

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 will also 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 No. SR-EDGA-2015-45 and should be submitted on or before January 25, 2016.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹⁶

Jill M. Peterson,
Assistant Secretary.

[FR Doc. 2015-32987 Filed 12-31-15; 8:45 am]

BILLING CODE 8011-01-P

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-76779; File No. SR-NASDAQ-2015-157]

Self-Regulatory Organizations; The NASDAQ Stock Market LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Modify the Professional Subscriber Fee for Non-Display Usage via Direct Access

December 28, 2015.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ and Rule 19b-4 thereunder,² notice is hereby given that on December 18, 2015, The NASDAQ Stock Market LLC ("NASDAQ" or "Exchange") filed with the Securities and Exchange Commission ("Commission" or "SEC") the proposed rule change as described in Items I, II, and III below, which Items have been prepared by NASDAQ. 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

NASDAQ proposes to modify the fee structure applicable to Professional Subscribers ("Subscribers") for Non-Display Usage via Direct Access. While the changes proposed herein are effective upon filing, the Exchange has designated that the amendments be operative on January 1, 2016.

The text of the proposed rule change is below. Proposed new language is *italicized*; proposed deletions are bracketed.

NASDAQ Stock Market Rules

Equity Rules

* * * * *

7023. NASDAQ Depth-of-Book Data

- (a) No change.
- (b) Subscriber Fees.
- (1)-(3) No change.
- (4) Professional Subscribers pay a monthly fee for Non-Display Usage based upon Direct Access to NASDAQ Level 2, NASDAQ TotalView, or NASDAQ OpenView:

Subscribers	Monthly fee
1-[10]39	\$3[00]75 per <i>Subscriber</i>
[11-29]	[\$3,300.00]
[30-49]	[\$9,000.00]
[5]40-99	\$15,000.00 <i>per firm</i>
100-249	\$30,000.00 <i>per firm</i>
250+	\$75,000.00 <i>per firm</i>

The Professional Subscriber fee for Non-Display Usage via Direct Access[ed] applies to any Subscriber that accesses any data elements included in any Depth-of-Book data feed.

- (c)-(f) No change.

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

In its filing with the Commission, NASDAQ 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. NASDAQ 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 purpose of the proposed rule change is to modify and simplify the fee structure applicable to Professional Subscribers for Non-Display Usage via Direct Access. Specifically, the Exchange proposes to remove the 11-29 Subscriber and 30-49 Subscriber pricing tiers and replace the 1-10 Subscriber tier priced at \$300 per Subscriber with a 1-39 Subscriber tier priced at \$375 per Subscriber. The 50-99 Subscriber tier priced at \$15,000 per firm is subsequently being adjusted to apply between [sic] 40-99 Subscribers. Minor clarificatory and typographical changes are also being included in the proposed rule change. This proposed rule change will not affect the pricing of the NASDAQ Level 2, NASDAQ TotalView or NASDAQ OpenView Non-Professional Subscriber fees.

This represents the first price revision since the 2012 introduction of the current tiered Non-Display fee model. Notwithstanding this, NASDAQ has invested in its systems, networks and operational controls to ensure that its depth offering meet [sic] the same high level of performance and resiliency that customers have come to expect. The Exchange has also upgraded and refreshed its disaster recovery capabilities, adding to the increased focus on redundancy and resiliency.

NASDAQ has also invested in, and continues to make enhancements to, the Net Order Imbalance Indicator ("NOII"). The NOII is a vital imbalance data tool, and is included as a part of Nasdaq TotalView. It is designed to specifically increase the value of auction information, and provide a greater level of transparency around these events. One enhancement result is that shares indicated in the imbalance will now represent the excess shares to buy or sell at the reference price, inclusive of hidden, reserve and immediate or cancel ("IOC") orders.

The new fee structure also represents a realization of the actual usage by Subscribers, as the tiers being removed were experiencing limited use.

2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with the provisions of Section 6 of the Act,³ in general, and with Sections 6(b)(4) and

³ 15 U.S.C. 78f.

