

burden on competition is extremely limited.

The proposed restated schedule of credits is reflective of this competition because, as a threshold issue, the Exchange is a relatively small market so its ability to burden intermarket competition is limited. In this regard, even the largest U.S. equities exchange by volume has less than 17–18% market share, which in most markets could hardly be categorized as having enough market power to burden competition. Moreover, as noted above, price competition between exchanges is fierce, with liquidity and market share moving freely between exchanges in reaction to fee and credit changes. This is in addition to free flow of order flow to and among off-exchange venues which presently comprises approximately 40% of industry volume.

The Exchange intends for the proposed change to its schedule of credits to increase member incentives to engage in the removal of liquidity from the Exchange. These changes are procompetitive and reflective of the Exchange's efforts to make it an attractive and vibrant venue to market participants.

In sum, if the changes proposed herein is unattractive to market participants, it is likely that the Exchange will lose market share as a result. Accordingly, the Exchange does not believe that the proposed changes will impair the ability of members or competing order execution venues to maintain their competitive standing in the financial markets.

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

No written comments were either solicited or received.

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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)(ii) of the Act.<sup>11</sup>

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is: (i) Necessary or appropriate in the public interest; (ii) for the protection of investors; or (iii) otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings

to determine whether the proposed rule should be approved or disapproved.

**IV. Solicitation of Comments**

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

*Electronic Comments*

- Use the Commission's internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an email to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-BX-2020-018 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-BX-2020-018. 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 website (<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 website 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.

Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-BX-2020-018, and should be submitted on or before September 10, 2020.

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

**J. Matthew DeLesDernier,**  
*Assistant Secretary.*

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**SECURITIES AND EXCHANGE COMMISSION**

**[Release No. 34-89558; File No. SR-NSCC-2020-016]**

**Self-Regulatory Organizations; National Securities Clearing Corporation; Notice of Filing of Proposed Rule Change, as Modified by Amendment No. 1, To Introduce the Margin Liquidity Adjustment Charge and Include a Bid-Ask Risk Charge in the VaR Charge**

August 14, 2020.

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 July 30, 2020, National Securities Clearing Corporation (“NSCC”) filed with the Securities and Exchange Commission (“Commission”) proposed rule change SR-NSCC-2020-016. On August 13, 2020, NSCC filed Amendment No. 1 to the proposed rule change, to make clarifications and corrections to the proposed rule change.<sup>3</sup> The proposed rule change, as modified by Amendment No. 1 (hereinafter, the “Proposed Rule Change”), is described in Items I, II and III below, which Items have been prepared primarily by the clearing agency.<sup>4</sup> The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

<sup>1</sup> 17 CFR 200.30-3(a)(12).

<sup>2</sup> 15 U.S.C. 78s(b)(1).

<sup>3</sup> 17 CFR 240.19b-4.

<sup>4</sup> Amendment No. 1 made clarifications and corrections to the description of the proposed rule change and Exhibits 3 and 5 of the filing, and these clarifications and corrections have been incorporated, as appropriate, into the description of the proposed rule change in Item II below.

<sup>5</sup> On July 30, 2020, NSCC filed this proposed rule change as an advance notice (SR-NSCC-2020-804) with the Commission pursuant to Section 806(e)(1) of Title VIII 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) under the Act, 17 CFR 240.19b-4(n)(1)(i). On August 13, 2020, NSCC filed Amendment No. 1 to the advance notice to make similar clarifications and corrections to the advance notice. A copy of the advance notice, as modified by Amendment No. 1 (hereinafter, “Advance Notice”) is available at <http://www.dtcc.com/legal/sec-rule-filings.aspx>.

<sup>11</sup> 15 U.S.C. 78s(b)(3)(A)(ii).

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

The proposed rule change consists of modifications to NSCC's Rules & Procedures ("Rules") to (1) introduce a new component of the Clearing Fund, the Margin Liquidity Adjustment ("MLA") charge, and (2) enhance the calculation of the volatility component of the Clearing Fund formula that utilizes a parametric Value-at-Risk ("VaR") model (defined for purposes of this filing as the "VaR Charge," and described in more detail in Item II(A)(1)(i) below) by including a bid-ask spread risk charge, as described in greater detail below.<sup>5</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

NSCC is proposing to enhance its Clearing Fund methodology by (1) introducing a new component, the MLA charge, which would be calculated to address the risk presented to NSCC when a Member's portfolio contains large Net Unsettled Positions<sup>6</sup> in a particular group of securities with a similar risk profile or in a particular asset type (referred to as "asset groups"), and (2) enhancing the calculation of the VaR Charge by including a bid-ask spread risk charge, as described in more detail below.<sup>7</sup>

<sup>5</sup> Capitalized terms not defined herein are defined in the Rules, available at [http://dtcc.com/~media/Files/Downloads/legal/rules/nscc\\_rules.pdf](http://dtcc.com/~media/Files/Downloads/legal/rules/nscc_rules.pdf).

<sup>6</sup> "Net Unsettled Positions" and "Net Balance Order Unsettled Positions" refer to net positions that have not yet passed their settlement date or did not settle on their settlement date, and are referred to collectively in this filing as Net Unsettled Positions. See Procedure XV (Clearing Fund Formula and Other Matters) of the Rules, *id.*

<sup>7</sup> The results of a study of the potential impact of adopting the proposed changes have been provided to the Commission.

