

assist them in carrying out their trading floor functions, such as maintaining order among Floor brokers manually trading at the DMM's assigned panel, bringing Floor brokers together to facilitate trading, assisting Floor brokers with respect to their orders, and researching the status of orders or questioned trades. The SROs also believe that providing this information to Floor brokers would serve a valuable function by increasing the ability of Floor brokers to source liquidity and provide price discovery for block transactions.

While the SRO proposals may improve the ability of DMMs and Floor brokers to trade on the SROs, they also would provide DMMs and Floor brokers access to potentially valuable information about individual orders on the SROs that is not available to other exchange members or market participants. This information would include the price and size of individual orders on the SROs, as well as the entering and clearing firm for such orders. It also would include information about trading interest that is not available to other exchange members or market participants even in aggregated form, such as Floor broker Reserve e-Quotes (unless there has been an affirmative election to withhold this information). As noted above, while the Commission has recognized that exchanges may legitimately confer special benefits on market participants willing to accept substantial responsibilities to contribute to market quality, such benefits must not be disproportionate to the services provided. In this case, the SROs have not proposed to require of DMMs or Floor brokers any additional obligations to the market that might correspond to the proposed informational benefits.<sup>22</sup> Nor have the SROs clearly explained how the proposals might materially improve the quality of the SROs' markets, particularly given the increasing amount of automated transactions on the SROs and the reduced role of the Exchange floors. As a result, the Commission is concerned that the SROs' proposals, among other things, may unfairly discriminate in favor of DMMs and Floor brokers, may not be designed to protect the broad group of investors that trade on the SROs, and otherwise may be inequitable.

The Commission therefore believes that questions remain as to whether the

<sup>22</sup> The Commission further notes that, while DMMs have certain special obligations to the SROs, including those relating to the maintenance of a fair and orderly market, Floor brokers do not have similar obligations.

SRO Proposals are consistent with the requirements of Sections 6(b)(5) of the Act, including whether they would promote just and equitable principles of trade, perfect the mechanism of a free and open market and the national market system, protect investors and the public interest, and not permit unfair discrimination.

#### IV. Solicitation of Comments

The Commission requests that interested persons provide written submissions of their views, data and arguments with respect to the concerns identified above, as well as any others they may have with the SRO Proposals. In particular, the Commission invites the written views of interested persons concerning whether the SRO Proposals are inconsistent with Section 6(b)(5) or any other provision of the Act, or the rules and regulation thereunder. Although there do not appear to be any issues relevant to approval or disapproval which would be facilitated by an oral presentation of views, data, and arguments, the Commission will consider, pursuant to Rule 19b-4, any request for an opportunity to make an oral presentation.<sup>23</sup>

Interested persons are invited to submit written data, views and arguments regarding whether the SRO Proposals should be disapproved by March 14, 2012. Any person who wishes to file a rebuttal to any other person's submission must file that rebuttal by March 28, 2012. 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 Numbers SR-NYSE-2011-56 and SR-NYSEAmex-2011-86 on the subject line.

##### *Paper Comments*

- Send paper comments in triplicate to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, 100 F Street NE., Washington, DC 20549-1090.

<sup>23</sup> Section 19(b)(2) of the Act, as amended by the Securities Act Amendments of 1975, Public Law 94-29 (June 4, 1975), grants the Commission flexibility to determine what type of proceeding—either oral or notice and opportunity for written comments—is appropriate for consideration of a particular proposal by a self-regulatory organization. See Securities Act Amendments of 1975, Senate Comm. on Banking, Housing & Urban Affairs, S. Rep. No. 75, 94th Cong., 1st Sess. 30 (1975).

All submissions should refer to File Numbers SR-NYSE-2011-56 and SR-NYSEAmex-2011-86. These file numbers 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 SRO Proposals that are filed with the Commission, and all written communications relating to the SRO Proposals 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 a.m. and 3 p.m. Copies of such filings also will be available for inspection and copying at the principal office of the Exchanges. 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 Numbers SR-NYSE-2011-56 and SR-NYSEAmex-2011-86 and should be submitted on or before March 14, 2012. Rebuttal comments should be submitted by March 28, 2012.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>24</sup>

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

[FR Doc. 2012-4003 Filed 2-21-12; 8:45 am]

BILLING CODE 8011-01-P

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-66398; File No. SR-NSCC-2012-02]

### Self-Regulatory Organizations; National Securities Clearing Corporation; Notice of Filing of Proposed Rule Change To Enhance Its Margining Methodology as Applied to Municipal and Corporate Bonds

February 15, 2012.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934

<sup>24</sup> 17 CFR 200.30-3(a)(57).