¹⁶ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

6(b)(5) of the Act,⁴ in particular, in that it provides an equitable allocation of reasonable fees among Subscribers and recipients of NASDAQ data and is not designed to permit unfair discrimination between them. NASDAQ's proposal to modify and simplify the fee structure applicable to Professional Subscribers for Non-Display Usage via Direct Access is also consistent with the Act in that it reflects an equitable allocation of reasonable fees. The Commission has long recognized the fair and equitable and not unreasonably discriminatory nature of assessing different fees for Professional and Non-Professional Users of the same data. NASDAQ also believes it is equitable to assess a higher fee per Professional User than to an ordinary Non-Professional User due to the enhanced flexibility, lower overall costs and value that it offers Distributors.

In adopting Regulation NMS, the Commission granted self-regulatory organizations and broker-dealers increased authority and flexibility to offer new and unique market data to the public.

The Commission concluded that Regulation NMS—by deregulating the market in proprietary data—would itself further the Act's goals of facilitating efficiency and competition:

[E]fficiency is promoted when broker-dealers who do not need the data beyond the prices, sizes, market center identifications of the NBBO and consolidated last sale information are not required to receive (and pay for) such data. The Commission also believes that efficiency is promoted when broker-dealers may choose to receive (and pay for) additional market data based on their own internal analysis of the need for such data.⁵

By removing “unnecessary regulatory restrictions” on the ability of exchanges to sell their own data, Regulation NMS advanced the goals of the Act and the principles reflected in its legislative history. If the free market should determine whether proprietary data is sold to broker-dealers at all, it follows that the price at which such data is sold should be set by the market as well. Level 2, NASDAQ TotalView and NASDAQ OpenView are precisely the sort of market data products that the Commission envisioned when it adopted Regulation NMS.

The decision of the United States Court of Appeals for the District of Columbia Circuit in *NetCoalition v. SEC*, 615 F.3d 525 (D.C. Cir. 2010) (“*NetCoalition I*”), upheld the

Commission's reliance upon competitive markets to set reasonable and equitably allocated fees for market data. “In fact, the legislative history indicates that the Congress intended that the market system ‘evolve through the interplay of competitive forces as unnecessary regulatory restrictions are removed’ and that the SEC wield its regulatory power ‘in those situations where competition may not be sufficient,’ such as in the creation of a ‘consolidated transactional reporting system.’ *NetCoalition I*, at 535 (quoting H.R. Rep. No. 94–229, at 92 (1975), as reprinted in 1975 U.S.C.C.A.N. 321, 323). The court agreed with the Commission's conclusion that “Congress intended that ‘competitive forces should dictate the services and practices that constitute the U.S. national market system for trading equity securities.’”⁶

The Court in *NetCoalition I*, while upholding the Commission's conclusion that competitive forces may be relied upon to establish the fairness of prices, nevertheless concluded that the record *in that case* did not adequately support the Commission's conclusions as to the competitive nature of the market for NYSE Arca's data product at issue in that case. As explained below in NASDAQ's Statement on Burden on Competition, however, NASDAQ believes that there is substantial evidence of competition in the marketplace for data that was not in the record in the *NetCoalition I* case, and that the Commission is entitled to rely upon such evidence in concluding fees are the product of competition, and therefore in accordance with the relevant statutory standards.⁷ Accordingly, any findings of the court with respect to that product may not be relevant to the product at issue in this filing.

NASDAQ believes that the allocation of the proposed fee is fair and equitable in accordance with Section 6(b)(4) of the Act, and not unreasonably discriminatory in accordance with Section 6(b)(5) of the Act. As described above, the proposed fee is based on pricing conventions and distinctions that exist in NASDAQ's current fee schedule. These distinctions are each

based on principles of fairness and equity that have helped for many years to maintain fair, equitable, and not unreasonably discriminatory fees, and that apply with equal or greater force to the current proposal.

As described in greater detail below, if NASDAQ has calculated improperly and the market deems the proposed fees to be unfair, inequitable, or unreasonably discriminatory, firms can discontinue the use of their data because the proposed product is entirely optional to all parties. Firms are not required to purchase data and NASDAQ is not required to make data available or to offer specific pricing alternatives for potential purchases. NASDAQ can discontinue offering a pricing alternative (as it has in the past) and firms can discontinue their use at any time and for any reason (as they often do), including due to their assessment of the reasonableness of fees charged. NASDAQ continues to establish and revise pricing policies aimed at increasing fairness and equitable allocation of fees among Subscribers.