#### (i) Overview of the Required Fund Deposit and NSCC's Clearing Fund

As part of its market risk management strategy, NSCC manages its credit exposure to Members by determining the appropriate Required Fund Deposits to the Clearing Fund and monitoring its sufficiency, as provided for in the Rules.<sup>8</sup> The Required Fund Deposit serves as each Member's margin.

The objective of a Member's Required Fund Deposit is to mitigate potential losses to NSCC associated with liquidating a Member's portfolio in the event NSCC ceases to act for that Member (hereinafter referred to as a "default").<sup>9</sup> The aggregate of all Members' Required Fund Deposits constitutes the Clearing Fund of NSCC. NSCC would access its Clearing Fund should a defaulting Member's own Required Fund Deposit be insufficient to satisfy losses to NSCC caused by the liquidation of that Member's portfolio.

Pursuant to the Rules, each Member's Required Fund Deposit amount consists of a number of applicable components, each of which is calculated to address specific risks faced by NSCC, as identified within Procedure XV of the Rules.<sup>10</sup> The volatility component of each Member's Required Fund Deposit is designed to measure market price volatility and is calculated for Members' Net Unsettled Positions. The volatility component is designed to capture the market price risk associated with each Member's portfolio at a 99th percentile level of confidence. The VaR Charge is the volatility component applicable to most Net Unsettled Positions,<sup>11</sup> and usually comprises the largest portion of a Member's Required Fund Deposit. Procedure XV of the Rules currently provides that the VaR Charge shall be calculated in accordance with a generally accepted portfolio volatility margin model utilizing assumptions

<sup>8</sup> See Rule 4 (Clearing Fund) and Procedure XV (Clearing Fund Formula and Other Matters), *supra* note 4. NSCC's market risk management strategy is designed to comply with Rule 17Ad-22(e)(4) under the Act, where these risks are referred to as "credit risks." 17 CFR 240.17Ad-22(e)(4).

<sup>9</sup> The Rules identify when NSCC may cease to act for a Member and the types of actions NSCC may take. For example, NSCC may suspend a firm's membership with NSCC or prohibit or limit a Member's access to NSCC's services in the event that Member defaults on a financial or other obligation to NSCC. See Rule 46 (Restrictions on Access to Services) of the Rules, *supra* note 4.

<sup>10</sup> *Supra* note 4.

<sup>11</sup> As described in Procedure XV, Section I(A)(1)(a)(ii), (iii) and (iv), and Section I(A)(2)(a)(ii), (iii) and (iv) of the Rules, Net Unsettled Positions in certain securities are excluded from the VaR Charge and instead charged a volatility component that is calculated by multiplying the absolute value of those Net Unsettled Positions by a percentage. *Supra* note 4.

based on historical data as NSCC deems reasonable and a volatility range that NSCC deems appropriate.<sup>12</sup>

NSCC regularly assesses market and liquidity risks as such risks relate to its margining methodologies to evaluate whether margin levels are commensurate with the particular risk attributes of each relevant product, portfolio, and market. The proposed changes to include the MLA charge to its Clearing Fund methodology and to enhance the VaR Charge by including a bid-ask spread risk charge, as described below, are the result of NSCC's regular review of the effectiveness of its margining methodology.

#### (ii) Overview of Liquidation Transaction Costs and Proposed Changes

Each of the proposed changes addresses a similar, but separate, risk that NSCC faces increased transaction costs when it liquidates the Net Unsettled Positions of a defaulted Member due to the unique characteristics of that Member's portfolio. The transaction costs to NSCC to liquidate a defaulted Member's portfolio include both market impact costs and fixed costs. Market impact costs are the costs due to the marketability of a security, and generally increase when a portfolio contains large Net Unsettled Positions in a particular group of securities with a similar risk profile or in a particular asset type, as described more below. Fixed costs are the costs that generally do not fluctuate and may be caused by the bid-ask spread of a particular security. The bid-ask spread of a security accounts for the difference between the observed market price that a buyer is willing to pay for that security and the observed market price that a seller is willing to sell that security.

The transaction cost to liquidate a defaulted Member's portfolio is currently captured by the measurement of market risk through the calculation of the applicable volatility charge.<sup>13</sup> The proposed changes would supplement and enhance the current measurement of this market risk to address situations where the characteristics of the

<sup>12</sup> Procedure XV, Section I(A)(1)(a)(i) and Section I(A)(2)(a)(i) of the Rules, *supra* note 4.

<sup>13</sup> The calculation of the VaR Charge and the haircut-based volatility charge are described in Sections I.(A)(1)(a) and I.(A)(2)(a) of Procedure XV of the Rules. *Supra* note 4. The methodologies for these calculations and how they are designed to address risks faced by NSCC have been described in recent proposed rule change and advance notice filings. See Securities Exchange Act Release Nos. 82780 (February 26, 2018), 82 FR 9035 (March 2, 2018) (File No. SR-NSCC-2017-808); 82781 (February 26, 2018), 82 FR 9042 (March 2, 2018) (File No. SR-NSCC-2017-020).

defaulted Member's portfolio could cause these costs to be higher than the amount collected for the applicable volatility charge.

First, as described in more detail below, the MLA charge is designed to address the market impact costs of liquidating a defaulted Member's portfolio that may increase when that portfolio includes large Net Unsettled Positions in a particular group of securities with a similar risk profile or in a particular asset type. These positions may be more difficult to liquidate because a large number of securities with similar risk profiles could reduce the marketability of those large Net Unsettled Positions, increasing the market impact costs to NSCC. As described below, the MLA charge would supplement the applicable volatility charge.

