

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

This filing is made pursuant to Section 19(b)(3)(A) of the Act¹¹ and Rule 19b-4(f)(5)¹² thereunder.

This filing relates solely to effecting a change in an existing order-entry or trading system of a self-regulatory organization that (i) does not significantly affect the protection of investors or the public interest, (ii) does not impose any significant burden on competition, and (iii) does not have the effect of limiting the access to or the availability of the system, and as such takes effect upon filing under Subsection (iii) of Paragraph (A).

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 under Section 19(b)(2)(B)¹³ of the Act to determine whether the proposed rule change 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-NYSEArca-2017-15 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-NYSEArca-2017-15. 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/>

¹¹ 15 U.S.C. 78s(b)(3)(A).

¹² 17 CFR 240.19b-4(f)(5).

¹³ 15 U.S.C. 78s(b)(2)(B).

[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 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-NYSEArca-2017-15, and should be submitted on or before March 29, 2017.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹⁴

Eduardo A. Aleman,
Assistant Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-80142]

Order Granting Limited Exemptive Relief, Pursuant to Rule 608(e) of the Securities Exchange Act of 1934, From the Clock Synchronization Compliance Deadline Specified in Section 6.7(a)(ii) of the National Market System Plan Governing the Consolidated Audit Trail

March 2, 2017.

By letter dated January 17, 2017, Bats BYZ Exchange, Inc., Bats BZX Exchange, Inc., Bats EDGA Exchange, Inc., Bats EDGX Exchange, Inc., BOX Options Exchange, LLC, C2 Options Exchange, Incorporated, Chicago Board Options Exchange, Incorporated, Chicago Stock Exchange, Inc., Financial Industry Regulatory Authority, Inc. ("FINRA"), International Securities Exchange, Inc., Investors' Exchange, LLC, ISE Gemini, LLC, ISE Mercury, LLC, Miami International Securities Exchange LLC, NASDAQ BX, Inc.,

¹⁴ 17 CFR 200.30-3(a)(12).

NASDAQ PHLX LLC, The NASDAQ Stock Market LLC, National Stock Exchange, Inc., New York Stock Exchange LLC, NYSE Arca, Inc., and NYSE MKT, LLC (collectively, the "Participants" to the National Market System ("NMS") Plan Governing the Consolidated Audit Trail ("CAT NMS Plan")) requested that the Securities and Exchange Commission ("Commission" or "SEC") grant limited exemptive relief to the Participants, pursuant to its authority under Rule 608(e) of Regulation NMS under the Securities Exchange Act ("Exchange Act"),¹ from the clock synchronization compliance deadline set forth in Section 6.7(a)(ii) of the CAT NMS Plan.²

Rule 608(c) of Regulation NMS under the Exchange Act requires that each self-regulatory organization ("SRO") comply with and, absent reasonable justification or excuse, enforce compliance by its members with, the terms of any effective NMS plan of which it is a sponsor or a participant.³ Section 6.7(a)(ii) of the CAT NMS Plan states that "[u]nless otherwise ordered by the SEC: . . . within four (4) months after the Effective Date, each Participant shall, and through its Compliance Rule shall require its Industry Members to, synchronize its or their Business Clocks as required by Section 6.8 and certify to the Chief Compliance Officer (in the case of Participants) or the applicable Participant (in the case of Industry Members) that such Participant has met this requirement."⁴

The Participants request that the Commission extend the clock synchronization compliance date set forth in Section 6.7(a)(ii) from within four months after the effective date of CAT NMS Plan, or March 15, 2017, to February 19, 2018 only with respect to Industry Members with Business Clocks that do not capture time in milliseconds as of the date of this order. The Participants note that the existing clock synchronization compliance date under Section 6.7(a)(ii) of March 15, 2017 would remain in effect for those Industry Members with Business Clocks that capture time in milliseconds.⁵ In support of their Exemption Request, the Participants state, generally, that the request is narrowly tailored and would

¹ 17 CFR 242.608(e).

² See letter from the Participants to Brent J. Fields, Secretary, Commission, dated January 17, 2017 ("Exemption Request"). Unless otherwise noted, capitalized terms are used as defined in Rule 613, in the CAT NMS Plan, or in this letter.

³ 17 CFR 242.608(c).

