

MPL Order entered with a FOK modifier will be rejected.

Furthermore, the Exchange has proposed to delete commentary .04 to Rule 7.6, as the commentary provides an exception to Rule 7.6 (which governs trading differentials) for Midpoint Cross Orders, which would be eliminated as a result of the instant proposal, and for Midpoint Directed Fills, which were eliminated in a prior rule filing.<sup>14</sup> The Exchange also proposes to delete references to Cleanup Orders from Rules 7.34 and 7.35, as Cleanup Orders were eliminated in the same prior rule filing that eliminated Midpoint Directed Fills.<sup>15</sup>

The Exchange has proposed, due to the technology changes associated with this proposal, to announce via Trader Update the implementation date of the elimination of the order types under this proposal.<sup>16</sup>

### III. Discussion and Commission Findings

After careful review, the Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange.<sup>17</sup> In particular, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act,<sup>18</sup> which requires, among other things, that the rules of a national securities exchange be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, 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; and are not designed to permit unfair discrimination between customers, issuers, brokers or dealers.

The Commission notes that the instant proposal does not add any new functionality but instead reduces the number of order types and order type/modifier combinations that will be accepted by the Exchange, which should simplify to a degree the order type functionality available on the Exchange. The Commission believes that the proposed rule change should

promote just and equitable principles of trade, remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, protect investors and the public interest.

### IV. Conclusion

*It is therefore ordered*, pursuant to Section 19(b)(2) of the Act,<sup>19</sup> that the proposed rule change (SR-NYSEArca-2014-75) be, and it hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>20</sup>

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

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**BILLING CODE 8011-01-P**

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-72943; File No. SR-MIAX-2014-45]

### Self-Regulatory Organizations; Miami International Securities Exchange LLC; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Amend the MIAX Fee Schedule to Adopt Fees for MIAX PRIME

August 28, 2014.

Pursuant to the provisions of 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 15, 2014, Miami International Securities Exchange LLC (“MIAX” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”) a proposed rule change as described in Items I, II, and III below, which Items have been prepared by the Exchange. 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 the Substance of the Proposed Rule Change

The Exchange is filing a proposal to amend the MIAX Options Fee Schedule.

The text of the proposed rule change is available on the Exchange's Web site at [http://www.miaxoptions.com/filter/wotitle/rule\\_filing](http://www.miaxoptions.com/filter/wotitle/rule_filing), at MIAX's principal office, and at the Commission's Public Reference Room.

<sup>19</sup> 15 U.S.C. 78s(b)(2).

<sup>20</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.

#### 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 the Fee Schedule to adopt transaction fees and rebates for Members that participate in the price improvement auction (“PRIME Auction” or “PRIME”) pursuant to Rule 515A.<sup>3</sup> The Exchange intends to implement the PRIME Auction mechanism August 8, 2014 and therefore proposes to add PRIME Auction transaction fees and rebates to the Fee Schedule so that such fees and rebates will be in place once the PRIME Auction mechanism is implemented.

PRIME is a process by which a Member may electronically submit for execution (“Auction”) an order it represents as agent (“Agency Order”) against principal interest and/or an Agency Order against solicited interest. The Agency Order is referred to as a PRIME Agency Order for purposes of the Fee Schedule. The Member that submits the PRIME Agency Order (the “Initiating Member”) agrees to guarantee the execution of the PRIME Agency Order by submitting a contra-side order representing principal interest or solicited interest (“Contra-side Order”).<sup>4</sup> When the Exchange receives a properly designated Agency Order for Auction processing, a Request for Responses (“RFR”) detailing the option, side, size, and initiating price will be sent to all subscribers of the Exchange's data feeds. Members may submit responses to the RFR (specifying prices and sizes). RFR responses can be

<sup>3</sup> See Exchange Rule 515A. See also Securities Exchange Act Release Nos. 71640 (March 4, 2014), 79 FR 13334 (March 10, 2014) (SR-MIAX-2014-09) (“Notice”); 72009 (April 23, 2014), 79 FR 24032 (April 29, 2014) (SR-MIAX-2014-09).

<sup>4</sup> The paired order submitted to PRIME that includes both the PRIME Agency Order and the Contra-side Order is referred to as the PRIME Order for purposes of the Fee Schedule.