(“Act”)<sup>1</sup> and Rule 19b–4 thereunder<sup>2</sup> notice is hereby given that on February 1, 2012, the National Securities Clearing Corporation (“NSCC”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I and II below, which Items have been prepared primarily by NSCC. 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 purpose of the proposed rule change is to enhance NSCC’s margining methodology as it applies to municipal and corporate bonds.

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

In its filing with the Commission, NSCC 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. NSCC has prepared summaries, set forth in sections (A), (B), and (C) below, of the most significant aspects of these statements.<sup>3</sup>

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

##### Proposal Overview

A primary objective of NSCC’s Clearing Fund is to have on deposit from each applicable member assets sufficient to satisfy losses that may otherwise be incurred by NSCC as the result of the default of the member and the resultant close out of that member’s unsettled positions under NSCC’s trade guaranty. Each member’s clearing fund (“Clearing Fund”) required deposit is calculated daily pursuant to a formula set forth in Procedure XV of the Rules, which formula is designed to provide sufficient funds to cover this risk of loss. The Clearing Fund formula accounts for a variety of risk factors through the application of a number of components, each described in Procedure XV.<sup>4</sup>

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

<sup>2</sup> 17 CFR 240.19b–4.

<sup>3</sup> The Commission has modified the text of the summaries prepared by NSCC.

<sup>4</sup> In addition to those described in this filing, Clearing Fund components also include (i) a mark-to-market component which, with certain exclusions, takes into account any difference between the contract price and market price for net

The volatility component or “VaR” is a core component of this formula and is designed to calculate the amount of money that may be lost on a portfolio over a given period of time and that is assumed would be necessary to liquidate the portfolio within a given level of confidence. Pursuant to Procedure XV, NSCC may exclude from this calculation net unsettled positions in classes of securities whose volatility is not amendable to generally accepted statistical analysis in a complex manner, such as illiquid municipal or corporate bonds. The volatility charge for such positions is determined by multiplying the absolute value of the positions by a predetermined percentage (“haircut”), which shall not be less than 2%.

In connection with its ongoing review of the adequacy and appropriateness of its margining methodologies, NSCC is proposing to amend Procedure XV of the Rules so that NSCC will apply this haircut-based margining methodology, at a rate no less than 2%, as is currently permitted by Procedure XV to all municipal and corporate bonds processed through NSCC. The proposed rule change will make clear that to the extent NSCC deems appropriate NSCC may apply this haircut to any of the municipal and corporate bonds that it processes. As NSCC continuously reviews its margin models in order to ensure the reliability of its margining methodology in achieving the desired coverage, the proposed rule change will allow it to apply a margin requirement to these instruments that it deems appropriate.

NSCC reviews its risk management processes against applicable regulatory and industry standards, including, but not limited to: (i) The Recommendations for Central Counterparties (“Recommendations”) of the Committee on Payment and Settlement Systems and the Technical Committee of the International Organization of Securities Commissions (“IOSCO”) and (ii) the securities laws and rulemaking

positions of each security in a member’s portfolio through settlement; (ii) the Market Maker Domination component, or “MMDOM”, is charged to Market Makers, or firms that clear for them; (iii) a “special charge” in view of price fluctuations in or volatility or lack of liquidity of any security; (iv) an additional charge (between 5–10%) of a member’s outstanding fail positions; (v) a “specified activity charge” for transactions scheduled to settle on a shortened settlement cycle (i.e., less than T+3 or T+3 for “as-of” transactions); (vi) an additional charge which NSCC may require of members on surveillance status; and (vii) an “Excess Capital Premium” which takes into account the degree to which a member’s collateral requirement compares to the member’s excess net capital by applying a charge if a member’s Required Deposit, minus amounts applied from the charges described in (ii) and (iii) above, is above its required capital.

promulgated by the Commission. In conformance to Recommendations 3 and 4 of the IOSCO Recommendations and with the Commission rules proposed under the Dodd–Frank Wall Street Reform and Consumer Protection Act of 2010, specifically proposed Rule 17Ad–22(b)(1) addressing measurement and management of credit exposures, this proposed rule change will assist NSCC in its continuous efforts to ensure the reliability of its margining methodology and will limit NSCC’s exposures and losses by allowing it to apply a margin requirement to corporate and municipal bonds cleared at NSCC that captures the risk characteristics of these instruments, including historical price volatility and market liquidity and idiosyncratic risk, which are asset class specific.

##### Implementation Timeframe

Pending Commission approval of this proposed rule change, members will be advised of the implementation date through issuance of an NSCC Important Notice.

