

with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for Web site viewing and printing in the Commission's Public Reference Room, 100 F Street NE., Washington, DC 20549 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of such filing also will be available for inspection and copying at the principal 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-BatsEDGX-2016-53, and should be submitted on or before November 1, 2016.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>11</sup>

**Robert W. Errett,**  
*Deputy Secretary.*

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-79046; File No. SR-DTC-2016-008]

### Self-Regulatory Organizations; The Depository Trust Company; Notice of Filing of Proposed Rule Change Relating to Processing of Transactions in Money Market Instruments

October 5, 2016.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")<sup>1</sup> and Rule 19b-4,<sup>2</sup> notice is hereby given that on September 23, 2016, The Depository Trust Company ("DTC") 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 by DTC.<sup>3</sup> The

Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

#### I. Clearing Agency's Statement of the Terms of Substance of the Proposed Rule Change

The proposed rule change would establish a change in the processing of transactions in money market instruments ("MMI") that are processed in DTC's MMI Program ("MMI Securities") by modifying (i) the DTC Rules, By-laws and Organization Certificate ("Rules"),<sup>4</sup> (ii) the DTC Settlement Service Guide ("Settlement Guide"),<sup>5</sup> and (iii) the DTC Distributions Service Guide ("Distributions Guide"),<sup>6</sup> as described below.<sup>7</sup> The proposed rule change would affect DTC's processing of issuances of MMI Securities ("Issuances") by issuers of MMI Securities ("Issuers") as well as Maturity Presentments, Income Presentments, Principal Presentments, and Reorganization Presentments (collectively, "Presentments") (Issuances and Presentments, collectively "MMI Obligations"). The proposed rule change would amend the Rules and Settlement Guide to (i) eliminate intra-day reversals of processed but not yet settled MMI Obligations resulting from an Issuing and Paying Agent ("IPA") notifying DTC of its refusal to pay ("RTP") for Presentments of an Issuer's maturing MMI Securities for a designated Acronym;<sup>8</sup> (ii) eliminate the Largest

Act, 17 CFR 240.19b-4(n)(1)(i). A copy of the advance notice is available at <http://www.dtcc.com/legal/sec-rule-filings.aspx>.

<sup>4</sup> Available at <http://www.dtcc.com/legal/rules-and-procedures.aspx>.

<sup>5</sup> Available at <http://www.dtcc.com/~media/Files/Downloads/legal/service-guides/Settlement.pdf>.

<sup>6</sup> Available at <http://www.dtcc.com/~media/Files/Downloads/legal/service-guides/Distributions%20Service%20Guide%20FINAL%20November%202014.pdf>.

<sup>7</sup> Eligibility for inclusion in the MMI Program covers MMI, which are short-term debt Securities that generally mature 1 to 270 days from their original issuance date. MMI include, but are not limited to, commercial paper, banker's acceptances and short-term bank notes and are issued by financial institutions, large corporations, or state and local governments. Most MMI trade in large denominations (typically, \$250,000 to \$50 million) and are purchased by institutional investors. Eligibility for inclusion in the MMI Program also covers medium term notes that mature over a longer term.

<sup>8</sup> Rule 1, *supra* note 4. MMI of an Issuer are designated by DTC using unique four-character identifiers employed by DTC referred to as Acronyms. An MMI Issuer can have multiple Acronyms representing its Securities. MMI Transactions and other functions relating to MMI (e.g., confirmations and RTP) instructed and/or performed by IPAs, Participants and/or DTC as described herein are performed on an "Acronym-by-Acronym" basis.

Provisional Net Credit ("LPNC") risk management control; (iii) provide that the IPA must acknowledge its funding obligations for Presentments and that Receivers of Issuances must approve their receipt of those Issuances in DTC's Receiver Authorized Delivery ("RAD") system before DTC would process MMI Presentments; (iv) implement an enhanced process to test risk management controls under certain conditions with respect to an Acronym (to be referred to as MMI Optimization, as defined below); (v) make updates and revisions to the Settlement Processing Schedule in the Settlement Guide ("Processing Schedule"), as described below, (vi) eliminate the "receive versus payment NA" control ("RVPNA"), as described below, and (vii) make other technical and clarifying changes to the text, as more fully described below. In addition, the proposed rule change would amend the Distributions Guide to make changes to text relating to the processing of Income Presentments so that it is consistent with the changes proposed in the Settlement Guide in that regard, as more fully described below.<sup>9</sup>

