

clearly evidences such competition. NASDAQ is offering a new pricing model in order to keep pace with changes in the industry and evolving customer needs. It is entirely optional and is geared towards attracting new customers, as well as retaining existing customers.

The Exchange has witnessed competitors creating new products and innovative pricing in this space over the course of the past year. NASDAQ continues to see firms challenge its pricing on the basis of the Exchange's explicit fees being higher than the zero-priced fees from other competitors such as BATS. In all cases, firms make decisions on how much and what types of data to consume on the basis of the total cost of interacting with NASDAQ or other exchanges. Of course, the explicit data fees are but one factor in a total platform analysis. Some competitors have lower transactions fees and higher data fees, and others are vice versa. The market for this depth information is highly competitive and continually evolves as products develop and change.

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

No written comments were either solicited or 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>6</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: (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-NASDAQ-2014-125 on the subject line.

*Paper Comments*

- Send paper comments in triplicate to Brent J. Fields, Secretary, Securities and Exchange Commission, 100 F Street NE., Washington, DC 20549-1090.

All submissions should refer to File Number SR-NASDAQ-2014-125. 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 the 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-NASDAQ-2014-125 and should be submitted on or before January 29, 2015.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>7</sup>

**Brent J. Fields,**  
*Secretary.*

[FR Doc. 2015-00051 Filed 1-7-15; 8:45 am]

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**SECURITIES AND EXCHANGE COMMISSION**

[Release No. 34-73979; File No. SR-OCC-2014-809]

**Self-Regulatory Organizations; The Options Clearing Corporation; Notice of No Objection to Advance Notice Concerning the Implementation of a Committed Master Repurchase Agreement Program as Part of OCC's Overall Liquidity Plan**

January 2, 2015.

On November 6, 2014, The Options Clearing Corporation ("OCC") filed with the Securities and Exchange Commission ("Commission") advance notice SR-OCC-2014-809 ("Advance Notice") pursuant to Section 806(e)(1) of the Payment, Clearing, and Settlement Supervision Act of 2010 ("Clearing Supervision Act" or "Title VIII")<sup>1</sup> and Rule 19b-4(n)(1)(i) under the Securities Exchange Act of 1934 ("Exchange Act").<sup>2</sup> The Advance Notice was published for comment in the **Federal Register** on December 9, 2014.<sup>3</sup> The Commission did not receive any comments on the Advance Notice publication. This publication serves as a notice of no objection to the Advance Notice.

**I. Description of the Advance Notice**

*a. Background*

The purpose of the proposed change is to allow OCC to implement a committed master repurchase agreement program ("MRA Program") in order to access an additional committed source of liquidity to meet its settlement obligations in a manner that does not increase the concentration of OCC's counterparty exposure, given OCC's existing affiliations between a number of commercial banking institutions and OCC's clearing members. According to OCC, the MRA Program will take the form of OCC entering into a committed master repurchase agreement and related confirmations (together, the "Master Repurchase Agreement") with one or more non-bank, non-clearing

<sup>1</sup> 12 U.S.C. 5465(e)(1). The Financial Stability Oversight Council designated OCC a systemically important financial market utility on July 18, 2012. See Financial Stability Oversight Council 2012 Annual Report, Appendix A, <http://www.treasury.gov/initiatives/fsoc/Documents/2012%20Annual%20Report.pdf>. Therefore, OCC is required to comply with the Clearing Supervision Act and file advance notices with the Commission. See 12 U.S.C. 5465(e).

<sup>2</sup> 17 CFR 240.19b-4(n)(1)(i).

<sup>3</sup> Securities Exchange Act Release No. 73726 (December 3, 2014), 79 FR 73116 (December 9, 2014) (SR-OCC-2014-809).

<sup>6</sup> 15 U.S.C. 78s(b)(3)(A)(ii).

<sup>7</sup> 17 CFR 200.30-3(a)(12).

member institutional investors.<sup>4</sup> The program will be part of OCC's overall liquidity plan that is meant to provide OCC with access to diverse sources of liquidity, which includes committed credit facilities, securities lending and securities repurchase arrangements, and clearing member funding requirements that, under certain conditions, allow OCC to obtain funds from clearing members.<sup>5</sup>

Although the Master Repurchase Agreement would be based on the standard form of master repurchase agreement<sup>6</sup> so that it will be more familiar to potential institutional investors, OCC would require the Master Repurchase Agreement to contain certain additional provisions tailored to ensure a reduction in concentration risk, certainty of funding, and operational effectiveness.

