

materially in 1947. Rule 17f-2 establishes safeguards for arrangements in which a registered management investment company ("fund") is deemed to maintain custody of its own assets, such as when the fund maintains its assets in a facility that provides safekeeping but not custodial services.<sup>1</sup> The rule includes several recordkeeping or reporting requirements. The fund's directors must prepare a resolution designating not more than five fund officers or responsible employees who may have access to the fund's assets. The designated access persons (two or more of whom must act jointly when handling fund assets) must prepare a written notation providing certain information about each deposit or withdrawal of fund assets, and must transmit the notation to another officer or director designated by the directors. An independent public accountant must verify the fund's assets three times each year, and two of those examinations must be unscheduled.<sup>2</sup>

Rule 17f-2's requirement that directors designate access persons is intended to ensure that directors evaluate the trustworthiness of insiders who handle fund assets. The requirements that access persons act jointly in handling fund assets, prepare a written notation of each transaction, and transmit the notation to another designated person are intended to reduce the risk of misappropriation of fund assets by access persons, and to ensure that adequate records are prepared, reviewed by a responsible third person, and available for examination by the Commission. The requirement that auditors verify fund assets without notice twice each year is intended to provide an additional deterrent to the misappropriation of fund assets and to detect any irregularities.

The Commission staff estimates that each fund makes 974 responses and spends an average of 252 hours annually in complying with the rule's requirements.<sup>3</sup> Commission staff

estimates that on an annual basis it takes: (i) 0.5 hours of fund accounting personnel at a total cost of \$99 to draft director resolutions;<sup>4</sup> (ii) 0.5 hours of the fund's board of directors at a total cost of \$2200 to adopt the resolution;<sup>5</sup> (iii) 244 hours for the fund's accounting personnel at a total cost of \$63,797 to prepare written notations of transactions;<sup>6</sup> and (iv) 7 hours for the fund's accounting personnel at a total cost of \$1386 to assist the independent public accountants when they perform verifications of fund assets.<sup>7</sup> Commission staff estimates that approximately 188 funds file Form N-17f-2 each year.<sup>8</sup> Thus, the total annual hour burden for rule 17f-2 is estimated to be 47,376 hours.<sup>9</sup> Based on the total costs per fund listed above, the total cost of rule 17f-2's collection of information requirements is estimated to be approximately \$12.7 million.<sup>10</sup>

The estimate of average burden hours is made solely for the purposes of the Paperwork Reduction Act, and is not derived from a comprehensive or even a representative survey or study of the costs of Commission rules and forms. Complying with the collections of information required by rule 17f-2 is mandatory for those funds that maintain

industry. The actual number of hours may vary significantly depending on individual fund assets.

<sup>4</sup> This estimate is based on the following calculation: 0.5 (burden hours per fund) × \$198 (senior accountant's hourly rate) = \$99. Unless otherwise indicated, the hourly wage figures used herein are from the Securities Industry and Financial Markets Association's Management & Professional Earnings in the Securities Industry 2013, modified by Commission staff to account for an 1800-hour work-year and multiplied by 5.35 to account for bonuses, firm size, employee benefits and overhead.

<sup>5</sup> The estimate for the cost of board time as a whole is derived from estimates made by the staff regarding typical board size and compensation that is based on information received from fund representatives and publicly available sources.

<sup>6</sup> Respondents estimated that each fund makes 974 responses on an annual basis and spends a total of 0.25 hours per response. The fund personnel involved are Accounts Payable Manager (\$186 hourly rate), Operations Manager (\$334 hourly rate) and Accounting Manager (\$265 hourly rate). The average hourly rate of these personnel is \$262. The estimated cost of preparing notations is based on the following calculation: 974 × 0.25 × \$262 = \$63,797.

<sup>7</sup> This estimate is based on the following calculation: 7 × \$198 (senior accountant's hourly rate) = \$1386.

<sup>8</sup> On average, each year approximately 188 funds filed Form N-17f-2 with the Commission during calendar years 2011-2013.

<sup>9</sup> This estimate is based on the following calculation: 188 (funds) × 252 (total annual hourly burden per fund) = 47,376 hours for rule. The annual burden for rule 17f-2 does not include time spent preparing Form N-17f-2. The burden for Form N-17f-2 is included in a separate collection of information.

<sup>10</sup> This estimate is based on the following calculation: \$67,482 (total annual cost per fund) × 188 funds = \$12,686,616.

custody of their own assets. Responses will not be kept confidential. An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless it displays a currently valid control number.

Written comments are invited on: (a) Whether the collection of information is necessary for the proper performance of the functions of the Commission, including whether the information has practical utility; (b) the accuracy of the Commission's estimate of the burden of the collection of information; (c) ways to enhance the quality, utility, and clarity of the information collected; and (d) ways to minimize the burden of the collection of information on respondents, including through the use of automated collection techniques or other forms of information technology. Consideration will be given to comments and suggestions submitted in writing within 60 days of this publication.