#### II. Clearing Agency's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the clearing agency included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The clearing agency has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

##### (A) Clearing Agency's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

###### 1. Purpose

The purpose of this proposed rule change is to (i) mitigate risk to DTC and Participants relating to intra-day reversals of processed MMI Obligations in the event of an IPA's RTP with respect to maturing obligations ("Maturing Obligations")<sup>10</sup> for an Acronym and/or income payments<sup>11</sup>

<sup>9</sup> Capitalized terms not otherwise defined herein have the respective meanings set forth in the Rules, the Settlement Guide, and the Distributions Guide.

<sup>10</sup> A Maturing Obligation is a payment owed in settlement by the IPA to the Participant on whose behalf DTC presents the matured MMI Securities.

<sup>11</sup> Principal and income for an Acronym are distributed by an IPA according to a cycle determined by the terms of the issue (e.g., monthly, quarterly, and semi-annually). Such distributions

<sup>11</sup> 17 CFR 200.30-3(a)(12).

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

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

<sup>3</sup> On September 23, 2016, DTC filed this proposed rule change as an advance notice (SR-DTC-2016-802) with the Commission pursuant to Section 806(e)(1) of the Dodd-Frank Wall Street Reform and Consumer Protection Act entitled the Payment, Clearing, and Settlement Supervision Act of 2010, 12 U.S.C. 5465(e)(1), and Rule 19b-4(n)(1)(i) of the

relating to Presentments for an Acronym, and (ii) reduce blockage for the completion of MMI Obligations by eliminating the LPNC control, as more fully described below.

#### Background

When an Issuer issues MMI Securities at DTC, the IPA for that Issuer sends issuance instructions to DTC electronically, which results in crediting the applicable MMI Securities to the DTC Account of the IPA. These MMI Securities are then Delivered to the Accounts of applicable Participants that are purchasing the Issuance in accordance with their purchase amounts. These purchasing Participants typically include broker/dealers or banks, acting as custodians for institutional investors. The IPA Delivery instructions may be free of payment or, most often, Delivery Versus Payment. Deliveries of MMI are processed pursuant to the same Rules and the applicable Procedures<sup>12</sup> set forth in the Settlement Guide, as are Deliveries generally, whether free or versus payment. Delivery Versus Payment transactions are subject to risk management controls of the IPA and Receiving Participants for Net Debit Cap and Collateral Monitor sufficiency,<sup>13</sup> and payment for Delivery Versus Payment transactions is due from the receiving Participants through DTC's net settlement process. To the extent, if any, that the Participant has a Net Debit Balance in its Settlement Account at

may be for interest only, principal only, or interest and principal.

<sup>12</sup> Pursuant to the Rules, the term "Procedures" means the Procedures, service guides, and regulations of the Corporation adopted pursuant to Rule 27, as amended from time to time. See Rule 1, Section 1, *supra* note 4, at 15. The Procedures applicable to MMI settlement processing are set forth in the Settlement Guide. *Supra* note 5.

<sup>13</sup> Delivery Versus Payment transfers at DTC are structured so that the completion of Delivery of Securities to a Participant in end-of-day settlement is contingent on the receiving Participant satisfying its end-of-day net settlement obligation, if any. The risk of Participant failure to settle is managed through risk management controls, structured so that DTC may complete settlement despite the failure to settle of the Participant, or Affiliated Family of Participants, with the largest net settlement obligation. The two principal controls are the Net Debit Cap and Collateral Monitor. The largest net settlement obligation of a Participant or Affiliated Family of Participants cannot exceed DTC liquidity resources, based on the Net Debit Cap, and must be fully collateralized, based on the Collateral Monitor. This structure is designed so that DTC may pledge or liquidate Collateral of the defaulting Participant in order to fund settlement among non-defaulting Participants. Liquidity resources, including the Participants Fund and a committed line of credit with a consortium of lenders, are available to complete settlement among non-defaulting Participants.

end-of-day, payment of that amount is due to DTC.