#### *b. The Proposed MRA Program*

##### *i. Standard Repurchase Agreement Terms*

According to OCC, the Master Repurchase Agreement generally will be structured like a typical repurchase arrangement, in order to help OCC attract interest from potential institutional investors willing to be counterparties to OCC. Under the Master Repurchase Agreement, the buyer (*i.e.*, the institutional investor) on occasion would purchase from OCC United States government securities ("Eligible Securities").<sup>7</sup> OCC, as the

seller, will transfer Eligible Securities to the buyer in exchange for a payment by the buyer to OCC in immediately available funds ("Purchase Price"). The buyer will simultaneously agree to transfer the purchased securities back to OCC at a specified later date or on OCC's demand ("Repurchase Date") against the transfer of funds by OCC to the buyer in an amount equal to the outstanding Purchase Price plus the accrued and unpaid price differential (together, the "Repurchase Price"), which is the interest component of the Repurchase Price.

At all times while a transaction is outstanding, OCC will be required to maintain a specified amount of securities or cash margin with the buyer.<sup>8</sup> The market value of the securities supporting each transaction will be determined daily, typically based on a price obtained from a generally recognized pricing source. If the market value of the purchased securities is determined to have fallen below OCC's required margin, OCC will be required to transfer to the buyer sufficient cash or additional securities reasonably acceptable to the buyer so that OCC's margin requirement is satisfied.<sup>9</sup> If the market value of the purchased securities is determined to have risen to above OCC's required margin, OCC will be permitted to require the return of excess purchased securities from the buyer.

As in a typical master repurchase agreement, an event of default will occur with respect to the buyer if the buyer fails to purchase securities on a purchase date, fails to transfer purchased securities on any applicable Repurchase Date, or fails to transfer any interest, dividends or distributions on purchased securities to OCC within a specified period after receiving notice of such failure. An event of default will occur with respect to OCC if OCC fails to transfer purchased securities on a purchase date or fails to repurchase purchased securities on an applicable Repurchase Date. The Master Repurchase Agreement also will provide for standard events of default for either party, including a party's failure to

maintain required margin or an insolvency event with respect to one of the parties.

Upon the occurrence of an event of default, the non-defaulting party, at its option, will have the right, among others, to accelerate the Repurchase Date of all outstanding transactions between the defaulting party and the non-defaulting party. For example, if OCC were the defaulting party with respect to a transaction and the buyer chose to terminate the transaction, OCC will be required to immediately transfer the Repurchase Price to the buyer. If the buyer were the defaulting party with respect to a transaction and OCC chose to terminate the transaction, the buyer will be required to deliver all purchased securities to OCC. If OCC or the buyer does not perform in a timely manner, the non-defaulting party will be permitted to buy or sell, or deem itself to have bought or sold, securities as needed to be made whole and the defaulting party will be required to pay the costs related to any covering transactions. Additionally, if OCC is required to obtain replacement securities as a result of an event of default, the buyer will be required to pay the excess of the price paid by OCC to obtain replacement securities over the Repurchase Price.

##### *ii. Customized Features*

As part of the Master Repurchase Agreement, OCC will enter into an individualized master confirmation with each buyer and its agent which will set forth certain terms and conditions applicable to all transactions entered into under the Master Repurchase Agreement by that buyer. According to OCC, these required terms and conditions will be designed to promote OCC's goals of reduced concentration risk, certainty of funding and operational effectiveness. The terms of the master confirmations under each Master Repurchase Agreement may vary from one another, because a separate master confirmation will be negotiated for a given buyer at the time that buyer becomes a party to the Master Repurchase Agreement. OCC has identified the following as key standards that will need to be incorporated into each repurchase arrangement entered into under the program.<sup>10</sup>

<sup>10</sup> OCC expects that the Master Repurchase Agreement also will include other, more routine, provisions such as the method for giving notices and basic due authorization representations by the parties.

<sup>4</sup> OCC states that it will conduct a due diligence review with respect to each counterparty before entering into a master repurchase arrangement with it. Because the appropriate due diligence activities and financial criteria will vary for each type of counterparty, OCC will determine on a case-by-case basis the specific due diligence criteria it would implement. However, as the principal purpose of due diligence will be to obtain assurance that each counterparty has the financial ability to satisfy its obligations under the program, the review will encompass an assessment of the counterparty's financial statements (including external auditor reports thereon) and, as applicable, ratings and/or investment reports. Furthermore, OCC will identify key criteria relative to monitoring the financial stability of the counterparty on a going forward basis.

