for'' their CCLF contribution [87] fails to account for the fact that the proposal also requires FICC to conduct its own due diligence. Specifically, FICC would confirm that Netting Members have sufficient information to understand and manage their liquidity risks and to meet its commitments to provide liquidity. Therefore, the Commission believes that the proposal is consistent with Rule 17Ad–22(e)(7)(iv).

Finally, Rule 17Ad–22(e)(7)(v) under the Exchange Act requires policies and procedures for maintaining and testing with each liquidity provider, to the extent practicable, FICC's procedures and operational capacity for accessing its relevant liquid resources. As described above, under the proposal, FICC would test its operational procedures for invoking a CCLF Event and require Netting Members to participate in such tests. Therefore, the Commission believes that the proposal is consistent with Rule 17Ad–22(e)(7)(v).

## IV. Conclusion

*It is therefore noticed,* pursuant to Section 806(e)(1)(I) of the Clearing Supervision Act,[88] that the Commission DOES NOT OBJECT to advance notice SR–FICC–2017–802 and that FICC hereby is AUTHORIZED to implement the change as of the date of this notice or the date of an order by the Commission approving proposed rule change SR–FICC–2017–002 that reflects the changes that are consistent with this Advance Notice, whichever is later.

By the Commission.

**Jill M. Peterson,**

*Assistant Secretary.*

[FR Doc. 2017–14145 Filed 7–5–17; 8:45 am]

**BILLING CODE 8011–01–P**

[87] Ronin Letter at 2.

[88] 12 U.S.C. 5465(e)(1)(I).

## SECURITIES AND EXCHANGE COMMISSION

**[Release No. 34–81056; File No. SR–LCH SA–2017–005]**

## Self-Regulatory Organizations; LCH SA; Order Approving Proposed Rule Change, as Amended by Amendment No. 1 Thereto, To Add Rules Related to the Clearing of CDX.NA.HY CDS

June 30, 2017.

## I. Introduction

On April 28, 2017, Banque Centrale de Compensation, which conducts business under the name LCH SA (''LCH SA''), filed with the Securities and Exchange Commission (''Commission''), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (''Act'') [1] and Rule 19b-4 thereunder,[2] a proposed rule change (SR–LCH SA–2017–005) to amend LCH SA's CDS Margin Framework and CDSClear Default Fund Methodology in order to permit LCH SA to clear CDS contracts on the CDX.NA.HY index. On May 5, 2017, LCH SA filed Amendment No. 1.[3] The proposed rule change was published in the **Federal Register** on May 17, 2017.[4] The Commission received no comment letters regarding the proposed change. For the reasons discussed below, the Commission is approving the proposed rule change.

## II. Description of the Proposed Rule Change

LCH SA has proposed various changes to its CDS Margin Framework and CDSClear Default Fund Methodology for the purpose of permitting LCH SA to clear CDS contracts on the CDX.NA.HY index.

### *A. Changes to CDS Margin Framework*

With respect to the CDS Margin Framework, LCH SA proposed to amend the short charge component of its margin methodology to provide a description of the purpose of the short charge, noting that it is intended to account for the probability of a credit event occurring during the period from the default of a Clearing Member to liquidation of the defaulting Clearing Member's portfolio, as well as to adjust the method for calculating the short charge to account for CDX.NA.HY index contracts. Under its current CDS Margin Framework, LCH SA calculates the short charge component by taking the larger of (1) a ''Global Short Charge,'' derived from the Clearing Member's top net short exposure with respect to any CDS contract and its top net short exposure among the three ''riskiest'' reference entities (of any type), *i.e.* those that are most likely to default, in the Clearing Member's portfolio, and (2) the top two net short exposures with respect to CDS contracts on senior financial entities.[5] LCH SA believes that high yield entities are risker than senior financial entities, and as a result it proposed to introduce a ''High Yield Short Charge'' that would replace the top two net short exposures to CDS on senior financial entities in its approach to calculating the short charge.[6] Consequently, the short charge under the proposed rule change would be the greater of (1) the ''Global Short Charge,'' as described above, and (2) a ''High Yield Short Charge,'' calculated from a member's top net short exposure (with respect to high yield CDS) and its top two net short exposures among the three ''riskiest'' reference entities in the high yield category in the Clearing Member's portfolio.[7]

LCH SA also proposed to make certain conforming changes throughout Section 4.1.1 of the CDS Margin Framework, which describes the ''net short exposure'' calculation, to refer to CDX.NA.HY contracts, as well as to clarify that in order to calculate margin in Euros, all US dollar denominated variables are converted to Euros utilizing the current USD/Euro foreign exchange rate and calibrated haircut based upon historical data. Furthermore, LCH SA proposed conforming changes to Section 4.1.2 of the CDS Margin Framework, which describes the ''top exposure'' component of the short charge and Section 4.1.3 of the CDS Margin Framework, which describes the process by which LCH SA identifies the ''riskiest'' entities (of any type) in determining the short charge, to incorporate terms for CDX.NA.HY index contracts and to clarify the calculation as it applies to high yield indices. LCH SA also proposed clarifying changes to Section 4.1.4 of the CDS Margin Framework to summarize the calculation for the short charge amount.[8]