⁴ Securities Exchange Act Release No. 79318 (Nov. 15, 2016), 81 FR 84696, 84963 (Nov. 23, 2016) (Order Approving CAT NMS Plan) Ex. A, Sec. 6.7(a)(ii).

⁵ See Exemption Request at 1 n.4.

provide significant costs savings to Industry Members with Business Clocks that do not capture time in milliseconds, without having any adverse effect on the consolidated audit trail under the CAT NMS Plan.⁶ The following outlines the Participants' claims in support of their exemptive request.

First, the Participants note that their requested alternative compliance date of February 19, 2018 is consistent with FINRA's compliance date for FINRA Rule 4590, which was approved last year and imposed a new clock synchronization standard of 50 milliseconds applicable to business clocks that are used to record certain events in NMS securities or OTC equity securities.⁷ Among other things, FINRA member firms that do not capture time in milliseconds have until February 19, 2018 to synchronize their business clocks to the new 50 millisecond standard.⁸ The Participants believe that it is appropriate to have the CAT NMS Plan clock synchronization requirements also take effect by February 19, 2018 for those Industry Members that do not capture time in milliseconds as FINRA member firms currently are preparing for the implementation of clock synchronization requirements comparable to those set forth in the CAT NMS Plan by February 19, 2018.⁹

Second, the Participants state that Industry Members are not required to begin reporting information to the Central Repository for at least 20 months after the current March 15, 2017 deadline imposed by the CAT NMS Plan for clock synchronization.¹⁰ Specifically, large Industry Members are required to begin reporting to the Central Repository on November 15, 2018 (20 months after the CAT NMS Plan clock synchronization deadline),¹¹

and Small Industry Members are required to begin reporting on November 15, 2019 (32 months after the CAT NMS Plan deadline).¹² The Participants believe that allowing Industry Members that do not capture time in milliseconds until February 19, 2018 to synchronize their Business Clocks will result in significant cost savings for such firms.¹³ The Participants state that during these 20 and 32 month periods they would not be required to incur the substantial costs of complying with the more rigorous clock synchronization requirements, such as updating and testing their clock technology, documenting and following clock synchronization procedures that would include performing regular clock synchronizations and preparing a log that documents each clock synchronization event, far in advance of the start of reporting obligations.¹⁴

Third, the Participants also believe that a compliance date of February 19, 2018 for Industry Members that do not capture time in milliseconds will provide Industry Members with sufficient preparation time to ensure the required level of clock synchronization is achieved prior to the commencement of their obligations to report to the Central Repository.¹⁵ The Participants note that a compliance date of February 19, 2018 provides a comparable clock synchronization deadline to that imposed by Rule 613 on the Participants themselves, who are required to synchronize their own Business Clocks eight months before they commence reporting data to the Central Repository.¹⁶ Under the requested exemption, large Industry Members that do not capture time in milliseconds would be required to synchronize their Business Clocks nine months before reporting to the Central Repository, and Small Industry Members would be required to do so 21 months before reporting.¹⁷

Rule 608(e) of Regulation NMS provides that the Commission may exempt from the provisions of an NMS plan, either unconditionally or on specified terms and conditions, any SRO or its members, if the Commission determines that such exemption is consistent with the public interest, the protection of investors, the maintenance of fair and orderly markets, and the removal of impediments to, and

perfection of the mechanisms of, a national market system.¹⁸

The Commission finds that the requested exemption is consistent with the requirements set forth in Rule 608(e). The Commission notes that the Participants have narrowly tailored their exemptive request to seek such relief for a limited period of time and only with respect to those Industry Members with Business Clocks that do not capture time in milliseconds. Given that these Industry Members' obligations to report to the Central Repository do not commence until November 2018 or November 2019 (depending on the size of the firm), the Commission believes that the requested exemption should not result in any adverse effect on the implementation or operation of the consolidated audit trail. In addition, because any changes to these Industry Members' current Business Clocks would require modifications to their firm's systems and processes, this exemption will allow those Industry Members with Business Clocks that do not already capture time in milliseconds additional time to identify and implement the most cost effective clock synchronization solution to achieve compliance with the new standard. Further, the Commission believes that allowing less automated Industry Members to synchronize their clocks by February 19, 2018 is also consistent with the phased implementation approach set forth by FINRA in its Rule 4590.¹⁹ Thus, the exemption would serve the Participants' stated goal of achieving significant cost savings (from not incurring ongoing costs from March 15, 2017 to February 19, 2018 as well as a potential reduction in eventual costs if the delay allows for identification of lower costs solutions) for certain Industry Members. Accordingly, the Commission believes that imposing the more aggressive deadline required by Section 6.7(a)(ii) of CAT NMS Plan on those Industry Members with Business Clocks that do not capture time in milliseconds would not otherwise facilitate implementation of the consolidated audit trail.