When MMI Securities mature, the Maturity Presentation process is initiated automatically by DTC on maturity date, starting at approximately 6:00 a.m. Eastern Time ("ET"), for Delivery of matured MMI Securities from the applicable DTC Participants' Accounts to the applicable IPA Accounts. This automated process electronically sweeps all maturing positions of MMI Securities from Participant Accounts and debits the Settlement Account of the applicable IPA for the amount of the Maturing Obligations for Presentments for the Acronym and credits the Settlement Accounts of the Deliverers. In accordance with the Rules, payment is due from the IPA for settlement to the extent, if any, that the IPA has a Net Debit Balance in its Settlement Account at end-of-day.

With regard to DTC net settlement, MMI Issuers and IPAs commonly consider the primary source of payments for Maturing Obligations of MMI Securities to be funded by the proceeds of Issuances of the same Acronym by that Issuer on the same Business Day. Because Presentments are currently processed automatically at DTC, IPAs have the option to refuse to pay for Maturing Obligations to protect against the possibility that an IPA may not be able to fund settlement because it has not received funds from the relevant Issuer. An IPA that refuses payment for a Presentment (*i.e.*, refuses to make payment for the Delivery of matured MMI Securities for which it is the designated IPA and/or pay interest or dividend income on an MMI Security for which it is the designated IPA) must notify DTC of its RTP in the DTC Settlement User Interface. An IPA may enter an RTP until 3:00 p.m. ET on the date of the affected Presentment.

Under the current Rules, the effect of an RTP is to instruct DTC to reverse all processed Deliveries of that Acronym, including Issuances, related funds credits and debits, and Presentments. This late day reversal of processed (but not yet settled) transactions may override DTC's risk management controls (*i.e.*, Collateral Monitor and Net Debit Cap) and force a presenting Participant into a Net Debit Balance; this situation poses systemic risk with respect to the Participant's ability to fund its settlement and, hence, DTC's ability to complete end-of-day net funds settlement. Also, the possibility of intra-day reversals of processed MMI Obligations creates uncertainty for Participants.

Currently, to mitigate the risks associated with an RTP, DTC Rules and the Settlement Guide provide for the LPNC risk management control. DTC withholds credit intra-day from each Participant that has a Presentment in the amount of the aggregate of the two largest credits with respect to an Acronym. The LPNC is not included in the calculation of the Participant's Collateral Monitor or its Net Debit Balance. This provides protection in the event that MMI Obligations are reversed by DTC as a result of an RTP.<sup>14</sup>

DTC's Rules and Procedures relating to settlement processing for the MMI Program<sup>15</sup> were designed to limit credit, liquidity, and operational risk for DTC and Participants. In connection with ongoing efforts by DTC to evaluate the risk associated with the processing of MMI Obligations, DTC has determined that the risks presented by intra-day reversals of processed MMI Obligations should be eliminated to prevent the possibility that a reversal could override risk controls and heighten liquidity and settlement risk. Eliminating intra-day reversals of processed MMI Obligations would also enhance intra-day finality and allow for the elimination of the LPNC which creates intra-day blockage and affects liquidity through the withholding of settlement credits.

#### Proposal

The proposed rule change would amend the Rules and the Settlement Guide to eliminate provisions for intra-day reversals of processed MMI Obligations based on an IPA's RTP or Issuer insolvency. In addition, the proposed rule change would amend the Distributions Guide to make changes to text relating to the processing of Income Presentments so that it is consistent with the changes proposed in the Settlement Guide in that regard, as more fully described below.

Pursuant to the proposed rule change, DTC would no longer automatically process Presentments (and Issuances and related deliveries). Rather, except as noted below, DTC would only process these transactions after an acknowledgment ("MMI Funding Acknowledgment") is made by the IPA to DTC whereby either: (i) The value of

<sup>14</sup> See Securities Exchange Act Release No. 71888 (April 7, 2014), 79 FR 20285 (April 11, 2014) (SR-DTC-2014-02) (clarifying the LPNC Procedures in the Settlement Guide) and Securities Exchange Act Release No. 68983 (February 25, 2013), 78 FR 13924 (March 1, 2013) (SR-DTC-2012-10) (updating the Rules related to LPNC).