<sup>14</sup> See Notice, 79 FR at 41615-16; see also Securities Exchange Act Release No. 71331 (January 16, 2014), 79 FR 3907 (January 23, 2014) (SR-NYSEArca-2013-92).

<sup>15</sup> Id.

<sup>16</sup> See Notice, 79 FR at 41616.

<sup>17</sup> In approving this proposed rule change, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

<sup>18</sup> 15 U.S.C. 78f(b)(5).

either an Auction or Cancel (“AOC”) order or an AOC eQuote.<sup>5</sup>

As described above, there are three ways to participate in a PRIME Auction: (i) As an Agency Order, also known as

a PRIME Agency Order; (ii) as the Contra-side Order guaranteeing the execution of the PRIME Order; and (iii) any RFR response in the form of an AOC order or AOC eQuote.

The Exchange proposes to charge the following transaction fees for participation in the PRIME Auction:

Types of market participants	PRIME Order		Responder to PRIME Auction	
	Per contract fee for agency order	Per contract fee for contra-side order	Per contract fee for penny Classes	Per contract fee for non-penny classes
<i>Priority Customer</i> .....	\$0.00	\$0.00	\$0.45	\$0.90
<i>Public Customer That Is Not a Priority Customer</i> .....	0.30	0.05	0.45	0.90
<i>MIAX Market Maker</i> .....	0.30	0.05	0.45	0.90
<i>Non-MIAX Market Maker</i> .....	0.30	0.05	0.45	0.90
<i>Non-Member Broker-Dealer</i> .....	0.30	0.05	0.45	0.90
<i>Firm</i> .....	0.30	0.05	0.45	0.90

The Exchange also proposes to adopt the following rebates to be paid to the Initiating Member for each PRIME Order

contract that trades with a PRIME AOC Response:

Types of market participants	PRIME break-up	
	Per contract credit for penny classes	Per contract credit for non-penny classes
<i>Priority Customer</i> .....	\$0.25	\$0.60
<i>Public Customer That Is Not a Priority Customer</i> .....	0.25	0.60
<i>MIAX Market Maker</i> .....	0.25	0.60
<i>Non-MIAX Market Maker</i> .....	0.25	0.60
<i>Non-Member Broker-Dealer</i> .....	0.25	0.60
<i>Firm</i> .....	0.25	0.60

MIAX will apply the PRIME Break-up credit to the EEM that submitted the PRIME Order for contracts that are submitted to the PRIME Auction that trade with a PRIME AOC Response. The applicable fee for PRIME Orders will be applied to any contracts for which a credit is provided.<sup>6</sup> Transaction fees in mini-options will be 1/10th of the standard per contract fee or rebate shown above for the PRIME Auction. However, the Exchange will assess the standard transaction fees to a PRIME AOC Response if they execute against unrelated orders.

The Exchange proposes to amend the Priority Customer Rebate Program to provide that the Exchange will credit each Member \$0.10 per contract credit for each Priority Customer order executed as a PRIME Agency Order. However, no rebates will be paid if the PRIME Agency Order executes against a Contra-side Order which is also a Priority Customer. The \$0.10 per contract credit would be applied in lieu of the applicable credit that would

otherwise apply to the transaction based on the volume thresholds or whether the options class was a MIAX Select Symbol. In addition, the Exchange proposes to exclude from the Priority Customer Rebate Program, and the corresponding volume calculation, orders that are executed as a Priority Customer-to-Priority Customer Order, PRIME AOC Response, and PRIME Contra-side Order.

The Exchange proposes to provide that transaction fees resulting from participation in a PRIME Auction as a PRIME AOC Response, or rebates from the PRIME Break-up credit, will not count towards the Monthly Firm Fee Cap. Transaction fees from Firm orders that participate in the PRIME Auction as a PRIME Agency Order or Contra-side Order will count towards the Monthly Firm Fee Cap.

Finally, the Exchange proposes to add text to clarify that PRIME Agency Order, Contra-side Order, or PRIME AOC Response executions will not result in the collection of marketing fees.