NASDAQ believes that periodically it must adjust the Subscriber fees to reflect market forces. NASDAQ believes it is an appropriate time to adjust this fee to more accurately reflect the investments made to enhance this product through capacity upgrades and regulatory data sets added. This also reflects that the market for this information is highly competitive and continually evolves as products develop and change.

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

The Exchange does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act, as amended. Notwithstanding its determination that the Commission may rely upon competition to establish fair and equitably allocated fees for market data, the *NetCoalition* [sic] court found that the Commission had not, in that case, compiled a record that adequately supported its conclusion that the market for the data at issue in the case was competitive. NASDAQ believes that a record may readily be established to demonstrate the competitive nature of the market in question.

There is intense competition between trading platforms that provide transaction execution and routing services and proprietary data products. Transaction execution and proprietary data products are complementary in that market data is both an input and a byproduct of the execution service. In fact, market data and trade execution are

⁶ *NetCoalition I*, at 535.

⁷ It should also be noted that Section 916 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (“Dodd-Frank Act”) has amended paragraph (A) of Section 19(b)(3) of the Act, 15 U.S.C. 78s(b)(3), to make it clear that all exchange fees, including fees for market data, may be filed by exchanges on an immediately effective basis. See also *NetCoalition v. SEC*, 715 F.3d 342 (D.C. Cir. 2013) (“*NetCoalition II*”) (finding no jurisdiction to review Commission's non-suspension of immediately effective fee changes).

⁴ 15 U.S.C. 78f(b)(4) and (5).

⁵ See Securities Exchange Act Release No. 51808 (June 9, 2005), 70 FR 37496 (June 29, 2005).

a paradigmatic example of joint products with joint costs. Data products are valuable to many end Subscribers only insofar as they provide information that end Subscribers expect will assist them or their customers in making trading decisions.

The costs of producing market data include not only the costs of the data distribution infrastructure, but also the costs of designing, maintaining, and operating the exchange's transaction execution platform and the cost of regulating the exchange to ensure its fair operation and maintain investor confidence. The total return that a trading platform earns reflects the revenues it receives from both products and the joint costs it incurs. Moreover, an exchange's customers view the costs of transaction executions and of data as a unified cost of doing business with the exchange. A broker-dealer ("BD") will direct orders to a particular exchange only if the expected revenues from executing trades on the exchange exceed net transaction execution costs and the cost of data that the BD chooses to buy to support its trading decisions (or those of its customers). The choice of data products is, in turn, a product of the value of the products in making profitable trading decisions. If the cost of the product exceeds its expected value, the BD will choose not to buy it. Moreover, as a BD chooses to direct fewer orders to a particular exchange, the value of the product to that BD decreases, for two reasons. First, the product will contain less information, because executions of the BD's orders will not be reflected in it. Second, and perhaps more important, the product will be less valuable to that BD because it does not provide information about the venue to which it is directing its orders. Data from the competing venue to which the BD is directing orders will become correspondingly more valuable.

Thus, an increase in the fees charged for either transactions or data has the potential to impair revenues from both products. "No one disputes that competition for order flow is 'fierce'." *NetCoalition* [sic] at 24. However, the existence of fierce competition for order flow implies a high degree of price sensitivity on the part of BDs with order flow, since they may readily reduce costs by directing orders toward the lowest-cost trading venues. A BD that shifted its order flow from one platform to another in response to order execution price differentials would both reduce the value of that platform's market data and reduce its own need to consume data from the disfavored platform. Similarly, if a platform increases its market data fees, the

change will affect the overall cost of doing business with the platform, and affected BDs will assess whether they can lower their trading costs by directing orders elsewhere and thereby lessening the need for the more expensive data.

Analyzing the cost of market data distribution in isolation from the cost of all of the inputs supporting the creation of market data will inevitably underestimate the cost of the data. Thus, because it is impossible to create data without a fast, technologically robust, and well-regulated execution system, system costs and regulatory costs affect the price of market data. It would be equally misleading, however, to attribute all of the exchange's costs to the market data portion of an exchange's joint product. Rather, all of the exchange's costs are incurred for the unified purposes of attracting order flow, executing and/or routing orders, and generating and selling data about market activity. The total return that an exchange earns reflects the revenues it receives from the joint products and the total costs of the joint products.