Please direct your written comments to Pamela Dyson, Director/Chief Information Officer, Securities and Exchange Commission, c/o Remi Pavlik-Simon, 100 F Street NE., Washington, DC 20549; or send an email to: [PRA\\_Mailbox@sec.gov](mailto:PRA_Mailbox@sec.gov).

Dated: April 1, 2015.

**Brent J. Fields,**  
Secretary.

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-74622; File No. SR-ISEGemini-2015-08]

### Self-Regulatory Organizations; ISE Gemini, LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Share Member-Designated Risk Settings in the Trading System With Clearing Members

**APRIL 1, 2015.** Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the "Act"),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on March 30, 2015 ISE Gemini, LLC (the "Exchange" or "ISE Gemini") filed with the Securities and Exchange Commission the proposed rule change, as described in Items I, II, and III below, which items have been prepared by the self-regulatory organization. The Commission is publishing this notice to

<sup>1</sup> The rule generally requires all assets to be deposited in the safekeeping of a "bank or other company whose functions and physical facilities are supervised by Federal or State authority." The fund's securities must be physically segregated at all times from the securities of any other person.

<sup>2</sup> The accountant must transmit to the Commission promptly after each examination a certificate describing the examination on Form N-17f-2. The third (scheduled) examination may coincide with the annual verification required for every fund by section 30(g) of the Act (15 U.S.C. 80a-29(g)).

<sup>3</sup> The 974 responses are: 1 (one) response to draft and adopt the resolution and 973 notations. Estimates of the number of hours are based on conversations with individuals in the fund

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

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

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**

ISE Gemini proposes to amend Rule 706 to authorize the Exchange to share any Member-designated risk settings in the trading system with the Clearing Member that clears transactions on behalf of the Member. The text of the proposed rule change is available on the Exchange's Web site (<http://www.ise.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 self-regulatory organization 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 self-regulatory organization has prepared summaries, set forth in sections A, B and C below, of the most significant aspects of such statements.

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

##### **1. Purpose**

The Exchange proposes to amend Rule 706 to authorize the Exchange to share any Member-designated risk settings in the trading system with the Clearing Member that clears transactions on behalf of the Member. Rule 706 states that "[u]nless otherwise provided in the Rules, no one but a Member or a person associated with a Member shall effect any Exchange Transactions."<sup>3</sup> The Exchange proposes to amend the current rule by adding the following sentence: "The Exchange may share any Member-designated risk settings in the trading system with the Clearing Member that clears transactions on behalf of the Member."

Each Member that transacts through a Clearing Member on the Exchange executes a Letter of Clearing Authorization, in the case of Electronic Access Members, or a Market Maker Letter of Guarantee, in the case of Primary Market Makers and Competitive Market Makers, wherein the Clearing Member "accepts financial responsibility for all Exchange

Transactions made by the" Member on whose behalf the Clearing Member submits the letter of guarantee. The Exchange believes that because Clearing Members guarantee all transactions on behalf of a Member, and therefore, bear the risk associated with those transactions, it is appropriate for Clearing Members to have knowledge of what risk settings a Member may utilize within the trading system.

The Exchange notes that while not all Members are Clearing Members, all Members require a Clearing Member's consent to clear transactions on their behalf in order to conduct business on the Exchange. As the Clearing Member ultimately bears all the risk for a trade they clear on any Member's behalf, the Exchange believes it is reasonable to provide Clearing Members with information relating to the risk settings used by each Member whose transactions they are clearing. To the extent that a Clearing Member might reasonably require a Member to provide access to its risk settings as a prerequisite to continue to clear trades on the Member's behalf, the Exchange's proposal to share those risk settings directly reduces the administrative burden on Members and ensures that Clearing Members are receiving information that is up-to-date and conforms to the settings active in the trading system.

The Exchange further notes that any broker-dealer is free to become a Clearing Member of the Options Clearing Corporation (the "OCC"), which would enable that Member to avoid sharing risk settings with any third party, if they so choose. For these reasons, the Exchange believes that the proposal is consistent with the Act as it provides Clearing Members with additional risk-related information that may aid them in complying with the Act, notably Rule 15c3-5 and, as noted, Members that do not wish to share such settings with a Clearing Member can do so by becoming clearing members of the OCC.

The risk settings that would be shared pursuant to the proposed rule are currently codified in Rule 804. The risk settings are designed to mitigate the potential risks of multiple executions against a Member's trading interest that, in today's highly automated and electronic trading environment, can occur simultaneously across multiple series and multiple option classes. The proposed rule will allow the Exchange to share a Member's risk settings with the Clearing Member that guarantees the Member's transactions, and therefore has a financial interest [sic] in

understanding the risk tolerance of a Member.