Specifically, the Exchange will not assess a marketing fee to Market Makers for contracts executed as a PRIME Order or PRIME AOC Response in the PRIME Auction; unless, it executes against an unrelated order. Unrelated Market Maker orders or quotes that execute against the PRIME Order will still be subject to marketing fees.

The Exchange proposes to implement the new PRIME Auction transaction fees and rebates beginning August 8, 2014.<sup>7</sup>

## 2. Statutory Basis

The Exchange believes that its proposal to amend its fee schedule is consistent with Section 6(b) of the Act<sup>8</sup> in general, and furthers the objectives of Section 6(b)(4) of the Act<sup>9</sup> in particular, in that it is an equitable allocation of reasonable fees and other charges among Exchange members.

The Exchange believes that the proposed fee structure for PRIME Auction transaction fees is reasonable, equitable and not unfairly discriminatory. The proposed fee

<sup>5</sup> See Exchange Rules 515A(a)(2)(i)(D), 516(b)(4), 517(a)(2)(ii).

<sup>6</sup> For example, BD1 submits a Firm PRIME Order into PRIME for 100 contracts in a penny options class. 60 contracts trade with MM1 AOC Response and 40 contracts trade with the Contra-side Order.

The Exchange would assess the following transaction fees: (i) PRIME Agency Order, 100 contracts × \$0.30 per contract, plus 60 × \$0.25 break-up credit; (ii) Contra-side Order, 40 contracts × \$0.05; and (iii) Responder, 60 contracts × \$0.45.

<sup>7</sup> MIAX initially filed its fees for PRIME on August 6, 2014 (SR-MIAX-2014-43). On August 15, 2014, MIAX withdrew that filing and submitted this filing.

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

<sup>9</sup> 15 U.S.C. 78f(b)(4).

structure is reasonably designed because it will incent market participants to send order flow to the Exchange in order to participate in the price improvement mechanism in a manner that enables the Exchange to improve its overall competitiveness and strengthen its market quality for all market participants. The Program is also reasonably designed because the proposed fees and rebates are within the range of fees and rebates assessed by other exchanges employing similar fee structures for price improvement mechanisms.<sup>10</sup> Other competing exchanges offer different fees and rebates for agency orders, contra-side order, and responders to the auction in a manner similar to the proposal.<sup>11</sup> Other competing exchanges also charge different rates for transactions in their price improvement mechanisms for customers versus their non-customers in a manner similar to the proposal.<sup>12</sup> As proposed, all applicable fees and rebates are within the range of fees and rebates for executions in price improvement mechanisms assessed by other exchanges employing similar fee structures for price improvement mechanisms.

The fee structure is reasonable, equitable, and not unfairly discriminatory because it will apply equally amongst all Priority Customer orders in each category of PRIME Auction participation and it will also apply equally amongst all non-Priority Customer orders in each category of PRIME Auction participation. All similarly situated orders for Priority Customers are subject to the same transaction fee and rebate schedule. All similarly situated orders for market participants that are not Priority Customers are subject to the same transaction fee and rebate schedule, and access to the Exchange is offered on terms that are not unfairly discriminatory. The Exchange believes that is equitable and not unfairly discriminatory that Priority Customers be charged lower fees in PRIME than other market participants. The exchanges in general have historically aimed to improve markets for investors and develop various features within market structure for customer benefit. The Exchange does not assess Priority Customers transactions fees because Priority Customer order flow enhances liquidity on the Exchange for the benefit

of all market participants. Priority Customer liquidity benefits all market participants by providing more trading opportunities, which attracts Market Makers. An increase in the activity of these market participants in turn facilitates tighter spreads, which may cause an additional corresponding increase in order flow from other market participants.

Moreover, the Exchange believes that assessing all other market participants a higher transaction fee than Priority Customers for PRIME Order transactions is reasonable, equitable, and not unfairly discriminatory because these types of market participants are more sophisticated and have higher levels of order flow activity and system usage. This level of trading activity draws on a greater amount of system resources than that of Priority Customers, and thus, generates greater ongoing operational costs. Further, the Exchange believes that charging all market participants that are not Priority Customers the same fee for all [sic]<sup>13</sup> PRIME transactions is not unfairly discriminatory as the fees will apply to all these market participants equally.