Competition among trading platforms can be expected to constrain the aggregate return each platform earns from the sale of its joint products, but different platforms may choose from a range of possible, and equally reasonable, pricing strategies as the means of recovering total costs. NASDAQ pays rebates to attract orders, charges relatively low prices for market information and charges relatively high prices for accessing posted liquidity. Other platforms may choose a strategy of paying lower liquidity rebates to attract orders, setting relatively low prices for accessing posted liquidity, and setting relatively high prices for market information. Still others may provide most data free of charge and rely exclusively on transaction fees to recover their costs. Finally, some platforms may incentivize use by providing opportunities for equity ownership, which may allow them to charge lower direct fees for executions and data.

In this environment, there is no economic basis for regulating maximum prices for one of the joint products in an industry in which suppliers face competitive constraints with regard to the joint offering. Such regulation is unnecessary because an "excessive" price for one of the joint products will ultimately have to be reflected in lower prices for other products sold by the firm, or otherwise the firm will experience a loss in the volume of its sales that will be adverse to its overall profitability. In other words, an increase

in the price of data will ultimately have to be accompanied by a decrease in the cost of executions, or the volume of both data and executions will fall.

The level of competition and contestability in the market is evident in the numerous alternative venues that compete for order flow, including eleven SRO markets, as well as internalizing BDs and various forms of alternative trading systems ("ATs"), including dark pools and electronic communication networks ("ECNs"). Each SRO market competes to produce transaction reports via trade executions, and two FINRA-regulated TRFs compete to attract internalized transaction reports. It is common for BDs to further and exploit this competition by sending their order flow and transaction reports to multiple markets, rather than providing them all to a single market. Competitive markets for order flow, executions, and transaction reports provide pricing discipline for the inputs of proprietary data products.

The large number of SROs, TRFs, BDs, and ATs that currently produce proprietary data or are currently capable of producing it provides further pricing discipline for proprietary data products. Each SRO, TRF, AT, and BD is currently permitted to produce proprietary data products, and many currently do or have announced plans to do so, including NASDAQ, NYSE, NYSE MKT, NYSE Arca, and BATS/Direct Edge.

Any AT or BD can combine with any other AT, BD, or multiple ATs or BDs to produce joint proprietary data products. Additionally, order routers and market data vendors can facilitate single or multiple BDs' production of proprietary data products. The potential sources of proprietary products are virtually limitless. Notably, the potential sources of data include the BDs that submit trade reports to TRFs and that have the ability to consolidate and distribute their data without the involvement of FINRA or an exchange-operated TRF.

The fact that proprietary data from ATs, BDs, and vendors can by-pass SROs is significant in two respects. First, non-SROs can compete directly with SROs for the production and sale of proprietary data products, as BATS and NYSE Arca did before registering as exchanges by publishing proprietary book data on the Internet. Second, because a single order or transaction report can appear in a core data product, an SRO proprietary product, and/or a non-SRO proprietary product, the data available in proprietary products is exponentially greater than the actual

number of orders and transaction reports that exist in the marketplace.

In addition to the competition and price discipline described above, the market for proprietary data products is also highly contestable because market entry is rapid, inexpensive, and profitable. The history of electronic trading is replete with examples of entrants that swiftly grew into some of the largest electronic trading platforms and proprietary data producers: Archipelago, Bloomberg Tradebook, Island, REDIBook, Attain, TracECN, BATS Trading and BATS/Direct Edge. A proliferation of dark pools and other ATSS operate profitably with fragmentary shares of consolidated market volume.

Regulation NMS, by deregulating the market for proprietary data, has increased the contestability of that market. While BDs have previously published their proprietary data individually, Regulation NMS encourages market data vendors and BDs to produce proprietary products cooperatively in a manner never before possible. Multiple market data vendors already have the capability to aggregate data and disseminate it on a profitable scale, including Bloomberg and Thomson Reuters. In Europe, Cinnober aggregates and disseminates data from over 40 brokers and multilateral trading facilities.⁸

In the case of TRFs, the rapid entry of several exchanges into this space in 2006–2007 following the development and Commission approval of the TRF structure demonstrates the contestability of this aspect of the market.⁹ Given the demand for trade reporting services that is itself a by-product of the fierce competition for transaction executions—characterized notably by a proliferation of ATSS and BDs offering internalization—any supra-competitive increase in the fees associated with trade reporting or TRF data would shift trade report volumes from one of the existing TRFs to the other¹⁰ and create incentives for other TRF operators to enter the space. Alternatively, because BDs reporting to TRFs are themselves free to consolidate the market data that they report, the market for over-the-counter data itself, separate and apart from the markets for

execution and trade reporting services—is fully contestable.