<sup>15</sup> The Procedures applicable to MMI settlement processing are set forth in the Settlement Guide. *Supra* note 5.

receiver-approved<sup>16</sup> Issuances alone,<sup>17</sup> or a combination of receiver-approved Issuances plus an amount the IPA(s) has acknowledged has been funded by the Issuer, exceeds the Acronym's Presentments; or (ii) the IPA acknowledges it has been funded for the entire amount of the gross value of an Acronym, regardless of Issuances.<sup>18</sup>

DTC anticipates that the proposed rule change would generally maintain the volume of transactions processed today in terms of the total number and value of transactions that have passed position and risk controls throughout the processing day. However, because of the requirement for the IPA to provide an MMI Funding Acknowledgement prior to processing of an Acronym, the reason why transactions do not complete during the processing day would shift. It is expected that the value and volume of MMI transactions recycling for risk management controls during the late morning and afternoon time periods would be reduced as a result of MMI transactions being held outside of the processing system awaiting an MMI Funding Acknowledgement decision. The non-MMI transactions and fully funded MMI transactions would also likely have a reduction in blockage from risk management controls as a result of the elimination of the LPNC control. The elimination of the LPNC control would no longer withhold billions of dollars of settlement credits until 3:05 p.m. ET as it does today, which would in turn permit these transactions to complete earlier in the day.

An IPA would make an MMI Funding Acknowledgment using a new Decision

<sup>16</sup> DTC subjects certain transactions to receiver approval in its RAD system.

<sup>17</sup> An affirmative MMI Funding Acknowledgement by the IPA would not be required in the case that the aggregate amount of RAD approved Issuances of an Acronym exceeds the aggregate amount of Presentments since these Issuances would provide the funding of the maturing obligations versus an Issuer having to fund the IPA. The proposed rule change would provide that in this instance, the IPA is deemed to provide a standing instruction to process transactions in the Acronym, subject to risk management controls. Any such instruction or deemed instruction by the IPA would be irrevocable once given.

<sup>18</sup> In the case where an affirmative MMI Funding Acknowledgment by the IPA would be required for Presentments to be processed, the MMI Funding Acknowledgement would be a notification provided by an IPA to DTC with respect to an Acronym that the IPA acknowledges and affirms its funding obligation for a maturing Acronym either (i) in the entire amount of the Acronym or (ii) for an amount at least equal to the difference between the value of Issuances and the value of the Presentments. In the case of (ii) above, the IPA may (later that day) increase the funding amount it acknowledges, but in no event may the IPA reduce the amount of its obligation previously acknowledged that day.

Making Application ("DMA"). When an MMI Funding Acknowledgement has occurred, it would constitute the IPA's instruction to DTC to attempt to process transactions in the Acronym. At this point, if the IPA has acknowledged that it would fully fund the Acronym, then the transactions would be sent to the processing system and attempted against position and risk management controls. If the IPA provides an MMI Funding Acknowledgement for only partial funding of the entire amount of Presentments for an Acronym, DTC would test risk management controls of Deliverers and Receivers with respect to that Acronym to determine whether risk management controls would be satisfied by all Deliverers and Receivers of the Acronym and determine whether all parties maintain adequate position to complete the applicable transactions, *i.e.*, "MMI Optimization". In the case that the aggregate amount of RAD approved Issuances of an Acronym exceeds the aggregate amount of Presentments, and thus an affirmative acknowledgment by the IPA would not be required, risk management controls for all Deliverers and Receivers would be tested using MMI Optimization as well.

As indicated above, if partial funding from the IPA is necessary, then transactions would be routed to MMI Optimization. Generally, in MMI Optimization, all Deliverers and Receivers of the Acronym must satisfy risk management controls and delivering Participants must hold sufficient position, in order for the transactions in that Acronym to be processed. However, as long as the Issuances that can satisfy Deliverer and Receiver risk controls for that Acronym are equal to or greater than the Maturing Presentments of that Acronym, the applicable transactions (*i.e.*, those that pass risk controls) would be processed. If there are multiple IPAs for an Acronym, DTC would determine funding based on the satisfaction of conditions for all Receivers and Deliverers with respect to all Presentments, Issuances and applicable DOs in the Acronym and MMI Funding Acknowledgements for all IPAs with Issuances and Presentments in the Acronym. No instruction of an IPA to DTC to process the subject MMI transactions shall be effective until MMI Optimization is satisfied with respect to all transactions in the Acronym.