LCH SA proposed to amend the CDS Margin Framework by deleting Section 4.3 in its entirety because the substance of that section would be contained in other sections of the CDS Margin Framework as a result of the proposed changes described above.[9]

In addition, LCH SA also proposed to amend Section 5.1 of the CDS Margin Framework, which sets forth the wrong way risk (''WWR'') component of LCH SA's margin methodology. According to LCH SA, the current approach leverages the short charge framework by calculating the top two net short exposures of financial entities in a Clearing Member's portfolio following the calculation described above for the short charge margin. LCH SA then compares these top two net short exposures of financial entities to the Global Short Charge and imposes the

[1] 15 U.S.C. 78s(b)(1).

[2] 17 CFR 240.19b–4.

[3] LCH SA filed Amendment No. 1 to replace the initial filing in its entirety in order to clarify certain changes to the CDSClear Margin Framework.

[4] Securities Exchange Act Release No. 34–80666 (May 11, 2017), 82 FR 22699 (May 17, 2017) (SR–LCH SA–2017–005) (''Notice'').

[5] Notice, 82 FR at 22700.

[6] *Id.*

[7] *Id.*

[8] *Id.*

[9] *Id.*

greater of those two as the short charge, which addresses the WWR arising from the correlation between a Clearing Member default and the default(s) of the top two financial entities in the Clearing Member's portfolio.[10] The proposed rule change amends Section 5.1 of the CDS Margin Framework to make the WWR component more explicit, such that, when the top two net short exposures in respect of financial entities exceeds the short charge margin, as amended to equal the greater of the Global Short Charge and the High Yield Short Charge, LCH SA will charge the incremental amount that is attributable to the top two financial entities as part of the WWR Margin.[11]

LCH SA further proposed to amend a heading in Section 3 and a table in Section 3.1.1 to clarify that the summary of the margin framework also applies to CDX HY contracts. Additional conforming changes in the CDS Margin Framework were proposed with respect to Sections 5, 6, 8, 10, and 11 of the CDS Margin Framework to clarify that the those sections also apply to high yield indices.[12]

*B. Changes to CDSClear Default Fund Methodology*

LCH SA also proposed changes to its CDSClear Default Fund Methodology. Specifically, LCH SA proposed to amend Section 2.3 of the CDSClear Default Fund Methodology to modify the existing stressed short charge. Under its current approach, LCH SA calculates a stressed short charge, which equals the greater of (1) the top net short exposure plus the top two net short exposures among the three entities most likely to default in the Clearing Member's portfolio, and (2) the top two net short exposures which are senior financial entities plus the top net short exposures among the three riskiest senior financial entities in the Clearing Member's portfolio. Under the proposed rule change, LCH SA will take the default of high yield entities into account and add a third prong to the stressed short charge calculation which will take the greater of (1) and (2) as described above in this paragraph, or (3) the top two net short exposures which are high yield entities plus the top two net short exposures among the three high yield entities most likely to default in the Clearing Member's portfolio.[13]

Finally, LCH SA also proposed to amend Section 3.8 of the CDSClear Default Fund Methodology, which describes the correlation between index families and series, to reflect that additional data will be used.[14]

## III. Discussion and Commission Findings

Section 19(b)(2)(C) of the Act[15] directs the Commission to approve a proposed rule of a self-regulatory organization if the Commission finds that such proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to such organization. Section 17A(b)(3)(F) of the Act[16] requires, in relevant part, that the rules of a registered clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions and, to the extent applicable, derivative agreements, contracts, and transactions. Rule 17Ad–22(b)(2)[17] requires, in relevant part, a registered clearing agency that performs central counterparty services to establish, implement, maintain and enforce written policies and procedures reasonably designed to use margin requirements to limit its credit exposures to participants under normal market conditions and use risk-based models and parameters to set margin requirements. Rule 17Ad–22(b)(3)[18] requires, in relevant part, a registered clearing agency that performs central counterparty services to establish, implement, maintain and enforce written policies and procedures reasonably designed to maintain additional financial resources sufficient to withstand, at a minimum, a default by the two participant families to which it has the largest exposures in extreme but plausible market conditions where such registered clearing agency acts as a central counterparty for security-based swaps. Rule 17Ad–22(e)(4)(i) and (ii)[19] require a covered clearing agency to establish, implement, maintain and enforce written policies and procedures reasonably designed to maintain sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence, and for a covered clearing agency involved in activities with a more complex risk profile,[20] maintaining additional financial resources at the minimum to enable it to cover a wide range of foreseeable stress scenarios that include, but are not limited to, the default of the two participant families that would potentially cause the largest aggregate credit exposure for the covered clearing agency in extreme but plausible market conditions. Finally, Rule 17Ad–22(e)(6)(i)[21] requires a covered clearing agency that provides central counterparty services to establish, implement, maintain and enforce written policies and procedures reasonably designed to cover its credit exposures to its participants by establishing a risk-based margin system that, at a minimum considers, and produces margin levels commensurate with, the risks and particular attributes of each relevant product, portfolio and market.