Moreover, consolidated data provides two additional measures of pricing discipline for proprietary data products that are a subset of the consolidated data stream. First, the consolidated data is widely available in real-time at \$1 per month for non-professional users. Second, consolidated data is also available at no cost with a 15- or 20-minute delay. Because consolidated data contains marketwide information, it effectively places a cap on the fees assessed for proprietary data (such as last sale data) that is simply a subset of the consolidated data. The mere availability of low-cost or free consolidated data provides a powerful form of pricing discipline for proprietary data products that contain data elements that are a subset of the consolidated data, by highlighting the optional nature of proprietary products.

In this environment, a super-competitive increase in the fees charged for either transactions or data has the potential to impair revenues from both products. “No one disputes that competition for order flow is ‘fierce.’” *NetCoalition I* at 539. The existence of fierce competition for order flow implies a high degree of price sensitivity on the part of BDs with order flow, since they may readily reduce costs by directing orders toward the lowest-cost trading venues. A BD that shifted its order flow from one platform to another in response to order execution price differentials would both reduce the value of that platform’s market data and reduce its own need to consume data from the disfavored platform. If a platform increases its market data fees, the change will affect the overall cost of doing business with the platform, and affected BDs will assess whether they can lower their trading costs by directing orders elsewhere and thereby lessening the need for the more expensive data.

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

Written comments were neither solicited nor received.

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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)(ii) of the Act.¹¹ At any time within 60 days of the filing of the proposed rule change, the Commission

summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall 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. Please include File Number SR–NASDAQ–2015–157 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–NASDAQ–2015–157. 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

⁸ See <http://www.cinnober.com/boat-trade-reporting>.

⁹ The low cost exit of two TRFs from the market is also evidence of a contestable market, because new entrants are reluctant to enter a market where exit may involve substantial shut-down costs.

¹⁰ It should be noted that the FINRA/NYSE TRF has, in recent weeks, received reports for almost 10% of all over-the-counter volume in NMS stocks.

¹¹ 15 U.S.C. 78s(b)(3)(a)(ii) [sic].

available publicly. All submissions should refer to File Number SR–NASDAQ–2015–157 and should be submitted on or before January 25, 2016.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹²

Jill M. Peterson,

Assistant Secretary.

[FR Doc. 2015–32989 Filed 12–31–15; 8:45 am]

BILLING CODE 8011–01–P

SECURITIES AND EXCHANGE COMMISSION

In the Matter of Zhong Wen International Holding Co., Ltd.; Order of Suspension of Trading

December 29, 2015.

It appears to the Securities and Exchange Commission (“Commission”) that there is a lack of current and accurate information concerning the securities of Zhong Wen International Holding Co., Ltd. (“ZWIH”) (CIK No. 1494502), a void Delaware corporation whose principal place of business is listed as Qingzhou, Shandong, China because it is delinquent in its periodic filings with the Commission, having not filed any periodic reports since it filed a Form 10–Q for the period ended September 30, 2012. On February 19, 2015, the Commission’s Division of Corporation Finance sent a delinquency letter to ZWIH at the address shown in its then-most recent filing in the Commission’s EDGAR system requesting compliance with its periodic filing requirements. To date, ZWIH has failed to cure its delinquencies. As of December 15, 2015, the common stock of ZWIH was quoted on OTC Link operated by OTC Markets Group, Inc. (formerly “Pink Sheets”) had three market makers and was eligible for the “piggyback” exception of Exchange Act Rule 15c2–11(f)(3).

The Commission is of the opinion that the public interest and the protection of investors require a suspension of trading in the securities of the above-listed company. Therefore, it is ordered, pursuant to Section 12(k) of the Securities Exchange Act of 1934, that trading in the securities of the above-listed company is suspended for the period from 9:30 a.m. EST on December 29, 2015, through 11:59 p.m. EST on January 12, 2016.

¹² 17 CFR 200.30–3(a)(12).

¹ The short form of the issuer’s name is also its ticker symbol.

By the Commission.

Jill M. Peterson,

Assistant Secretary.