If there is no MMI Funding Acknowledgment for the IPA for an Acronym for which Maturing Obligations are due by 3:00 p.m. ET on that day and/or DTC is aware that the Issuer of an Acronym is insolvent

("Acronym Payment Failure"), then DTC would not process transactions in the Acronym.<sup>19</sup>

In the event of an Acronym Payment Failure, DTC would (i) prevent further issuance and maturity activity for the Acronym in DTC's system, (ii) prevent Deliveries of MMI Securities of the Acronym on failure date and halt all activity in that Acronym, (iii) set the Collateral Value of the MMI Securities in the Acronym to zero for purposes of calculating the Collateral Monitor of any affected Participant, and (iv) notify Participants of the Acronym Payment Failure. Notification would be made through a DTC broadcast through the current process.

Notwithstanding the occurrence of an Acronym Payment Failure, the IPA would remain liable for funding pursuant to any MMI Funding Acknowledgment previously provided for that Business Day.

A "Temporary Acronym Payment Failure" with respect to Income Presentments would occur when an IPA notifies DTC that it temporarily refuses to pay Income Presentments for the Acronym (typically due to an Issuer's inability to fund Income Presentments on that day). A Temporary Acronym Payment Failure would only be initiated if there are no Maturity Presentments, Principal Presentments and/or Reorganization Presentments on that Business Day. DTC expects the Issuer and/or IPA to resolve such a situation by the next Business Day. In the event of a Temporary Acronym Payment Failure, DTC would (i) temporarily devalue to zero all of the Issuer's MMI Securities for purposes of calculating the Collateral Monitor, unless and until the IPA acknowledges funding with respect to the Income Payments on the following Business Day, (ii) notify Participants of the delayed payment through a DTC broadcast as is the current process today, and (iii) block from DTC's systems all further Issuances and maturities by that Issuer for the remainder of the Business Day on which notification of the Temporary Payment Failure was received by DTC.

An IPA would not be able to avail itself of a Temporary Acronym Payment Failure for the same Acronym on consecutive Business Days.

Also, in light of the proposed elimination of intra-day reversals of processed MMI Obligations, DTC would also eliminate the RVPNA control. The RVPNA control is provided for in the

<sup>19</sup> DTC would automatically consider an Acronym Payment Failure occurring due to an IPA's failure to provide timely MMI Funding Acknowledgement (*i.e.*, provide the acknowledgment by 3:00 p.m. ET) as an RTP.

Settlement Guide and implements current Section 1(c) of Rule 9(B). RVPNA is used to prevent a Participant from Delivering free of value or undervalued any MMI Securities received versus payment on the same Business Day.<sup>20</sup> This protects DTC against being unable to reverse transactions for Deliveries Versus Payment of MMI Securities in the event of an RTP by the IPA.<sup>21</sup> The elimination of reversals of processed MMI Obligations would eliminate the need for the RVPNA control.

#### Proposed Rule Changes to the Rules, Settlement Guide, and Distributions Guide

DTC would amend the text of Rule 1 (Definitions), Rule 9(A) (Transactions in Securities and Money Payments), Rule 9(B) (Transactions in Eligible Securities), Rule 9(C) (Transactions in MMI Securities), the Settlement Guide and the Distributions Guide to reflect the proposed changes described above. Specifically:

(i) Rule 1 would be amended to:

a. Delete the definition of LPNC; and  
b. Add a cross-reference to indicate that the terms MMI Funding Acknowledgment and MMI Optimization would be defined in Section 1 of Rule 9(C).

(ii) Rule 9(A) would be amended to add text providing that an instruction to DTC from a Participant for Delivery Versus Payment of MMI Securities pursuant to Rule 9(C) shall not be effective unless and until applicable conditions specified in Rule 9(C) as set forth below have been satisfied.

(iii) Rule 9(B) would be amended to:

a. Eliminate text referencing the LPNC;  
b. Eliminate the provision precluding DTC from acting on an instruction for Delivery of MMI Securities subject of an Incomplete Transaction if the instruction involves a Free Delivery, Pledge or Release of Securities or a Delivery, Pledge or Release of Securities substantially undervalued; and  
c. Add text providing that an instruction to DTC from a Participant for Delivery Versus Payment of MMI Securities pursuant to Rule 9(C) shall not be effective unless and until the

applicable conditions specified in Rule 9(C) described below have been satisfied.