Because the Letter of Clearing Authorization and the Market Maker Letter of Guarantee codifies relationships between a Member and the Clearing Member, the Exchange is on notice of which Clearing Members have relationships with which Members. The proposed rule change would simply provide the Exchange with authority to directly provide Clearing Members with information that may otherwise be available to such Clearing Members by virtue of their relationship with the respective Member.

##### **2. Statutory Basis**

The Exchange believes that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder that are applicable to a national securities exchange, and, in particular, with the requirements of Section 6(b) of the Act.<sup>4</sup> In particular, the proposal is consistent with Section 6(b)(5) of the Act,<sup>5</sup> because it is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanisms 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 removes impediments to and perfects the mechanism of a free and open market by codifying that the Exchange can directly provide to Clearing Members that guarantee that Member's transactions on the Exchange the Member-designated risk settings in the trading system, which are designed to mitigate the potential risk of multiple executions against a Member's trading interest that, in today's highly automated and electronic trading environment, can occur simultaneously across multiple series and multiple option classes. The Exchange believes that the proposed rule change is consistent with the protection of investors and the public interests because it will permit Clearing Members with a financial interest in a Member's risk settings to better monitor and manage the potential risks assumed by Members with whom the Clearing Member has entered into a letter of guarantee, thereby providing Clearing Members with greater control and flexibility over setting their own risk tolerance and exposure.

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

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

<sup>3</sup> See Rule 706(a).

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

The Exchange believes the proposal is consistent with Section 6(b)(8) of the Act<sup>6</sup> in that it does not impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The proposed rule change is not designed to address any aspect of competition, but would provide authority for the Exchange to directly share risk settings with Clearing Members regarding the Members with whom the Clearing Member has executed a letter of guarantee so the Clearing Member can better monitor and manage the potential risks assumed by the Members, thereby providing them with greater control and flexibility over setting their own risk tolerance and exposure. The proposed rule change does not pose an undue burden on non-Clearing Members because, unlike Clearing Members, non-Clearing Members do not guarantee the execution of the Member transactions on the Exchange. The proposed rule change is structured to offer the same enhancement to all Clearing Members, regardless of size, and would not impose a competitive burden on any participant.

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

The Exchange has not solicited, and does not intend to solicit, comments on this proposed rule change. The Exchange has not received any unsolicited written comments from members or other interested parties.

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

The Exchange believes that the foregoing proposed rule change may take effect upon filing with the Commission pursuant to Section 19(b)(3)(A)<sup>7</sup> of the Act and Rule 19b-4(f)(6) thereunder<sup>8</sup> because the foregoing proposed rule change does not (i) significantly affect the protection of investors or the public interest, (ii) impose any significant burden on competition, and (iii) become operative for 30 days after its filing date, or such shorter time as the Commission may designate.

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: (i) Necessary or appropriate in the public interest; (ii) for the protection of investors; or (iii) otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall 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-ISEGemini 2015-08 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-ISEGemini-2015-08. 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 offices 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-

ISEGemini-2015-08, and should be submitted on or before April 28, 2015.

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

**Brent J. Fields,**

Secretary.

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-74627; File No. SR-Phlx-2015-30]

### Self-Regulatory Organizations; NASDAQ OMX PHLX LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Amend Section (a)(iv) of Rule 703, Financial Responsibility and Reporting

April 1, 2015.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on March 23, 2015, NASDAQ OMX PHLX LLC ("Phlx" or "Exchange") filed with the Securities and Exchange Commission ("SEC" or "Commission") the proposed rule change as described in Items I, II, and III, below, which Items have been substantially 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 Substance of the Proposed Rule Change

The Exchange proposes to amend section (a)(iv) of Rule 703, Financial Responsibility and Reporting, as described below.<sup>3</sup>

The text of the proposed rule change is below. Proposed new language is in italics; proposed deletions are in brackets.

\* \* \* \* \*

Rule 703. Financial Responsibility and Reporting

- (a) Financial Responsibility Standards.—  
Each member organization effecting securities transactions shall comply with the capital requirements set forth below:  
(i) each member organization subject to SEC

<sup>9</sup> 17 CFR 200.30-3(a)(12).

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

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

<sup>3</sup> A Registered Options Trader or ROT is a regular member or a foreign currency options participant of the Exchange located on the trading floor who has received permission from the Exchange to trade in options for his own account. See Exchange Rule 1014(b)(i).

<sup>6</sup> 15 U.S.C. 78f(b)(8).

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

<sup>8</sup> 17 CFR 240.19b-4(f)(6).