Second, as described in more detail below, the bid-ask spread risk charge would address the risk that the transaction costs of liquidating a defaulted Member's Net Unsettled Positions may increase due to the fixed costs related to the bid-ask spread. As described below, this proposed change would be incorporated into, and, thereby, enhance the current measure of transaction costs through, the VaR Charge.

### (iii) Proposed Margin Liquidity Adjustment Charge

In order to address the risks of an increased market impact cost presented by portfolios that contain large Net Unsettled Positions in the same asset group, NSCC is proposing to introduce a new component to the Clearing Fund formula, the MLA charge.

As noted above, a Member portfolio with large Net Unsettled Positions in a particular group of securities with a similar risk profile or in a particular asset type may be more difficult to liquidate in the market in the event the Member defaults because a concentration in that group of securities or in an asset type could reduce the marketability of those large Net Unsettled Positions. Therefore, such portfolios create a risk that NSCC may face increased market impact cost to liquidate that portfolio in the assumed margin period of risk of three business days at market prices.

The proposed MLA charge would be calculated to address this increased market impact cost by assessing sufficient margin to mitigate this risk. As described below, the proposed MLA charge would be calculated for different asset groups, and subgroups for the equities asset group. Essentially, the calculation is designed to compare the

total market value of a Net Unsettled Position in a particular asset group or subgroup, which NSCC would be required to liquidate in the event of a Member default, to the available trading volume of that asset group or equities subgroup in the market.<sup>14</sup> If the market value of the Net Unsettled Position is large, as compared to the available trading volume of that asset group or subgroup, then there is an increased risk that NSCC would face additional market impact costs in liquidating that position in the event of a Member default. Therefore, the proposed calculation would provide NSCC with a measurement of the possible increased market impact cost that NSCC could face when it liquidates a large Net Unsettled Position in a particular asset group or subgroup.

Rather than calculate the market impact cost for each CUSIP, NSCC's MLA charge would estimate market impact cost at the portfolio-level using aggregated volume data. For example, as described in greater detail below, the calculation of market impact cost would include a measurement of the gross market value of the portfolio. Given the vast number of CUSIPs processed by NSCC, this approach is simpler and is expected to result in more predictable calculations of the MLA charge.

To calculate the MLA charge, NSCC would categorize securities into separate asset groups, which have similar risk profiles—(1) equities<sup>15</sup> (excluding equities defined as Illiquid Securities pursuant to the Rules),<sup>16</sup> (2) Illiquid Securities, (3) unit investment trusts, or UITs, (4) municipal bonds (including municipal bond exchange-traded products, or “ETPs”), and (5) corporate bonds (including corporate bond ETPs). NSCC would then further segment the equities asset group into the following subgroups: (i) Micro-capitalization equities, (ii) small capitalization equities, (iii) medium capitalization equities, (iv) large capitalization

<sup>14</sup> NSCC would determine average daily trading volume by reviewing data that is made publicly available by the Securities Industry and Financial Markets Association (“SIFMA”), at <https://www.sifma.org/resources/archive/research/statistics>.

<sup>15</sup> NSCC would exclude long positions in Family-Issued Securities, as defined in Rule 1 (Definitions) of the Rules, from the MLA charge. NSCC believes the margin charge applicable to long Net Unsettled Positions in Family-Issued Securities pursuant to Sections I.(A)(1)(a)(iv) and (2)(a)(iv) of Procedure XV of the Rules provides adequate mitigation of the risks presented by those Net Unsettled Positions, such that an MLA charge would not be triggered. *Supra* note 4.

<sup>16</sup> See Rule 1 (Definitions), *supra* note 4.

equities, (v) treasury ETPs, and (vi) all other ETPs.<sup>17</sup>

NSCC would first calculate a measurement of market impact cost for each asset group and equities subgroup for which a Member has Net Unsettled Positions in its portfolio. As described above, the calculation of an MLA charge is designed to measure the potential additional market impact cost to NSCC of closing out a large Net Unsettled Position in that particular asset group or equities subgroup.

### Market Impact Cost Calculation for Market Capitalization Subgroups of Equities Asset Group

The market impact cost for each Net Unsettled Position in a market capitalization subgroup of the equities asset group would be calculated by multiplying four components: (1) An impact cost coefficient that is a multiple of the one-day market volatility of that subgroup and is designed to measure impact costs, (2) the gross market value of the Net Unsettled Position in that subgroup, (3) the square root of the gross market value of the Net Unsettled Position in that subgroup in the portfolio divided by an assumed percentage of the average daily trading volume of that subgroup, and (4) a measurement of the concentration of the Net Unsettled Position in that subgroup in the portfolio (as described in greater detail below).<sup>18</sup>

NSCC also represents that its measurement of the concentration of the Net Unsettled Position in the portfolio would include aggregating the relative weight of each CUSIP in that Net Unsettled Position relative to the weight of that CUSIP in the subgroup, such that a portfolio with fewer positions in a

<sup>17</sup> Initially, the market capitalization categorizations would be: (i) micro-capitalization equities would be less than \$300 million, (ii) small capitalization equities would be equal to or greater than \$300 million and less than \$2 billion, (iii) medium capitalization equities would be equal to or greater than \$2 billion and less than \$10 billion, and (iv) large capitalization equities would be equal to or greater than \$10 billion. In determining the range of these market capitalization categorizations, NSCC would consult publications issued by sources it deems appropriate. NSCC would review these categories annually and any changes that NSCC deems appropriate would be subject to NSCC's model risk management governance procedures set forth in the Clearing Agency Model Risk Management Framework (“Model Risk Management Framework”). See Securities Exchange Act Release Nos. 81485 (August 25, 2017), 82 FR 41433 (August 31, 2017) (File No. SR-NSCC-2017-008); 84458 (October 19, 2018), 83 FR 53925 (October 25, 2018) (File No. SR-NSCC-2018-009); 88911 (May 20, 2020), 85 FR 31828 (May 27, 2020) (File No. SR-NSCC-2020-008).