(iv) Rule 9(C) would be amended to:

a. Add the definitions of MMI Funding Acknowledgment and MMI Optimization to reflect the meaning of these terms as described above;

b. Add text that Delivery Versus Payment of MMI Securities would be affected in accordance with Rules 9(A), 9(B) and the Settlement Guide in addition to Rule 9(C);

c. Add text indicating that instructions by a Presenting Participant for a Presentment or Delivery of MMI Securities would be deemed to be given only when any applicable MMI Funding Acknowledgment has been received by DTC;

d. Remove conditions and references relating to reversals of processed MMI Obligations;

e. Set forth conditions for the processing of Presentments, including:

i. The requirement for the IPA to provide an MMI Funding Acknowledgment, except in the case where the aggregate amount of Issuances exceeds Presentments;

ii. Satisfaction of risk management controls and RAD;

iii. That an instruction to DTC with respect to an Issuance or Presentment shall become effective upon satisfaction of the provisions described in i. and ii. immediately above;

iv. That DTC shall comply with an effective instruction;

v. That the IPA acknowledges and agrees that DTC would process instructions with respect to Issuances and Presentments as described above and that the IPA's obligations in this regard are irrevocable; and

vi. That if the IPA notifies DTC in writing of its insolvency, or if DTC otherwise has notice, or if the IPA issues a Payment Refusal for the Acronym, then the IPA would not be required to acknowledge its obligations and DTC would not be required to process any further instructions with respect to the applicable Acronym;

f. Eliminate references to MMI Securities being devalued in the event of an RTP because in the event of any payment failure by the IPA, DTC would then revert to the Acronym Payment Failure Process described below; and  
g. Delete a reference indicating that DTC's Failure to Settle Procedure includes special provisions for MMI Securities.

(v) The Settlement Guide would be amended to:

a. Delete the description of, and all references and provisions related to, LPNC;

b. Delete: (A) The definition of RVPNA, (B) a provision that transactions for MMI Securities that are deemed RVPNA would recycle pending release of the LPNC control at 3:05 p.m. ET, and (C) a note that MMI Securities received versus payment are not allowed to be freely moved until the LPNC control is released;

c. Add a description of "Unknown Rate" to provide for a placeholder in the Settlement Guide for references to an interest rate where payment of interest by an IPA to Receivers is scheduled but the interest rate to be paid is not known at the time;

d. Change the heading of the section currently named "Establishing Your Net Debit Cap" to "Limitation of Participant Net Debit Caps by Settling Banks" to reflect the context of that section more specifically;

e. Revise the Settlement Processing Schedule to:

i. Add a cutoff time of 2:30 p.m. ET for an IPA to replace the Unknown Rate with a final interest rate and state that the IPA must successfully transmit the final rate to DTC before 2:30 p.m. ET;

ii. Add a cutoff time of 2:55 p.m. ET after which Issuances and Presentments cannot be processed on the given Business Day because the conditions described above for processing of MMI Obligations have not been met;

iii. Remove a reference for a cutoff relating to reversals of MMI Obligations since reversals would no longer occur as described above;

iv. Define 3 p.m. ET as the cutoff time for any required MMI Funding Acknowledgments to be received in order for DTC to be able to process for a given Acronym that day;

v. Add at cutoff time of 3 p.m. ET for an IPA to notify DTC of a Temporary Acronym Payment Failure;

vi. Delete a reference to the release of LPNC controls as LPNC would no longer exist; and

vii. Clarify that a 3:10 p.m. ET cutoff after which CNS transactions that cannot be completed would be dropped from the system, also applies to valued transactions in non-MMI Securities and fully paid for and secondary MMI Deliveries or Maturity Presentments;

f. Add a section describing MMI Processing to include a description of MMI Funding Acknowledgments and the MMI Optimization process as described above;

g. Revise the section referencing provisions for "Issuer Failure Processing" to instead describe Acronym Payment Failure Processing and Temporary Acronym Payment Failure Process, as these processes are described above, since the contingencies

<sup>20</sup> For purposes of RVPNA, MMI Securities are considered undervalued if they are Delivered Versus Payment for less than 10 percent below market value.