Therefore, the Commission believes that this exemption is consistent with the public interest, the protection of investors, the maintenance of fair and

⁶ See Exemption Request at 1.

⁷ See Securities Exchange Act Release No. 77565 (April 8, 2016), 81 FR 22136 (April 14, 2016) (SR-FINRA-2016-005) (order approving FINRA's proposed rule change to reduce the synchronization tolerance for computer clocks that are used to record events in NMS securities and OTC equity securities).

⁸ See FINRA Regulatory Notice 16-23 (July 2016) (establishing for FINRA Rule 4590 a Phase 1 implementation date of February 20, 2017 for systems that capture time in milliseconds and a Phase 2 implementation date of February 19, 2018 systems that do not capture time in milliseconds).

⁹ See Exemption Request at 2. Because FINRA's compliance date for those firms that capture time in milliseconds (February 20, 2017) is one month prior to the CAT clock synchronization compliance date (March 15, 2017), the Participants are not requesting exemptive relief with regard to Industry Members that capture time in milliseconds.

¹⁰ See Exemption Request at 2-3.

¹¹ See Order Approving CAT NMS Plan, Ex. A, Sec. 6.7(a)(v), 81 FR at 84963.

¹² See Order Approving CAT NMS Plan, Ex. A, Sec. 6.6(a)(v), 81 FR at 84962.

¹³ See Exemption Request at 2-3.

¹⁴ See *id.* at 3.

¹⁵ See *id.*

¹⁶ See *id.* (citing 17 CFR 242.613(a)(3)(ii)).

¹⁷ See Exemption Request at 3.

¹⁸ 17 CFR 242.608(e).

¹⁹ See Securities Exchange Act Release No. 77196 (Feb. 19, 2016), 81 FR 9550, 9553 n.35 (Feb. 25, 2016) (SR-FINRA-2016-005) (noting that, in FINRA's view, "a phased implementation could allow firms, particularly smaller or less automated firms, a greater time period over which they can identify and implement the most cost effective clock synchronization solution that meets the standard required by this proposal").

orderly markets and the removal of impediments to, and the perfection of a national market system because it is narrowly tailored, may provide cost savings to those Industry Members that do not capture time in milliseconds, allows such Industry Members additional time to develop cost efficient ways to achieve clock synchronization and will not adversely affect the implementation of the consolidated audit trail.

Accordingly, *it is hereby ordered*, pursuant to Rule 608(e) of the Exchange Act,²⁰ that the Participants are granted a limited exemption extending the clock synchronization compliance date set forth in Section 6.7(a)(ii) of CAT NMS Plan from within four months after the effective date of CAT NMS Plan, or March 15, 2017, to February 19, 2018 with respect to Industry Members with Business Clocks that do not capture time in milliseconds as of the date of this order.

By the Commission.

Eduardo A. Aleman,
Assistant Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-80143; File No. SR-OCC-2017-801]

Self-Regulatory Organizations; The Options Clearing Corporation; Notice of No Objection To Advance Notice Filing Concerning the Options Clearing Corporation's Margin Coverage During Times of Increased Volatility

March 2, 2017.

The Options Clearing Corporation ("OCC") filed on January 4, 2017 with the Securities and Exchange Commission ("Commission") advance notice SR-OCC-2017-801 ("Advance Notice") pursuant to Section 806(e)(1) of the Payment, Clearing, and Settlement Supervision Act of 2010 ("Payment, Clearing and Settlement Supervision Act")¹ and Rule 19b-4(n)(1)(i)² under the Securities Exchange Act of 1934 ("Exchange Act") to modify its process

for systematically monitoring market conditions and performing adjustments to its margin coverage when market volatility increases beyond historically observed levels. The Advance Notice was published for comment in the **Federal Register** on February 7, 2017.³ The Commission has not received any comments on the Advance Notice to date. This publication serves as notice of no objection to the Advance Notice.