The Commission finds that the proposed rule change, which amends LCH SA's CDS Margin Framework and CDSClear Default Fund Methodology to permit LCH SA to clear CDS contracts on the CDX.NA.HY index, is consistent with Section 17A of the Act and the applicable provisions of Rule 17Ad–22 thereunder. By amending its CDS Margin Framework, LCH SA amends the approach to its short charge component of its margin methodology to consider the specific risks associated with, and incorporate parameters addressing the risks, associated with clearing contracts on the CDX.NA.HY index, and as a result, LCH SA will be able to calculate margin requirements to cover its exposures associated with clearing contracts on the CDX.NA.HY index. Therefore, the Commission finds that the proposed rule changes are consistent with Rule 17Ad–22(b)(2), 17Ad–22(e)(4)(i), and 17Ad–22(e)(6)(i).

Additionally, by amending its CDSClear Default Fund Methodology to change the manner in which it calculates its short charge to consider the risks introduced by clearing contracts on the CDX.NA.HY index, the Commission believes that LCH SA will be able to more appropriately calculate and maintain the financial resources necessary to cover the default of by the two participant families to which it has the largest exposures in extreme but plausible market conditions. Therefore, the Commission finds that the proposed rule change is consistent with the requirements of Rule 17Ad–22(b)(3) and Rule 17Ad–22(e)(4)(ii).

Because the proposed rule change amends LCH SA's CDS Margin Framework and CDSClear Default Fund Methodology in such a manner as to

[10] *Id.*

[11] *Id.*

[12] *Id.*

[13] *Id.*

[14] *Id.*

[15] 15 U.S.C. 78s(b)(2)(C).

[16] 15 U.S.C. 78q–1(b)(3)(F).

[17] 17 CFR 240.17Ad–22(b)(2).

[18] 17 CFR 240.17Ad–22(b)(3).

[19] 17 CFR 240.17Ad–22(e)(4)(i) and (ii).

[20] Rule 17Ad–22(a)(4)(i) defines a covered clearing agency involved in activities with a more complex risk profile as a clearing agency registered with the Commission under Section 17A of the Act that provides central counterparty services for security-based swaps. *See* 17 CFR 240.17Ad–22(a)(4)(i).

[21] 17 CFR 240.17Ad–22(e)(6)(i).

allow LCH SA to more appropriately take into consideration the risks associated with clearing contracts on the CDX.NA.HY index, and to collect margin and other financial resources that reflect such risks, the Commission believes that the proposed changes are designed to promote the prompt and accurate clearance and settlement of such contracts. As a result, the Commission finds that the proposed rule changes are consistent with Section 17A(b)(3)(F) of the Act.

## IV. Conclusion

*It is therefore ordered* pursuant to Section 19(b)(2) of the Act that the proposed rule change (SR–LCH SA–2017–005), as amended by Amendment No. 1, be, and hereby is, approved.[22]

For the Commission by the Division of Trading and Markets, pursuant to delegated authority.[23]

**Brent J. Fields,**

*Secretary.*

[FR Doc. 2017–14239 Filed 7–5–17; 8:45 am]

**BILLING CODE 8011–01–P**

## SECURITIES AND EXCHANGE COMMISSION

**[Release No. 34–81053; File No. SR–FINRA–2017–020]**

## Self-Regulatory Organizations; Financial Industry Regulatory Authority, Inc.; Notice of Filing of a Proposed Rule Change To Adopt FINRA Rule 6898 (Consolidated Audit Trail—Fee Dispute Resolution)

June 29, 2017.