<sup>21</sup> For example, if A Delivers MMI Securities to B versus payment and B Delivers the same MMI Securities to C free of payment (subject to risk management controls), under Rule 9(B), Section 1, the Delivery to C is final when the securities are credited to C. DTC would therefore be unable to reverse the Delivery to C and thus it cannot reverse the Delivery from B to A.

for processing a payment failure hinge on the failure of payment on an Acronym by an IPA regardless of whether it is ultimately caused by an Issuer insolvency or otherwise;

h. Remove a duplicate reference to the DTC contact number for Participants/IPAs to call in the event of an Acronym Payment Failure;

i. Remove the description of the “MMI IPA MP Pend” process which was designed to allow IPAs to minimize the impact of potential reversals of processed MMI Obligations; as such reversals would no longer occur; and

j. Change the name of the section named “Calculating Your Net Debit Cap” to “Calculation of Participant Net Debit Caps”.

(vi) The Distributions Guide would be amended to (i) delete language reflecting that Income Presentments are processed at the start-of-day, and (ii) add a brief description of the processing of Presentments as proposed above and provide a cross-reference to the Settlement Guide relating to MMI settlement processing.

(vii) The proposed rule change would also make technical and clarifying changes to the texts of the Rules and Settlement Guide for consistency throughout the texts in describing the concepts and terms set forth above, make corrections to grammar and spacing and edit text to provide for enhanced readability.

#### Implementation

The proposed rule change would be implemented in phases whereby Acronyms would be migrated to be processed in accordance with the proposed rule change over a period of five months beginning in November 2016 and with all Acronyms expected to be implemented by the end of March 2017, except for the implementation of the elimination of the Rule and Settlement Guide provisions relating to RVPNA which elimination would not occur until all other aspects of the proposed rule change are implemented with respect to all Acronyms. DTC would announce phased implementation dates for proposed rule change via Important Notice upon all applicable regulatory approval by Commission.

#### 2. Statutory Basis

Section 17A(b)(3)(F) of the Act<sup>22</sup> requires that the rules of the clearing agency be designed, *inter alia*, to promote the prompt and accurate clearance and settlement of securities transactions. DTC believes that the

proposed rule change is consistent with this provision of the Act because (i) the elimination of intra-day reversals of processed MMI Obligations would promote the intra-day finality of those MMI Obligations, (ii) the deletion of the LPNC control would make available settlement credits to reduce blockage from Net Debit Caps, (iii) implementation of the MMI Optimization process would provide increased efficiency in testing risk controls in order to facilitate timely processing of transactions under the proposal, (iv) elimination of the RVPNA control would allow intraday processing of Free Deliveries of MMI Securities received for value, (v) the proposed updates and revisions to the Processing Schedule would accommodate the processing changes required to implement the proposal to promote intra-day finality, and (vi) the proposed technical changes to texts of the Rules and Settlement Guide, as described above, would simplify and clarify terms and concepts in the Rules and Settlement Guide text for Participants with respect to MMI transaction processing at DTC. Therefore, as applicable, by (i) promoting intra-day finality of MMI transactions, (ii) reducing potential blockages in transaction processing, (iii) facilitating more efficient application of risk management controls to allow processing of pending transactions, (iv) allowing intraday processing of Free Deliveries of MMI Securities received for value, (v) updating the Processing Schedule in order to accommodate the proposed changes that would promote intra-day finality, and (vi) clarifying and updating terms and concepts in the Rules and the Settlement Guide related to processing of MMI transactions, the proposal would promote the prompt and accurate clearance and settlement of MMI Securities processed through DTC consistent with the Act, in particular Section 17A(b)(3)(F) cited above.

Rule 17Ad-22(d)(12) promulgated under the Act<sup>23</sup> requires (i) that each registered clearing agency shall establish, implement, maintain and enforce written policies and procedures reasonably designed to, as applicable, ensure that final settlement occurs no later than the end of the settlement day, and (ii) that intraday or real-time finality be provided where necessary to reduce risks. DTC believes that the proposed rule change is consistent with Rule 17Ad-22(d)(12) because the elimination of intraday reversals of MMI transactions would promote settlement finality of processed MMI Obligations

and prevent the possibility that a reversal could override risk controls and heighten liquidity and settlement risk.