##### Proposed Rule Changes

In order make clear that, to the extent NSCC deems appropriate, a haircut-based margining methodology may be applied to all municipal and corporate bonds processed at NSCC, NSCC proposes to amend Sections I(A)(1)(a)(ii) and I(A)(2)(a)(ii) of Procedure XV, as marked on Exhibit 5 attached to the proposed rule filing by removing the qualifier “illiquid” before “municipal or corporate bonds.” No other changes to the Rules are contemplated by this proposed rule change.

As a central counterparty, NSCC occupies an important role in the securities settlement system by interposing itself between counterparties to financial transactions, thereby reducing the risk faced by participants and contributing to global financial stability. The effectiveness of a central counterparty’s risk controls and the adequacy of its financial resources are critical to achieving these risk-reducing goals. The proposed rule change will assist NSCC in its continuous efforts to ensure the reliability of its margining methodology and will limit NSCC’s exposures and losses by allowing it to apply a margin requirement to corporate and municipal bonds cleared at NSCC that captures the risk characteristics of these instruments. NSCC believes the proposed rule change is consistent with the requirements of Section 17A of the Act<sup>5</sup> and the rules and regulations thereunder applicable to

<sup>5</sup> 15 U.S.C. 78q–1.

NSCC, specifically with proposed Rule 17Ad-22(b)(1) that addresses measurement and management of credit exposures, as well as with the IOSCO Recommendations 3 and 4. The proposed rule change is not inconsistent with the existing rules of NSCC, including any other rules proposed to be amended.

*(B) Self-Regulatory Organization's Statement on Burden on Competition*

NSCC believes that the proposed rule change will not impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The proposed rule change will allow NSCC to apply a margin requirement to corporate and municipal bonds cleared at NSCC that captures the risk characteristics of these instruments. Therefore, the proposed rule change will help NSCC to limit its exposures and losses to these instruments and as such will contribute to the goal of financial stability in the event of member default and will render not unreasonable or inappropriate any burden on competition that the changes could be regarded as imposing.

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

Written comments relating to the proposed rule change have not been solicited or received. NSCC will notify the Commission of any written comments received by NSCC.

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

Within 45 days of the date of publication of this notice in the **Federal Register** or within such longer period up to 90 days (i) as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will: (A) By order approve or disapprove the proposed rule change or (B) institute proceedings to determine whether the proposed rule change should be 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-NSCC-2012-02 on the subject line.

*Paper Comments*

- Send paper comments in triplicate to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, 100 F Street NE., Washington, DC 20549-1090.

All submissions should refer to File Number SR-NSCC-2012-02. 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 Section, 100 F Street NE., Washington, DC 20549, on official business days between the hours of 10 a.m. and 3 p.m. Copies of such filings will also be available for inspection and copying at the principal office of NSCC and on NSCC's Web site at [http://www.dtcc.com/downloads/legal/rule\\_filings/2012/nsc/2012-02.pdf](http://www.dtcc.com/downloads/legal/rule_filings/2012/nsc/2012-02.pdf).

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-NSCC-2012-02 and should be submitted on or before March 14, 2012.

For the Commission by the Division of Trading and Markets, pursuant to delegated authority.<sup>6</sup>

**Kevin O'Neill,**

*Deputy Secretary.*

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<sup>6</sup> 17 CFR 200.30-3(a)(12).

**SECURITIES AND EXCHANGE COMMISSION**

[Release No. 34-66399; File No. SR-NSCC-2012-01]

**Self-Regulatory Organizations; National Securities Clearing Corporation; Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Make a Technical Correction With Respect to the Excess Capital Premium as Set Forth in Procedure XV (Clearing Fund Formula) of NSCC's Rules and Procedures**

February 15, 2012.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> notice is hereby given that on February 1, 2012, the National Securities Clearing Corporation ("NSCC") filed with the Securities and Exchange Commission ("Commission") the proposed rule change described in Items I and II below, which Items have been prepared primarily by NSCC. NSCC filed the proposal pursuant to Section 19(b)(3)(A) (i) of the Act<sup>2</sup> and Rule 19b-4(f)(1)<sup>3</sup> thereunder so that the proposal was effective upon filing with the Commission. The Commission is publishing this notice to solicit comments on the rule change from interested parties.

**I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change**

The purpose of this filing is to make a technical correction with respect to the Excess Capital Premium as set forth in Procedure XV (Clearing Fund Formula) of NSCC's Rules and Procedures.

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

In its filing with the Commission, NSCC 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. NSCC has prepared summaries, set forth in sections (A), (B), and (C) below, of the most significant aspects of these statements.<sup>4</sup>

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

<sup>2</sup> 15 U.S.C. 78s(b)(3)(A)(i).

<sup>3</sup> 17 CFR 240.19b-4(f)(1).

<sup>4</sup> The Commission has modified the text of the summaries prepared by NSCC.