Pursuant to the provisions of Section 19(b)(1) of the Securities Exchange Act of 1934 (''Act'' or the ''Exchange Act'')[1] and Rule 19b-4 thereunder,[2] notice is hereby given that, on June 19, 2017, Financial Industry Regulatory Authority, Inc. (''FINRA'') filed with the Securities and Exchange Commission (''SEC'' or the ''Commission'') the proposed rule change as described in Items I and II below, which Items have been prepared by FINRA. 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

FINRA is proposing to adopt FINRA Rule 6898 (Consolidated Audit Trail—Fee Dispute Resolution) to establish the procedures for resolving potential disputes related to CAT Fees charged to Industry Members.[3]

The text of the proposed rule change is available on FINRA's Web site at *http://www.finra.org,* at the principal office of FINRA, 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, FINRA 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. FINRA 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 the Statutory Basis for, the Proposed Rule Change*

1. Purpose

Bats BYX Exchange, Inc., Bats BZX Exchange, Inc., Bats EDGA Exchange, Inc., Bats EDGX Exchange, Inc., BOX Options Exchange LLC, C2 Options Exchange, Incorporated, Chicago Board Options Exchange, Incorporated, Chicago Stock Exchange, Inc., FINRA, Investors' Exchange LLC, Miami International Securities Exchange, LLC, MIAX PEARL, LLC, NASDAQ BX, Inc., Nasdaq GEMX, LLC, Nasdaq ISE, LLC, Nasdaq MRX, LLC,[4] NASDAQ PHLX LLC, The NASDAQ Stock Market LLC, New York Stock Exchange LLC, NYSE MKT LLC, NYSE Arca, Inc. and NYSE National, Inc.[5] (collectively, the ''Participants'') filed with the Commission, pursuant to Section 11A of the Exchange Act[6] and Rule 608 of Regulation NMS thereunder,[7] the National Market System Plan Governing the Consolidated Audit Trail (the ''CAT NMS Plan'' or ''Plan'').[8] The Participants filed the Plan to comply with Rule 613 of Regulation NMS under the Exchange Act.[9] The Plan was published for comment in the **Federal Register** on May 17, 2016,[10] and approved by the Commission, as modified, on November 15, 2016.[11] The Plan is designed to create, implement and maintain a consolidated audit trail (''CAT'') that would capture customer and order event information for orders in NMS Securities and OTC Equity Securities, across all markets, from the time of order inception through routing, cancellation, modification, or execution in a single consolidated data source. The Plan accomplishes this by creating CAT NMS, LLC (the ''Company''), of which each Participant is a member, to operate the CAT.[12] Under the CAT NMS Plan, the Operating Committee of the Company (''Operating Committee'') has discretion to establish funding for the Company to operate the CAT, including establishing fees that the Participants will pay, and establishing fees for Industry Members that will be implemented by the Participants (''CAT Fees'').[13] The Participants are required to file with the SEC under Section 19(b) of the Exchange Act any such CAT Fees applicable to Industry Members that the Operating Committee approves.[14] Accordingly, FINRA has filed a proposed rule change with the SEC to adopt the Consolidated Audit Trail Funding Fees, which will require Industry Members that are FINRA members to pay the CAT Fees determined by the Operating Committee.[15] FINRA submits this

[22] 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).

[23] 17 CFR 200.30–3(a)(12).

[1] 15 U.S.C. 78s(b)(1).

[2] 17 CFR 240.19b–4.

[3] Unless otherwise specified, capitalized terms used in this rule filing are defined as set forth herein or in the Consolidated Audit Trail Funding Fees Rule, the CAT Compliance Rule Series or in the CAT NMS Plan.

[4] ISE Gemini, LLC, ISE Mercury, LLC and International Securities Exchange, LLC have been renamed Nasdaq GEMX, LLC, Nasdaq MRX, LLC, and Nasdaq ISE, LLC, respectively. *See* Securities Exchange Act Release No. 80248 (March 15, 2017), 82 FR 14547 (March 21, 2017); Securities Exchange Act Release No. 80326 (March 29, 2017), 82 FR 16460 (April 4, 2017); and Securities Exchange Act Release No. 80325 (March 29, 2017), 82 FR 16445 (April 4, 2017).

[5] National Stock Exchange, Inc. has been renamed NYSE National, Inc. *See* Securities Exchange Act Release No. 79902 (January 30, 2017), 82 FR 9258 (February 3, 2017).

[6] 15 U.S.C. 78k–1.

[7] 17 CFR 242.608.

[8] *See* Letter from the Participants to Brent J. Fields, Secretary, Commission, dated September 30, 2014; and Letter from Participants to Brent J. Fields, Secretary, Commission, dated February 27, 2015. On December 23, 2015, the Participants submitted an amendment to the CAT NMS Plan. *See* Letter from Participants to Brent J. Fields, Secretary, Commission, dated December 23, 2015.

[9] 17 CFR 242.613.

[10] Securities Exchange Act Release No. 77724 (April 27, 2016), 81 FR 30614 (May 17, 2016).

[11] Securities Exchange Act Release No. 79318 (November 15, 2016), 81 FR 84696 (November 23, 2016) (''Approval Order'').

[12] The Plan also serves as the limited liability company agreement for the Company.

[13] Section 11.1(b) of the CAT NMS Plan.

[14] *See supra* note 12 [sic].

[15] *See* Securities Exchange Act Release No. 80710 (May 17, 2017), 82 FR 23629 [sic] (May 23, 2017) (SR–FINRA–2017–011).