<sup>5</sup> See, e.g., Securities Exchange Act Release No. 72752 (August 4, 2014), 79 FR 46490 (August 8, 2014) (SR-OCC-2014-17), Securities Exchange Act Release No. 71549 (February 12, 2014), 79 FR 03574 (February 19, 2014) (SR-OCC-2014-801) and Securities Exchange Act Release No. 73257 (September 30, 2014), 79 FR 23698 (October 3, 2014) (SR-OCC-2014-806).

<sup>6</sup> The standard form master repurchase agreement is published by the Securities Industry and Financial Markets Association and is commonly used in the repurchase market by institutional investors.

<sup>7</sup> OCC would use U.S. government securities that are included in clearing fund contributions by clearing members and margin deposits of any clearing member that has been suspended by OCC for the repurchase arrangements. Article VIII,

Section 5(e) of OCC's By-Laws and OCC Rule 1104(b) authorize OCC to obtain funds from third parties through securities repurchases using these sources. The officers who may exercise this authority include the Executive Chairman and the President.

<sup>8</sup> OCC expects that it would be required to maintain margin equal to 102% of the Repurchase Price which, according to OCC, is a standard rate for arrangements involving U.S. government securities.

<sup>9</sup> OCC expects that it would use clearing fund securities and securities posted as margin by defaulting clearing members.

### Counterparties

OCC only will enter into repurchase arrangements with non-bank institutional investors, such as pension funds or insurance companies that are not OCC clearing members or banks affiliated with any OCC clearing member. OCC believes this requirement will allow OCC to access stable, reliable sources of funding, without increasing the concentration of its exposure to counterparties that are affiliated banks, broker/dealers and futures commission merchants. OCC believes that this reduction in concentration risk is a key advantage of this proposed program.

### Commitment to Fund and Funding Accounts

OCC will seek funding commitments from one or more potential counterparties that will equal \$1 billion in the aggregate,<sup>11</sup> with each commitment extending for 364 days or more. Each counterparty will be obligated to enter into transactions under the Master Repurchase Agreement up to its committed amount so long as no default had occurred and OCC transferred sufficient Eligible Securities. Each counterparty will be obligated to enter into transactions even if OCC had experienced a material adverse change, such as the failure of a clearing member. According to OCC, this commitment to provide funding will be a key departure from ordinary repurchase arrangements and a key requirement for OCC. Each commitment will be supported by an agreement by the counterparty to maintain cash and investments acceptable to OCC that must be readily converted into cash in a designated account into which OCC has visibility. OCC believes that the creation of a funding account is important because it will help OCC ensure that the committed funds will be available each day. OCC also believes that it will facilitate prompt funding by counterparties that are not commercial banks and therefore are not in the business of daily funding.

### Funding Mechanics

According to OCC, funding mechanics will be targeted so that OCC will receive the Purchase Price in immediately available funds within 60 minutes of its request for funds and delivery of Eligible Securities and, if needed, prior to OCC's regular daily settlement time.<sup>12</sup>

<sup>11</sup> The \$1 billion in commitments could be spread across multiple counterparties, but \$1 billion represents the proposed aggregate size of the program.

<sup>12</sup> According to OCC, this would include OCC's regular daily settlement time and any extended

OCC believes that these targeted funding mechanics will allow OCC to receive needed liquidity in time to satisfy settlement obligations, even in the event of a default by a clearing member or a market disruption. The funding mechanism may be, for example, delivery versus payment/receive versus payment or another method acceptable to OCC that both satisfies the objectives of the MRA Program and presents limited operational risks.

### No Rehypothecation

Under the terms of each master confirmation, the buyer would not be permitted to grant any third party an interest in purchased securities, the custody account at the custodian where purchased securities are held, or any cash held in OCC's account. As a result, OCC states that the buyer would be prohibited from rehypothecating purchased securities, the purchased securities should never leave the account, and there should be no third-party claims against the purchased securities. OCC believes that the prohibition on rehypothecation also would reduce the risk that a third party could interfere with the buyer's transfer of the purchased securities on the Repurchase Date. Further, according to OCC, the custodian would agree to provide OCC with daily information about each buyer's account. OCC believes that this visibility would allow OCC to act quickly in the event a buyer violates any requirements.