<sup>18</sup> See *supra* note 13.

subgroup would have a higher measure of concentration for that subgroup.<sup>19</sup>

#### Market Impact Cost Calculation for the Other Asset Groups and Equities Subgroups

The market impact cost for Net Unsettled Positions in the municipal bond, corporate bond, Illiquid Securities and UIT asset groups, and for Net Unsettled Positions in the treasury ETP and other ETP subgroups of the equities asset group would be calculated by multiplying three components: (1) An impact cost coefficient that is a multiple of the one-day market volatility of that asset group or subgroup, (2) the gross market value of the Net Unsettled Position in that asset group or subgroup, and (3) the square root of the gross market value of the Net Unsettled Position in that asset group or subgroup in the portfolio divided by an assumed percentage of the average daily trading volume of that subgroup.<sup>20</sup>

#### Total MLA Charge Calculation for Each Portfolio

For each asset group or subgroup, NSCC would compare the calculated market impact cost to a portion of the volatility charge that is allocated to Net Unsettled Positions in that asset group or subgroup (as determined by Sections I.(A)(1)(a) and I.(A)(2)(a) of Procedure XV of the Rules).<sup>21</sup> If the ratio of the calculated market impact cost to the applicable 1-day volatility charge is greater than a threshold, an MLA charge would be applied to that asset group or subgroup.<sup>22</sup> If the ratio of these two amounts is equal to or less than this threshold, an MLA charge would not be applied to that asset group or subgroup. The threshold would be based on an estimate of the market impact cost that is incorporated into the calculation of

<sup>19</sup> The relative weight would be calculated by dividing the absolute market value of a single CUSIP in the Member's portfolio by the total absolute market value of that portfolio.

<sup>20</sup> See *supra* note 13.

<sup>21</sup> *Supra* note 4. NSCC's margining methodology uses a three-day assumed period of risk. For purposes of this calculation, NSCC would use a portion of the applicable volatility charge that is based on one-day assumed period of risk and calculated by applying a simple square-root of time scaling, referred to in this proposed rule change as "1-day volatility charge." Any changes that NSCC deems appropriate to this assumed period of risk would be subject to NSCC's model risk management governance procedures set forth in the Model Risk Management Framework. See *supra* note 16.

<sup>22</sup> Initially, the threshold would be 0.4, because, currently, approximately 40 percent of the 1-day volatility charge addresses market impact costs. NSCC would review this threshold from time to time and any changes that NSCC deems appropriate would be subject to NSCC's model risk management governance procedures set forth in the Model Risk Management Framework. *See id.*

the applicable 1-day volatility charge, such that an MLA charge would apply only when the calculated market impact cost exceeds this threshold.

For each Member portfolio, NSCC would add the MLA charges for Net Unsettled Positions in each of the subgroups of the equities asset group to determine an MLA charge for the Net Unsettled Positions in the equities asset group. NSCC would then add the MLA charge for Net Unsettled Positions in the equities asset group with each of the MLA charges for Net Unsettled Positions in the other asset groups to determine a total MLA charge for a Member.

When applicable, an MLA charge for each asset group or subgroup would be calculated as a proportion of the product of (1) the amount by which the ratio of the calculated market impact cost to the applicable 1-day volatility charge exceeds the threshold, and (2) the 1-day volatility charge allocated to that asset group or subgroup.

The ratio of the calculated market impact cost to the 1-day volatility charge would also determine if NSCC would apply a downward adjustment, based on a scaling factor, to the total MLA charge, and the size of any adjustment. For Net Unsettled Positions that have a higher ratio of calculated market impact cost to the 1-day volatility charge, NSCC would apply a larger adjustment to the MLA charge by assuming that it would liquidate that position on a different timeframe than the assumed margin period of risk of three business days. For example, NSCC may be able to mitigate potential losses associated with liquidating a Member's portfolio by liquidating a Net Unsettled Position with a larger volatility charge over a longer timeframe. Therefore, when applicable, NSCC would apply a multiplier to the calculated MLA charge. When the ratio of calculated market impact cost to the 1-day volatility charge is lower, the multiplier would be one, and no adjustment would be applied; as the ratio gets higher the multiplier decreases and the MLA charge is adjusted downward.

The final MLA charge would be calculated daily and, when the charge is applicable, as described above, would be included as a component of Members' Required Fund Deposit.

#### Proposed Changes to NSCC Rules

The proposal described above would be implemented into Procedure XV of the NSCC Rules. Specifically, the proposed changes to Procedure XV would describe the calculation of the MLA charge in a new subsection (i) of

Section I(A)(1) and a new subsection (g) of Section I(A)(2).