The Exchange believes that it is reasonable for PRIME Orders to be assessed lower fees than those providing responses. Contra-side Orders guarantee the PRIME Agency Order, and are subject to market risk during the time period that the PRIME Agency Order is exposed to other market participants. The Exchange believes that the Contra-side Order acts as a critical role in the PRIME as their willingness to guarantee the PRIME Agency Order is the keystone to the PRIME Agency Order gaining the opportunity for price improvement.

The Exchange believes that it is equitable and not unfairly discriminatory to assess fees to responders to the PRIME and credit another participant to provide incentive for participants to submit order flow to PRIME. The Exchange believes that it is appropriate to provide incentives to market participants to direct orders to participate in PRIME. Further, the Exchange believes that the transaction fees for responding to the auction will not deter market participants from providing price improvement.

The Exchange believes that it is reasonable to assess lower transaction and credit rates to penny option classes than non-penny option classes. The

Exchange believes that options which trade at these wider spreads merit offering greater inducement [sic] for market participants. In particular, within the PRIME, option classes that typically trade in minimum increments of \$.05 or \$.10 provide greater opportunity for market participants to offer price improvement. As such, the Exchange believes that the opportunity for additional price improvement provided by these wider spreads again merits offering greater incentive [sic] for market participants to increase the potential price improvement for customer orders in these transactions.

The Exchange believes that the proposed Priority Customer Rebate Program rebates for Priority Customer orders submitted into PRIME are fair, equitable and not unreasonably discriminatory. The rebate program is reasonably designed because it will incent providers of Priority Customer order flow to send that Priority Customer order flow to the Exchange in order to receive a credit in a manner that enables the Exchange to improve its overall competitiveness and strengthen its market quality for all market participants. The proposed rebate program is fair, equitable, and not unreasonably [sic] discriminatory because it will apply equally to all Priority Customer orders submitted as a PRIME Agency Order. All similarly situated Priority Customer orders are subject to the same rebate schedule, and access to the Exchange is offered on terms that are not unfairly discriminatory. In addition, the Program is equitable and not unfairly discriminatory because, while only Priority Customer order flow qualifies for the rebate program, an increase in Priority Customer order flow will bring greater volume and liquidity, which benefit all market participants by providing more trading opportunities and tighter spreads. Market participants want to trade with Priority Customer order flow. To the extent Priority Customer order flow is increased by the proposal, market participants will increasingly compete for the opportunity to trade on the Exchange including sending more orders and providing narrower and larger sized quotations in the effort to trade with such Priority Customer order flow. The resulting increased volume and liquidity will benefit those Members who receive the lower tier levels, or do not qualify for the Program at all, by providing more trading opportunities and tighter spreads.

The Exchange believes excluding Priority Customer-to-Priority Customer Orders, Priority Customer responses,

<sup>10</sup> See e.g., NYSE Amex Options Fee Schedule, p. 7; International Securities Exchange LLC Schedule of Fees, p. 6; BOX Options Exchange Fee Schedule, p. 1.

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

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

<sup>13</sup> The Commission notes that non-Priority Customers are *not* charged the same fee for all transactions, but rather, the fee varies based on whether the transaction is in a penny or non-penny class and whether the non-Priority Customer was participating as a PRIME Agency Order, Contra-side Order, or a responder in the PRIME Auction.

contra-side orders, and Priority Customer-to-Priority Customer PRIME transactions from the number of options contracts executed on the Exchange by any Member for purposes of the volume thresholds and the rebate program is reasonable, equitable, and not unfairly discriminatory because participating Members could otherwise game the rebate program and volume thresholds by executing excess volumes in these types of transactions in which no transaction fees are charged on the Exchange. Further, the Exchange believes that excluding these PRIME transactions from the volume thresholds is reasonable, equitable, and not unfairly discriminatory because the volume thresholds and rebate program was established prior to the introduction of the PRIME Auction based on non-auction transaction fee and volume calculations. In contrast, the Exchange proposes to target new volume to the Exchange to compete with electronic price improvement mechanisms on other exchanges. The Exchange believes that the new rebate for Priority Customer agency orders in the PRIME Auction is reasonably designed to incentivize additional retail customer order flow to the PRIME Auction. The Exchange further believes that subjecting Priority Customer-to-Priority Customer Orders to the same treatment as Priority Customer-to-Priority Customer PRIME transactions is reasonable and not unfairly discriminatory because these transactions are substantially similar; as such, they should be subject to similar fees. Participating Members could otherwise game the rebate program and volume thresholds by executing excess volumes in these types of transactions in which no transaction fees are charged on the Exchange.