I. Background

OCC protects itself against potential losses that could result from the default of a clearing member by requiring margin to be posted in connection with each member's positions. The amount of margin calculated and collected from OCC's clearing members, along with mutualized clearing-fund resources, is intended to make available to OCC sufficient financial resources for the orderly transfer or liquidation of a defaulting clearing member's positions. OCC's proprietary risk management system, the System for Theoretical Analysis and Numerical Simulations ("STANS"), calculates each clearing member's margin requirement by utilizing Monte Carlo simulations to forecast price movements related to the positions in each clearing member's portfolio. The STANS margin requirement is intended to be sufficient to collateralize the member's losses across its portfolio over a two-day period, under normal market conditions.

To determine margin requirements, STANS utilizes time-series data, including pricing data on assets underlying the options contracts that OCC clears, and performs calculations related to, among other things, the volatilities of these underliers. The margin amount collected from each clearing member also accounts for expected changes in the value of collateral posted in connection with that member's portfolio.

One of the primary risk drivers in the STANS methodology relates to the volatility of individual equity securities, which is derived from pricing data imported monthly into STANS. Between data feeds, the STANS margin

methodology relies on a process that adjusts the individual volatility measures of equity-based option underliers (e.g., GE or IBM) by a multiplier derived from the volatility of the Standard & Poor's® 500 index ("SPX"). OCC refers to that multiplier as the uniform scale factor. To account for intra-month changes in volatility, the uniform scale factor adjusts individual volatilities of applicable underliers by a factor tied to the relationship between the short-term and long term volatility of the SPX. Specifically, the uniform scale factor is used as a proxy to "scale up" volatilities of equity-based option underliers⁴ when near-term volatility estimates fall below a certain ratio relative to long-term average volatility, based on the volatility of the SPX. OCC asserts that, by applying a scale factor in this way, margin requirements better account for intra-month volatility risks for individual equity-based option underliers and thereby better ensure that clearing members maintain sufficient margin assets in connection with option positions based upon those underliers.

II. Description of the Advance Notice

OCC proposes a number of enhancements to its STANS margin methodology to more accurately compute its clearing member margin requirements. Specifically, OCC proposes the following: (1) To change the length of time-series data used to calculate the uniform scale factor; (2) to introduce new equity index-based scale factors; (3) to anchor individual risk factor volatilities to longer-term averages; and (4) to implement daily data updates of risk factors in OCC's statistical models used to value U.S. Treasury securities for collateral and margin purposes. Each proposed change is discussed in greater detail below.

First, OCC proposes to change the time-series data period and thereby the data set used to calculate the uniform scale factor. One aspect of the uniform scale factor calculation relies on pricing information, or time-series data, relating to the individual components of the S&P 500 index dating back to 1946, which pre-dates the 1957 introduction of SPX. Because the time-series data pre-dates the SPX's publication, OCC's current practice is to supplement the published SPX data with additional pricing information that relies upon assumptions about what theoretically

⁴ The uniform scale factor applies to the volatility measures for single-name and index underliers. It does not apply to exchange-traded funds, futures, or volatility-based underliers. For the latter types of options, STANS uses a constant volatility measure calculated from monthly data feeds.

²⁰ 17 CFR 242.608(e).

¹ 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 Payment, Clearing and Settlement Supervision Act and file advance notices with the Commission.

² 17 CFR 240.19b-4(n)(1)(i).

³ See Securities Exchange Act Release No. 79915 (February 1, 2017), 82 FR 9613 (February 7, 2017) (File No. SR-OCC-2017-801). OCC also filed a proposed rule change with the Commission pursuant to Section 19(b)(1) of the Exchange Act and Rule 19b-4 thereunder, seeking approval of changes to its rules necessary to implement the Advance Notice. 15 U.S.C. 78s(b)(1) and 17 CFR 240.19b-4, respectively. This proposed rule change was published in the **Federal Register** on January 25, 2017. Securities Exchange Act Release No. 79818 (January 18, 2017), 82 FR 8455 (January 25, 2017) (SR-OCC-2017-001).