These new subsections would first identify each of the asset groups and subgroups. The proposed new subsections would then separately describe the two calculations of market impact cost for these asset groups and subgroups by identifying the components of these calculations. The new subsections would state that NSCC would compare the calculated market impact cost to a portion of that Member's volatility charge, to determine if an MLA charge would be applied to an asset group or subgroup. The new subsections would then state that NSCC would add each of the applicable MLA charges calculated for each asset group together. Finally, the new subsections would state that NSCC may apply a downward adjusting scaling factor to result in a final MLA charge.

NSCC would also amend Section I(B)(2) of Procedure VX, which describes the Excess Capital Premium charge, to add the MLA charge to the list of Clearing Fund components that are excluded from the calculation of the Excess Capital Premium charge.<sup>23</sup> The Excess Capital Premium is imposed on a Member when the Member's Required Fund Deposit exceeds its excess net capital. NSCC believes that including the MLA charge in the calculation of the Excess Capital Premium could lead to more frequent and unnecessary Excess Capital Premium charges. This is not the intended purpose of the Excess Capital Premium charge and could place an unnecessary burden on Members.

#### (iv) Proposed Bid-Ask Spread Risk Charge

NSCC has identified potential risk that its margining methodologies do not account for the transaction costs related to bid-ask spread in the market that could be incurred when liquidating a portfolio. Bid-ask spreads account for the difference between the observed market price that a buyer is willing to pay for a security and the observed market price that a seller is willing to sell that security. Therefore, NSCC is proposing to include a bid-ask spread risk charge in the VaR Charge to address this risk.

In order to calculate this charge, NSCC would segment Member's portfolios into four bid-ask spread risk classes: (i) Large and medium capitalization equities, (ii) small capitalization equities, (iii) micro-capitalization equities, and (iv) ETPs.<sup>24</sup>

<sup>23</sup> See Section I(B)(2) of Procedure XV of the Rules. *Supra* note 4.

<sup>24</sup> See *supra* note 16.

Each risk class would be assigned a specific bid-ask spread haircut rate in the form of a basis point charge that would be applied to the gross market value in that particular risk class. The applicable bid-ask spread risk charge would be the product of the gross market value in a particular risk class in the Member's portfolio and the applicable basis point charge. The bid-ask spread risk charge would be calculated at the portfolio level, such that NSCC would aggregate the bid-ask spread risk charges of the applicable risk classes for the Member's portfolio.

NSCC proposes to review the haircut rates annually based on either the analysis of liquidation transaction costs related to the bid-ask spread that is conducted in connection with its annual simulation of a Member default or market data that is sourced from a third-party data vendor. Based on the analyses from recent years' simulation exercises, NSCC does not anticipate that these haircut rates would change significantly year over year. NSCC may also adjust the haircut rates following its annual model validation review, to the extent the results of that review indicate the current haircut rates are not adequate to address the risk presented by transaction costs from a bid-ask spread.<sup>25</sup>

The proposed initial haircuts are based on the analysis from the most recent annual default simulation and market data sourced from a third-party data vendor, and are listed in the table below:

Class	Haircut (bps)
Large and Medium Capitalization Equities .....	5.0
Small Capitalization Equities .....	12.3
Micro-Capitalization Equities .....	23.1
ETPs .....	1.5

#### Proposed Changes to NSCC Rules

The proposal described above would be implemented into Procedure XV of the NSCC Rules. Specifically, NSCC would amend subsection (a)(i)(I) of Sections I(A)(1) and I(A)(2) of Procedure XV by stating that the calculations of the estimations of volatility described in these Sections shall include an additional bid-ask spread risk charge measured by multiplying the gross market value of each Net Unsettled Position by a basis point charge. The proposed change to this subsection would also state that the basis point charge would be based on four risk

classes and would identify those risk classes.

#### (v) Implementation Timeframe

NSCC would implement the proposed changes no later than 10 Business Days after the later of the approval of the proposed rule change and no objection to the related advance notice<sup>26</sup> by the Commission. NSCC would announce the effective date of the proposed changes by Important Notice posted to its website.

#### 2. Statutory Basis

NSCC believes that the proposed changes are consistent with the requirements of the Act and the rules and regulations thereunder applicable to a registered clearing agency. In particular, NSCC believes the proposed changes are consistent with Section 17A(b)(3)(F) of the Act,<sup>27</sup> and Rules 17Ad–22(e)(4)(i) and (e)(6)(i), each promulgated under the Act,<sup>28</sup> for the reasons described below.

Section 17A(b)(3)(F) of the Act requires that the rules of NSCC be designed to, among other things, assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible.<sup>29</sup> NSCC believes the proposed change to implement the MLA charge is designed to assure the safeguarding of securities and funds which are in its custody or control or for which it is responsible because it is designed to address the market impact costs to NSCC of liquidating a Member's portfolio in the event of that Member's default. Specifically, the proposed MLA charge would allow NSCC to collect sufficient financial resources to cover its exposure that it may face increased market impact costs in liquidating Net Unsettled Positions in a particular group of securities with a similar risk profile or in a particular asset type that are not captured by the VaR Charge.