The Exchange believes that specifying that transaction fees for responses and the break-up credit will not count towards the Monthly Firm Fee Cap is reasonable and not unfairly discriminatory because the fee cap was established prior to the introduction of the PRIME Auction based on non-auction transaction fee and volume calculations. With the PRIME Auction, the Exchange proposes to target new volume to the Exchange to compete with electronic price improvement mechanisms available on other exchanges. Any transaction fees and volume that would be executed as part of the PRIME Auction was not factored into the creation of the Exchange's previous Monthly Firm Fee Cap. As such, the Exchange believes that it is reasonable to exclude responses and the

break-up credit that will result from the PRIME Auction from this cap, because market participants would not be using the new PRIME Auction in order to meet the Monthly Firm Fee Cap.

The Exchange believes that specifying that PRIME Order executions are not subject to marketing fees is reasonable, equitable and not unfairly discriminatory. The Exchange is seeking to encourage all participants, including Market Makers, to send PRIME Orders and to respond to PRIME Auction RFR messages; the Exchange believes that collecting marketing fees from Market Makers may discourage such participation. By encouraging as many participants as possible to respond, the Exchange believes that it will lead to greater opportunities for price improvement for all PRIME Orders, not just those entered on behalf of customers. For these reasons, the Exchange believes that excluding PRIME Orders and responses from the marketing fees is reasonable, equitable and not unfairly discriminatory. The Exchange believes that it is equitable and not unfairly discriminatory to continue to charge a marketing fee if an unrelated order executes in the PRIME, because that unrelated order is not subject to the specialized fee structure for PRIME that is designed to incentivize participation. The market participant receives the benefit of a PRIME execution and would already expect to be charged a marketing fee that is no different than the fee the market participant was expecting to pay trading against unrelated orders outside the auction.

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

The Exchange 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. The Exchange believes that the proposed change will enhance the competitiveness of the Exchange relative to other exchanges that offer their own electronic crossing mechanism. The Exchange believes that the proposed fees and rebates for participation in the PRIME Auction are not going to have an impact on intra-market competition based on the total cost for participants to transact as respondents to the Auction as compared to the cost for participants to engage in non-Auction electronic transactions on the Exchange. As noted above, the Exchange believes that the proposed pricing for the PRIME Auction is comparable to that of other exchanges offering similar electronic price improvement mechanisms, and

the Exchange believes that, based on experience with electronic price improvement crossing mechanisms on other markets, market participants understand that the price-improving benefits offered by the Auction justify and offset the transaction costs associated with Auction. To the extent that there is a difference between non-Auction transactions and Auction transactions, the Exchange does not believe this difference will cause participants to refrain from responding to Auctions. In addition, the Exchange does not believe that the proposed transaction fees and credits burden competition by creating a disparity of transaction fees between the PRIME Order and the transaction fees a responder pays would result in certain participants being unable to compete with the Contra-side Order. The Exchange expects to see robust competition within the PRIME Auction, despite the apparent differences in non-Auction versus Auction responses. The Exchange notes that it operates in a highly competitive market in which market participants can readily favor competing venues if they deem fee levels at a particular venue to be excessive. In such an environment, the Exchange must continually adjust its fees to remain competitive with other exchanges and to attract order flow to the Exchange. The Exchange believes that the proposed rule change reflects this competitive environment because it establishes a fee structure in a manner that encourages market participants to direct their order flow, to provide liquidity, and to attract additional transaction volume to the Exchange.

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

Written comments were neither solicited nor received.

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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)(ii) of the Act.<sup>14</sup> At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall

<sup>14</sup> 15 U.S.C. 78s(b)(3)(A)(ii).

institute proceedings to determine whether the proposed rule should be approved or disapproved.

#### IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

##### *Electronic Comments*

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an email to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-MIAX-2014-45 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-MIAX-2014-45. This file number should be included on the subject line if email is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet Web site (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for Web site viewing and printing in the Commission's Public Reference Room, 100 F Street NE., Washington, DC 20549 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of 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; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-MIAX-2014-45, and should be submitted on or before September 25, 2014.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>15</sup>

**Kevin M. O'Neill,**

*Deputy Secretary.*

[FR Doc. 2014-20999 Filed 9-3-14; 8:45 am]

**BILLING CODE 8011-01-P**

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-72944; File No. SR-ICC-2014-08]

### Self-Regulatory Organizations; ICE Clear Credit LLC; Order Approving Proposed Rule Change Related to ICC's Authority to Use Guaranty Fund and House Initial Margin as an Internal Liquidity Resource

August 28, 2014.

#### I. Introduction

On June 24, 2014, ICE Clear Credit LLC ("ICC") filed with the Securities and Exchange Commission ("Commission") the proposed rule change SR-ICC-2014-08 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> The proposed rule change was published for comment in the **Federal Register** on July 14, 2014.<sup>3</sup> The Commission did not receive comments on the proposed rule change. For the reasons described below, the Commission is approving the proposed rule change.

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

ICC has stated that the principal purpose of the proposed rule change is to formalize ICC's Liquidity Risk Management Framework, including its comprehensive liquidity monitoring program, and, through proposed changes to two sections of ICC's Rulebook, to clarify ICC's authority to use, and to provide details as to how ICC would use, Guaranty Fund and House Initial Margin as an internal liquidity resource.

ICC's proposed Liquidity Risk Management Framework includes a discussion of all resources available to ICC and the order in which ICC would use available liquidity resources, if necessary, when managing one or more Clearing Participant defaults. The liquidity waterfall classifies available liquidity resources on any given day

into four levels. Level One includes the House Initial Margin and Guaranty Fund cash deposits of the defaulting Clearing Participant. Level Two includes Guaranty Fund cash deposits of: (i) ICC; and (ii) non-defaulting Clearing Participants. Level Three includes House Initial Margin cash deposits of the non-defaulting Clearing Participants. Level Four includes ICC's committed credit facility to access additional cash, and contemplates the establishment of other committed facilities to convert U.S. Treasuries to USD cash.

In addition, the Liquidity Risk Management Framework describes: (i) The methodology used by ICC to estimate its minimum day-of-default available liquidity resources based on its liquidity risk management model; (ii) historical analysis based on back testing considerations; and (iii) forward-looking analysis based on stress testing. The Liquidity Risk Management Framework also provides for governance concerning ICC's liquidity testing, amending the liquidity program and the procedure for additional risk measures to be taken, as necessary, based upon testing results.

Proposed new Rule 402(j) addresses ICC's use of any Clearing Participant's House Initial Margin as a liquidity resource in connection with a Clearing Participant's default. ICC states that under this rule, ICC may use a Clearing Participant's cash, securities or other property constituting Initial Margin for its House account to support liquidity arrangements relating to ICC's payment obligations. Such liquidity arrangements would include borrowing, repurchase transactions, exchange of Initial Margin for other assets or similar transactions, under which equivalent value is provided for such Initial Margin and such equivalent value will be held as Initial Margin and used or applied by ICC solely for the purposes for which Initial Margin in the House Account may be used. ICC states that any use of House Initial Margin may be used in a manner consistent with ICC's liquidity policies and applicable law. Additionally, ICC states that in connection with a Clearing Participant's default, ICC will be able to exchange cash that is House Initial Margin for the equivalent value of securities or cash of a different currency.

Proposed new Rule 802(f)(iv) addresses ICC's authority to pledge assets in the Guaranty Fund to secure loans made to the clearing house, including for purposes of default management, or to transfer such assets to counterparties under repurchase transactions or similar transactions. ICC states that the proceeds of such

<sup>15</sup> 17 CFR 200.30-3(a)(12).

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

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

<sup>3</sup> Securities Exchange Act Release No. 34-72556 (July 8, 2014), 79 FR 40796 (July 14, 2014) (SR-ICC-2014-08).