[FR Doc. 2015–33028 Filed 12–31–15; 8:45 am]

BILLING CODE 8011–01–P

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–76781; File No. SR–OCC–2015–016]

Self-Regulatory Organizations; The Options Clearing Corporation; Order Approving a Proposed Rule Change, as Modified by Amendment No. 1, To Modify the Options Clearing Corporation’s Margin Methodology by Incorporating Variations in Implied Volatility

December 28, 2015.

On October 5, 2015, The Options Clearing Corporation (“OCC”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change SR–OCC–2015–016 pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Exchange Act”) ¹ and Rule 19b–4 thereunder.² The proposed rule change was published for comment in the **Federal Register** on October 19, 2015.³ The Commission did not receive any comments on the proposed rule change. On November 19, 2015, OCC filed Amendment No. 1 to the proposed rule change.⁴ On November 20, 2015, pursuant to Section 19(b)(2)(A)(ii)(I) of the Exchange Act,⁵ the Commission extended the time period within which to approve, disapprove, or institute proceedings to determine whether to disapprove the proposed rule change to January 17, 2016.⁶ This order approves the proposed rule change.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b–4. OCC also filed this proposal as an advance notice pursuant to Section 802(e)(1) of the Payment, Clearing, and Settlement Supervision Act of 2010 and Rule 19b–4(n)(1) under the Exchange Act. 15 U.S.C. 5465(e)(1) and 17 CFR 240.19b–4(n)(1). See Securities Exchange Act Release No. 76421 (November 10, 2015), 80 FR 71900 (November 17, 2015) (SR–OCC–2015–804). The Commission did not receive any comments on the advance notice.

³ Securities Exchange Act Release No. 76128 (October 13, 2015), 80 FR 63264 (October 19, 2015) (SR–OCC–2015–016) (“Notice”).

⁴ In Amendment No. 1, OCC makes technical corrections to Exhibit 5. Amendment No. 1 is not subject to notice and comment because it is a technical amendment that does not materially alter the substance of the proposed rule change or raise any novel regulatory issues.

⁵ 15 U.S.C. 78s(b)(2)(A)(ii)(I).

⁶ See Securities Exchange Act Release No. 76496 (November 20, 2015), 80 FR 74179 (November 27, 2015).

Description

As proposed by OCC,⁷ it is modifying its margin methodology by more broadly incorporating variations in implied volatility within OCC’s System for Theoretical Analysis and Numerical Simulations (“STANS”).⁸ As explained below, OCC believes that expanding the use of variations in implied volatility within STANS for substantially all⁹ option contracts available to be cleared by OCC that have a residual tenor¹⁰ of less than three years (“Shorter Tenor Options”) will enhance OCC’s ability to ensure that option prices and the margin coverage related to such positions more appropriately reflect possible future market value fluctuations and better protect OCC in the event it must liquidate the portfolio of a suspended clearing member.

Implied Volatility in STANS Generally

According to OCC, STANS is OCC’s proprietary risk management system that calculates clearing members’ margin requirements. According to OCC, the STANS methodology uses Monte Carlo simulations to forecast price movement and correlations in determining a clearing member’s margin requirement. According to OCC, under STANS, the daily margin calculation for each clearing member account is constructed to ensure OCC maintains sufficient financial resources to liquidate a defaulting member’s positions, without loss, within the liquidation horizon of two business days.

As described by OCC, the STANS margin requirement for an account is composed of two primary components: A base component and a stress test component. According to OCC, the base component is obtained from a risk measure of the expected margin shortfall for an account that results under Monte Carlo price movement simulations. For the exposures that are observed regarding the account, the base

⁷ See Notice, *supra* note 3, 80 FR at 63264–67.

⁸ This proposal did not propose any changes concerning futures. According to OCC, OCC uses a different system to calculate initial margin requirements for segregated futures accounts: Standard Portfolio Analysis of Risk Margin Calculation System.

⁹ According to OCC, it proposes to exclude: (i) Binary options, (ii) options on energy futures, and (iii) options on U.S. Treasury securities. OCC excluded them because: (i) They are new products that were introduced as OCC was completing this proposal and (ii) OCC did not believe that there was substantive risk if they were excluded at this time because they only represent a *de minimis* open interest. According to OCC, it plans to modify its margin methodology to accommodate these new products.

¹⁰ According to OCC, the “tenor” of an option is the amount of time remaining to its expiration.