The Clearing Fund is a key tool that NSCC uses to mitigate potential losses to NSCC associated with liquidating a Member's portfolio in the event of Member default. Therefore, the proposed change to include the MLA charge among the Clearing Fund components, when applicable, would enable NSCC to better address the increased market impact costs of liquidating Net Unsettled Positions in a particular group of securities with a similar risk profile, such that, in the event of Member default, NSCC's operations would not be disrupted and

non-defaulting Members would not be exposed to losses they cannot anticipate or control. In this way, the proposed rule change to implement the MLA charge is designed to assure the safeguarding of securities and funds which are in the custody or control of NSCC or for which it is responsible, consistent with Section 17A(b)(3)(F) of the Act.<sup>30</sup>

Additionally, NSCC believes that the proposed change to amend the VaR Charge to include bid-ask spread risk charge within Members' final VaR Charge would be designed to assure the safeguarding of securities and funds that are in the custody or control of NSCC or for which it is responsible because the proposed change would enable NSCC to better limit its exposure to increased transaction costs due to the bid-ask spread in the market when liquidating the a defaulted Member's portfolio. NSCC believes that including the above-described bid-ask spread risk charge within the VaR Charges would better ensure that NSCC calculates and collects sufficient margin and, thereby, better enable NSCC to limit its exposure to these transaction costs. By enabling NSCC to limit its exposure to Members in this way, the proposed change is designed to better ensure that, in the event of a Member default, NSCC would have adequate margin from the defaulting Member and non-defaulting Members would not be exposed to losses they cannot anticipate or control. In this way, the proposed change to include the bid-ask spread risk charge within the calculation of the final VaR Charge would be designed to assure the safeguarding of securities and funds which are in the custody or control of NSCC or for which it is responsible and therefore consistent with Section 17A(b)(3)(F) of the Act.<sup>31</sup>

Rule 17Ad–22(e)(4)(i) under the Act requires, in part, that NSCC establish, implement, maintain and enforce written policies and procedures reasonably designed to effectively identify, measure, monitor, and manage its credit exposures to participants and those arising from its payment, clearing, and settlement processes, including by maintaining sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence.<sup>32</sup>

As described above, NSCC believes that both of the proposed changes would enable it to better identify, measure, monitor, and, through the

<sup>25</sup> All proposed changes to the haircuts would be subject to NSCC's model risk management governance procedures set forth in the Model Risk Management Framework. *See id.*

<sup>26</sup> *Supra* note 3.

<sup>27</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>28</sup> 17 CFR 240.17Ad–22(e)(4)(i), (e)(6)(i).

<sup>29</sup> 15 U.S.C. 78q-1(b)(3)(E).

<sup>30</sup> *Id.*

<sup>31</sup> *Id.*

<sup>32</sup> 17 CFR 240.17Ad–22(e)(4)(i).

collection of Members' Required Fund Deposits, manage its credit exposures to Members by maintaining sufficient resources to cover those credit exposures fully with a high degree of confidence.

Specifically, NSCC believes that the proposed MLA charge would effectively mitigate the risks related to large Net Unsettled Positions of securities in the same asset group within a portfolio and would address the potential increased risks NSCC may face related to its ability to liquidate such positions in the event of a Member default.

Therefore, NSCC believes that the proposal would enhance NSCC's ability to effectively identify, measure and monitor its credit exposures and would enhance its ability to maintain sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence. As such, NSCC believes the proposed changes are consistent with Rule 17Ad–22(e)(4)(i) under the Act.<sup>33</sup>

Additionally, NSCC believes that the proposed bid-ask spread risk charge would enhance NSCC's ability to identify, measure, monitor and manage its credit exposures to Members and those exposures arising from its payment, clearing, and settlement processes because the proposed changes would better ensure that NSCC maintains sufficient financial resources to cover its credit exposure to each Member with a high degree of confidence. NSCC believes that the proposed change would enable NSCC to more effectively identify, measure, monitor and manage its exposures to risks related to market price, and enable it to better limit its exposure to potential losses from Member defaults by providing a more effective measure of the risks related to market price. As described above, due to the bid-ask spread in the market, there is an observable transaction cost to liquidate a portfolio. The proposed bid-ask spread risk charge is designed to manage the risk related to this transaction cost in the event a Member's portfolio is liquidated. As such, NSCC believes that the proposed change would better address the potential risks that NSCC may face that are related to its ability to liquidate a Member's Net Unsettled Positions in the event of that firm's default, and thereby enhance NSCC's ability to effectively identify, measure and monitor its credit exposures and would enhance its ability to maintain sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence. In this

way, NSCC believes this proposed change is also consistent with Rule 17Ad–22(e)(4)(i) under the Act.<sup>34</sup>

Rule 17Ad–22(e)(6)(i) under the Act requires, in part, that NSCC establish, implement, maintain and enforce written policies and procedures reasonably designed to cover its credit exposures to its participants by establishing a risk-based margin system that, at a minimum, considers, and produces margin levels commensurate with, the risks and particular attributes of each relevant product, portfolio, and market.<sup>35</sup>

The Required Fund Deposits are made up of risk-based components (as margin) that are calculated and assessed daily to limit NSCC's credit exposures to Members, including the VaR Charge. NSCC's proposed change to introduce an MLA charge is designed to more effectively address the risks presented by large Net Unsettled Positions in the same asset group. NSCC believes the addition of the MLA charge would enable NSCC to assess a more appropriate level of margin that accounts for these risks. This proposed change is designed to assist NSCC in maintaining a risk-based margin system that considers, and produces margin levels commensurate with, the risks and particular attributes of portfolios that contain large Net Unsettled Positions in the same asset group and may be more difficult to liquidate in the event of a Member default. Therefore, NSCC believes the proposed change is consistent with Rule 17Ad–22(e)(6)(i) under the Act.<sup>36</sup>