#### (B) Clearing Agency's Statement on Burden on Competition

DTC does not believe that the proposed rule change would have any adverse impact, or impose any burden, on competition. Moreover, because the proposed rule change improves the efficiency of intraday processing and settlement finality at DTC, for MMI transactions and others, the proposed rule change may have a positive effect on competition among DTC Participants, including IPAs.

Although the proposed rule change imposes a new requirement on IPAs, to provide an MMI Funding Acknowledgment under the proposed rule, any burden on the IPAs in making these determinations and taking these actions is justified by the elimination of late day reversals, improving settlement finality for all Participants engaged in MMI transactions. Moreover, the change was requested by the IPA community and DTC believes, based upon discussion with its IPA Participants, that there is no differential effect among IPA Participants due to his additional requirement, thus imposing no burden on competition.

The elimination of the LPNC further improves efficiency of intraday processing at DTC for all transactions, including MMI transactions, by eliminating liquidity blockages due to the withholding of credits under the LPNC control; this improved efficiency should also foster competition.

#### (C) Clearing Agency's Statement on Comments on the Proposed Rule Change Received From Members, Participants, or Others

DTC has not solicited and does not intend to solicit comments regarding the proposed rule change. DTC has not received any unsolicited written comments from interested parties. To the extent DTC receives written comments on the proposed rule change, DTC will forward such comments to the Commission. DTC has conducted industry outreach with respect to the proposal including discussion with industry associations and IPAs.

#### 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

<sup>22</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>23</sup> 17 CFR 240.1717Ad-22(d)(12)

reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

- (A) By order approve or disapprove such proposed rule change, or
- (B) institute proceedings to determine whether the proposed rule change should be disapproved.

The proposal shall not take effect until all regulatory actions required with respect to the proposal are completed.<sup>24</sup>

#### 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-DTC-2016-008 on the subject line.

##### *Paper Comments*

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street NE., Washington, DC 20549.
- All submissions should refer to File Number SR-DTC-2016-008. 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 DTC and on DTCC's Web site

(<http://dtcc.com/legal/sec-rule-filings.aspx>). 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-DTC-2016-008 and should be submitted on or before November 1, 2016.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>25</sup>

**Brent J. Fields,**

*Secretary.*

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-79039; File No. SR-BatsBZX-2016-62]

### Self-Regulatory Organizations; Bats BZX Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Rule 22.3, Continuing Options Market Maker Registration

October 4, 2016.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on September 28, 2016, Bats BZX Exchange, Inc. ("BZX" or the "Exchange") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The Exchange filed a proposal to make a modification to Exchange Rule 22.3, Continuing Options Market Maker Registration, to remove the provision of the rule that requires termination of a Member's Options Market Maker registration in an option series if the Options Market Maker fails to enter quotations in the series within five business days after the Options Market Maker's registration in the series becomes effective.

The text of the proposed rule change is available at the Exchange's Web site at [www.batstrading.com](http://www.batstrading.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 Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in Sections A, B, and C below, of the most significant parts of such statements.

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

###### 1. Purpose

The Exchange proposes to amend Exchange Rule 22.3 to remove subparagraph (c), which currently requires the Exchange to terminate a firm's Options Market Maker registration if it does not enter quotations in an option series in which it is registered within five business days after the Options Market Maker's registration in the series becomes effective. Currently, the Exchange surveils whether a newly registered Options Market Maker enters quotations in the series within five business days of registration. If an Options Market Maker does not, the Exchange is required by Exchange Rule 22.3(c) to automatically deregister the Options Market Maker in that series. The Exchange views Exchange Rule 22.3(c) as largely duplicative of other Exchange Rules and excessively rigid in view of other Exchange Rules that allow the Exchange discretion and flexibility in determining an appropriate remedy.

Exchange Rule 22.5(a)(6) provides that Options Market Makers are expected to "maintain active markets" in all series in which they are registered. Both Rule 22.3(c) and Rule 22.5(a)(6) impose an obligation upon registered Options Market Maker to maintain active markets. The main difference is that Exchange Rule 22.3(c) applies only to the first five days that an Options Market Maker is registered, whereas Exchange Rule 22.5(a)(6) applies during the first five days and continues for as long as the Options Market Maker is

<sup>24</sup> See *supra* note 3 (regarding filing of related advance notice).

<sup>25</sup> 17 CFR 200.30-3(a)(12).

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

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