of securities and funds which are in the custody or control of such clearing agency or for which it is responsible.

Because the proposed rule change aligns the GCF Repo service with recommendations made by the TPR to address risks in the overall tri-party repo market, it will promote the prompt and accurate clearance and settlement of security transactions and assure the safeguarding of securities and funds which are in the custody or control of FICC or for which it is responsible, and therefore is consistent with the requirements of Section 17A(b)(3)(F) of the Act. The proposed rule change is not inconsistent with the existing rules of FICC, including any other rules proposed to be amended.

### IV. Conclusion

On the basis of the foregoing, the Commission finds that the proposal is consistent with the requirements of the Act and in particular with the requirements of Section 17A of the Act<sup>23</sup> and the rules and regulations thereunder.

*It is therefore ordered*, pursuant to Section 19(b)(2) of the Act,<sup>24</sup> that the proposed rule change (File No. SR-FICC-2012-05) be, and hereby is, approved.<sup>25</sup>

For the Commission by the Division of Trading and Markets, pursuant to delegated authority.<sup>26</sup>

**Kevin M. O'Neill,**  
Deputy Secretary.

[FR Doc. 2012-19884 Filed 8-13-12; 8:45 am]

**BILLING CODE 8011-01-P**

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-67623; File No. SR-BATS-2012-034]

### Self-Regulatory Organizations; BATS Exchange, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Related to Fees for Use of BATS Exchange, Inc.

August 8, 2012.

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 August 1, 2012, BATS Exchange, Inc. (the “Exchange” or “BATS”) 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 Exchange. The Exchange has designated the proposed rule change as one establishing or changing a member due, fee, or other charge imposed by the Exchange under Section 19(b)(3)(A)(ii) of the Act<sup>3</sup> and Rule 19b-4(f)(2) thereunder,<sup>4</sup> which renders the proposed rule change effective upon filing with the Commission. 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 the fee schedule applicable to Members<sup>5</sup> and non-members of the Exchange pursuant to BATS Rules 15.1(a) and (c). Changes to the fee schedule pursuant to this proposal will be effective upon filing.

The text of the proposed rule change is available at the Exchange’s Web site at <http://www.batstrading.com>, at the principal office of the Exchange, 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 parts 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 modify its fee schedule in order to: (i) Remove a venue currently included as part of the Exchange’s “TRIM” routing strategy; and (ii) commence charging for certain physical ports used to access the Exchange at the Exchange’s secondary data center. Each of these proposed changes is described in further detail below.

##### (i) TRIM Routing Strategy

The Exchange proposes to modify its fee schedule in order to remove a specific venue from the Exchange’s “TRIM” routing strategy. As defined in BATS Rule 11.13(a)(3)(G), TRIM is a routing option under which an order checks the System<sup>6</sup> for available shares if so instructed by the entering User<sup>7</sup> and then is sent to destinations on the System routing table. The TRIM routing strategy is focused on seeking execution of orders while minimizing execution costs by routing to certain low cost execution venues on the Exchange’s routing table. Accordingly, the Exchange’s current TRIM routing strategy will check the Exchange’s order book (if instructed to do so) and then route to various venues on the Exchange’s routing table, including NASDAQ OMX BX, Inc. (“NASDAQ BX”), EDGA EXCHANGE, Inc. (“EDGA”), the New York Stock Exchange LLC (“NYSE”), BATS Y-Exchange, Inc. (“BYX Exchange”) and certain alternative trading systems available through the Exchange’s “DRT” strategy (“DRT Venues”).<sup>8</sup> Effective July 2, 2012, NASDAQ OMX PSX

<sup>6</sup> As defined in BATS Rule 1.5(aa), the System is the electronic communications and trading facility designated by the Board through which securities orders of Users are consolidated for ranking, execution and, when applicable, routing away.

<sup>7</sup> As defined in BATS Rule 1.5(cc), a User is any Member or Sponsored Participant who is authorized to obtain access to the System pursuant to Rule 11.3.

<sup>8</sup> As set forth in BATS Rule 11.13(a)(3)(E), DRT is a routing option in which the entering firm instructs the System to route to alternative trading systems included in the System routing table. Unless otherwise specified, DRT can be combined with and function consistent with all other routing options.

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

<sup>23</sup> 15 U.S.C. 78q-1.

<sup>24</sup> 15 U.S.C. 78s(b)(2).

<sup>25</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>26</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>3</sup> 15 U.S.C. 78s(b)(3)(A)(ii).

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

<sup>5</sup> A Member is any registered broker or dealer that has been admitted to membership in the Exchange.