Furthermore, NSCC believes that including the bid-ask spread risk charge within the calculation of the final VaR Charge would provide NSCC with a better assessment of its risks related to market price. This proposed change would enable NSCC to assess a more appropriate level of margin that accounts for this risk at the portfolio level. As such, each Member portfolio would be subject to a risk-based margining system that, at minimum, considers, and produces margin levels commensurate with, the risks and particular attributes of each relevant product, portfolio, and market, consistent with Rule 17Ad–22(e)(6)(i) under the Act.<sup>37</sup>

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

NSCC believes that the proposed changes could have an impact on

competition. Specifically, NSCC believes the proposed changes could burden competition because they would result in larger Required Fund Deposit amounts for Members when the additional charges are applicable and result in a Required Fund Deposit that is greater than the amount calculated pursuant to the current formula.

When the proposal results in a larger Required Fund Deposit, the proposed change could burden competition for Members that have lower operating margins or higher costs of capital compared to other Members. However, the increase in Required Fund Deposit would be in direct relation to the specific risks presented by each Member's Net Unsettled Positions, and each Member's Required Fund Deposit would continue to be calculated with the same parameters and at the same confidence level for each Member. Therefore, Members that present similar Net Unsettled Positions, regardless of the type of Member, would have similar impacts on their Required Fund Deposit amounts. As such NSCC believes that any burden on competition imposed by the proposed changes would not be significant and, further, would be both necessary and appropriate in furtherance of NSCC's efforts to mitigate risks and meet the requirements of the Act, as described in this filing and further below.

NSCC believes the above described burden on competition that may be created by the proposed MLA charge and the bid-ask spread risk charge would be necessary in furtherance of the Act, specifically Section 17A(b)(3)(F) of the Act.<sup>38</sup> As stated above, the proposed MLA charge is designed to address the market impact costs to NSCC of liquidating a Member portfolio in the event of the Member's default. Specifically, the proposed MLA charge would allow NSCC to collect sufficient financial resources to cover its exposure that it may face increased market impact costs in liquidating net unsettled positions that are not captured by the VaR Charge. Likewise, the proposed bid-ask spread risk charge is designed to help limit NSCC's exposures to the increased transaction costs due to the bid-ask spread in the market that could be incurred when liquidating a Member portfolio in the event of a Member default. Therefore, NSCC believes this proposed change is consistent with the requirements of Section 17A(b)(3)(F) of the Act, which requires that the Rules be designed to assure the safeguarding of securities and funds that are in

<sup>33</sup> *Id.*

<sup>35</sup> 17 CFR 240.17Ad–22(e)(6)(i).

<sup>36</sup> *Id.*

<sup>37</sup> *Id.*

<sup>38</sup> 15 U.S.C. 78q–1(b)(3)(F).

NSCC's custody or control or which it is responsible.<sup>39</sup>

NSCC believes these proposed changes would also support NSCC's compliance with Rules 17Ad–22(e)(4)(i) and Rule 17Ad–22(e)(6)(i) under the Act, which require NSCC to establish, implement, maintain and enforce written policies and procedures reasonably designed to (x) effectively identify, measure, monitor, and manage its credit exposures to participants and those arising from its payment, clearing, and settlement processes, including by maintaining sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence; and (y) cover its credit exposures to its participants by establishing a risk-based margin system that, at a minimum, considers, and produces margin levels commensurate with, the risks and particular attributes of each relevant product, portfolio, and market.<sup>40</sup>

As described above, NSCC believes the introduction of the MLA charge would allow NSCC to employ a risk-based methodology that would address the increased market impact costs that NSCC could face when liquidating Net Unsettled Positions in a particular group of securities with a similar risk profile or in a particular asset type. Similarly, the proposed change to include the bid-ask spread risk charge within the VaR Charge would allow NSCC to employ a risk-based methodology that would better measure the transaction costs that could be incurred in liquidating a defaulted Member's portfolio. Therefore, the proposed changes would better limit NSCC's credit exposures to Members, consistent with the requirements of Rules 17Ad–22(e)(4)(i) and Rule 17Ad–22(e)(6)(i) under the Act.<sup>41</sup>

NSCC believes that the above described burden on competition that could be created by the proposed changes would be appropriate in furtherance of the Act because such changes have been appropriately designed to assure the safeguarding of securities and funds which are in the custody or control of NSCC or for which it is responsible, as described in detail above. The proposed MLA charge and the proposed bid-ask spread risk charge would also enable NSCC to produce margin levels more commensurate with the risks and particular attributes of each Member's portfolio.

The proposed MLA charge would do this by measuring the increased market

impact costs that NSCC may face when liquidating a defaulted Member's portfolio that includes Net Unsettled Positions in a particular group of securities with a similar risk profile or in a particular asset type. With respect to the proposed bid-ask spread risk charge, a haircut (in the form of a basis point charge that would be applied to the gross market value) would be applied to separate risk classes in the portfolio. As described above, for purposes of calculating this charge, the portfolio would be segmented into four separate risk classes, by product type and market capitalization, and a haircut would be applied to the gross market value of each group. Therefore, because the proposed changes are designed to provide NSCC with an appropriate measure of the risks (*i.e.*, risks related to both market impact costs and transaction costs) presented by Members' portfolios, NSCC believes the proposal is appropriately designed to meet its risk management goals and its regulatory obligations.