### Early Termination Rights

Under the Master Repurchase Agreement, OCC would have the ability to terminate any transaction upon written notice to the buyer, but a buyer only would be able to terminate a transaction upon the occurrence of an event of default with respect to OCC.<sup>13</sup> OCC has stated that this optional early termination right is important because its liquidity needs may change unexpectedly over time and as a result OCC may not want to keep a transaction outstanding as long as originally planned.

### Substitution

Under the Master Repurchase Agreement, OCC would have the ability to substitute any Eligible Securities for purchased securities in its discretion by

settlement time implemented by OCC in an emergency situation under OCC Rule 505.

<sup>13</sup> According to OCC, a notice of termination by OCC would specify a new Repurchase Date prior to the originally agreed upon Repurchase Date. Upon the early termination of a transaction, the buyer would be required to return all purchased securities to OCC, and OCC would be required to pay the Repurchase Price.

a specified time, so long as the Eligible Securities satisfy any applicable criteria contained in the Master Repurchase Agreement and the transfer of the Eligible Securities would not create a margin deficit, as described above.<sup>14</sup> OCC believes that this substitution right is important because it must be able to manage clearing member requests to return excess or substitute Eligible Securities in accordance with established operational procedures.

### Events of Default

In addition to the standard events of default for a failure to purchase or transfer securities on the applicable Purchase Date or Repurchase Date, OCC would require that the Master Repurchase Agreement not contain any additional events of default that would restrict OCC's access to funding and that it contain an additional default remedy. OCC would require that it would not be an event of default if OCC suffers a "material adverse change."<sup>15</sup> According to OCC, this provision provides it with certainty of funding, even in difficult market conditions.

Upon the occurrence of an event of default, in addition to the non-defaulting party's right to accelerate the Repurchase Date of all outstanding transactions or to buy or sell securities as needed to be made whole, the non-defaulting party may elect to take the actions specified in the "mini close-out" provision of the Master Repurchase Agreement, rather than declaring an event of default.<sup>16</sup> Therefore, if the buyer fails to deliver purchased securities on any Repurchase Date, OCC believes that it would have remedies that allow it to mitigate risk with respect to a particular transaction, without declaring an event of default with

<sup>14</sup> In addition to its substitution rights, OCC could cause the return of purchased securities by exercising its optional early termination rights under the Master Repurchase Agreement. If OCC were to terminate part or all of a transaction, the buyer would be required to return purchased securities to OCC against payment of the corresponding Repurchase Price.

<sup>15</sup> According to OCC, a "material adverse change" is typically defined as a change that would have a materially adverse effect on the business or financial condition of a company.

<sup>16</sup> For example, if the buyer fails to transfer purchased securities on the applicable Repurchase Date, rather than declaring an event of default, OCC may (1) if OCC has already paid the Repurchase Price, require the buyer to repay the Repurchase Price, (2) if there is a margin excess, require the buyer to pay cash or delivered purchased securities in an amount equal to the margin excess, or (3) declare that the applicable transaction, and only that transaction, will be immediately terminated, and apply default remedies under the Master Repurchase Agreement to only that transaction.

respect to all transactions under the Master Repurchase Agreement.

## II. Discussion and Commission Findings

Although Title VIII does not specify a standard of review for an advance notice, the Commission believes that the stated purpose of Title VIII is instructive.<sup>17</sup> The stated purpose of Title VIII is to mitigate systemic risk in the financial system and promote financial stability by, among other things, promoting uniform risk management standards for systemically-important financial market utilities (“FMUs”) and strengthening the liquidity of systemically important FMUs.<sup>18</sup>

Section 805(a)(2) of the Clearing Supervision Act<sup>19</sup> authorizes the Commission to prescribe risk management standards for the payment, clearing, and settlement activities of designated clearing entities and financial institutions engaged in designated activities for which it is the supervisory agency or the appropriate financial regulator. Section 805(b) of the Clearing Supervision Act<sup>20</sup> states that the objectives and principles for the risk management standards prescribed under Section 805(a) shall be to:

- Promote robust risk management;
- promote safety and soundness;
- reduce systemic risks; and
- support the stability of the broader financial system.

The Commission has adopted risk management standards under Section 805(a)(2) of the Clearing Supervision Act (“Clearing Agency Standards”).<sup>21</sup> The Clearing Agency Standards became effective on January 2, 2013, and require registered clearing agencies that perform central counterparty (“CCP”) services to establish, implement, maintain, and enforce written policies and procedures that are reasonably designed to meet certain minimum requirements for their operations and risk management practices on an ongoing basis.<sup>22</sup> As such, it is appropriate for the Commission to review advance notices against these Clearing Agency

Standards, and the objectives and principles of these risk management standards as described in Section 805(b) of the Clearing Supervision Act.<sup>23</sup>

The Commission believes that the proposal in this Advance Notice is designed to further the objectives and principles of Section 805(b) of the Clearing Supervision Act.<sup>24</sup> As a systemically-important FMU, it is imperative that OCC have adequate resources to be able to satisfy its counterparty settlement obligations. The MRA Program provides OCC with a committed liquidity resource that does not increase the concentration of OCC’s counterparty exposure because the counterparties will not include OCC’s clearing members nor affiliated commercial banking institutions. Accordingly, the Commission believes that the proposal should promote robust risk management, promote safety and soundness in the marketplace, reduce systemic risks, and support the stability of the broader financial system by giving OCC access to additional committed liquidity that will help OCC meet its settlement obligations in a timely manner, while also limiting the exposure that OCC has to its counterparties.

Exchange Act Rule 17Ad–22(b)(3),<sup>25</sup> adopted as part of the Clearing Agency Standards, requires that a non-security-based swap registered clearing agency that performs CCP services establish, implement, maintain, and enforce written policies and procedures reasonably designed to withstand, at a minimum, a default by the participant family to which it has the largest exposure in extreme but plausible market conditions. As a part of OCC’s overall liquidity plan, the Commission believes that the MRA Program will contribute additional liquid financial resources that should enhance OCC’s ability to meet any potential settlement demands arising out of a default of a clearing member or clearing member family, including one to which it has the largest exposure.

## III. Conclusion

*It is therefore noticed*, pursuant to Section 806(e)(1)(I) of the Clearing Supervision Act,<sup>26</sup> that the Commission does not object to advance notice proposal (SR–OCC–2014–809) and that OCC is authorized to implement the proposal as of the date of this notice.

By the Commission.

**Brent J. Fields,**  
Secretary.

[FR Doc. 2015–00052 Filed 1–7–15; 8:45 am]

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–73977; File No. SR–NYSEARCA–2014–152]

### Self-Regulatory Organizations; NYSE Arca, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Extending Its Program That Allows Transactions To Take Place at a Price That Is Below \$1 Per Option Contract Until January 5, 2016

January 2, 2015.

Pursuant to Section 19(b)(1)<sup>1</sup> of the Securities Exchange Act of 1934 (the “Act”)<sup>2</sup> and Rule 19b–4 thereunder,<sup>3</sup> notice is hereby given that, on December 30, 2014, NYSE Arca, Inc. (the “Exchange” or “NYSE Arca”) filed with the Securities and Exchange Commission (the “Commission”) the proposed rule change as described in Items I and II below, which Items have been prepared by the self-regulatory organization. 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 extend its program that allows transactions to take place at a price that is below \$1 per option contract until January 5, 2016. The text of the proposed rule change is available on the Exchange’s Web site at [www.nyse.com](http://www.nyse.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 those 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,

<sup>17</sup> See 12 U.S.C. 5461(b).

<sup>18</sup> *Id.*

<sup>19</sup> 12 U.S.C. 5464(a)(2).

<sup>20</sup> 12 U.S.C. 5464(b).

<sup>21</sup> 17 CFR 240.17Ad–22.

<sup>22</sup> The Clearing Agency Standards are substantially similar to the risk management standards established by the Board of Governors of the Federal Reserve System governing the operations of designated FMUs that are not clearing entities and financial institutions engaged in designated activities for which the Commission or the Commodity Futures Trading Commission is the Supervisory Agency. See Financial Market Utilities, 77 FR 45907 (August 2, 2012).

<sup>23</sup> 12 U.S.C. 5464(b).

<sup>24</sup> 12 U.S.C. 5464(b).

<sup>25</sup> 17 CFR 240.17Ad–22(b)(3).

<sup>26</sup> 12 U.S.C. 5465(e)(1)(I).

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

<sup>2</sup> 15 U.S.C. 78a.

<sup>3</sup> 17 CFR 240.19b–4.