NSCC believes that it has designed the proposed changes in an appropriate way in order to meet compliance with its obligations under the Act. Specifically, the proposals would improve the risk-based margining methodology that NSCC employs to set margin requirements and better limit NSCC's credit exposures to its Members. Therefore, as described above, NSCC believes the proposed changes are necessary and appropriate in furtherance of NSCC's obligations under the Act, specifically Section 17A(b)(3)(F) of the Act<sup>42</sup> and Rules 17Ad–22(e)(4)(i) and Rule 17Ad–22(e)(6)(i) under the Act.<sup>43</sup>

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

NSCC has not received or solicited any written comments relating to this proposal. NSCC will notify the Commission of any written comments received by NSCC.

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

Within 45 days of the date of publication of this notice in the **Federal Register** or within such longer period up to 90 days (i) as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which

the self-regulatory organization consents, the Commission will:

- (A) By order approve or disapprove 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.

**IV. Solicitation of Comments**

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

*Electronic Comments*

- Use the Commission's internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an email to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-NSCC-2020-016 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-NSCC-2020-016. 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 website (<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 website 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 NSCC and on DTCC's website (<http://dtcc.com/legal/sec-rule-filings.aspx>). All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal

<sup>39</sup> *Id.*

<sup>40</sup> 17 CFR 240.17Ad–22(e)(4)(i), (e)(6)(i).

<sup>41</sup> *Id.*

<sup>42</sup> 15 U.S.C. 78q–1(b)(3)(F).

<sup>43</sup> 17 CFR 240.17Ad–22(e)(4)(i), (e)(6)(i).

identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-NSCC-2020-016 and should be submitted on or before September 10, 2020.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>44</sup>

**J. Matthew DeLesDernier,**  
Assistant Secretary.

[FR Doc. 2020-18198 Filed 8-19-20; 8:45 am]

**BILLING CODE 8011-01-P**

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-89562; File No. SR-ISE-2020-31]

### **Self-Regulatory Organizations; Nasdaq ISE, LLC; Notice of Filing and Order Granting Accelerated Approval of Proposed Rule Change To Add the Consolidated Audit Trail (“CAT”) Industry Member Compliance Rules to the List of Minor Rule Violations in its Rulebook**

August 14, 2020.

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 August 5, 2020, Nasdaq ISE, LLC (“ISE” or “Exchange”) filed with the Securities and Exchange Commission (“SEC” or “Commission”) the proposed rule change as described in Items I and II, 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 and approving the proposal on an accelerated basis.

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

The Exchange proposes to add the Consolidated Audit Trail (“CAT”) industry member compliance rules to the list of minor rule violations in its rulebook.

The text of the proposed rule change is available on the Exchange’s website at <https://listingcenter.nasdaq.com/rulebook/ise/rules>, at the principal office of the Exchange, and at the Commission’s Public Reference Room.

<sup>44</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.

### **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 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 Exchange proposes to add ISE’s CAT industry member compliance rules (the “CAT Compliance Rules”) to the list of minor rule violations in Options 11, Section 1(b).<sup>3</sup> This proposal is based upon the Financial Industry Regulatory Authority, Inc. (“FINRA”) filing to amend FINRA Rule 9217 in order to add FINRA’s corresponding CAT Compliance Rules to FINRA’s list of rules that are eligible for minor rule violation plan treatment.<sup>4</sup>

##### **Proposed Rule Change**

The Exchange adopted the CAT Compliance Rules in General 7 in order to implement the National Market System Plan Governing the Consolidated Audit Trail (the “CAT NMS Plan” or “Plan”).<sup>5</sup> The CAT NMS Plan was filed by the Plan Participants to comply with Rule 613 of Regulation NMS under the Exchange Act,<sup>6</sup> and each Plan Participant accordingly has adopted the same compliance rules as the Exchange’s General 7. The common compliance rules adopted by each Plan Participant are designed to require industry members to comply with the provisions of the CAT NMS Plan, which

<sup>3</sup> The Exchange notes that ISE Options 11, including Section 1, is incorporated by reference into the rulebooks of Nasdaq GEMX, LLC (“GEMX”) and Nasdaq MRX, LLC (“MRX”). As such, the amendments to ISE Options 11, Section 1 proposed herein will also impact GEMX and MRX Options 11, Section 1.

<sup>4</sup> See Securities Exchange Act Release No. 88870 (May 14, 2020), 85 FR 30768 (May 20, 2020) (SR-FINRA-2020-013); see also Release No. 89123 (June 23, 2020), 85 FR 39016 (June 29, 2020) (SR-NYSE-2020-51).

<sup>5</sup> See Securities Exchange Act Release No. 80256 (March 15, 2017), 82 FR 14526 (March 21, 2017) (SR-ISE-2017-08) (Order Approving Proposed Rule Changes To Adopt Consolidated Audit Trail Compliance Rules).

<sup>6</sup> 17 CFR 242.613.

broadly calls for industry members to record and report timely and accurately customer, order, and trade information relating to activity in NMS Securities and OTC Equity Securities.

Options 11, Section 1 sets forth the list of rules under which a Member or person associated with or employed by a Member (hereinafter, “Member or associated person”), may be subject to a fine. Options 11, Section 1 permits the Exchange to impose a fine, not to exceed \$5,000, on any Member or associated person for a minor violation of an eligible rule. The Exchange proposes to amend Options 11, Section 1 to add the CAT Compliance Rules under General 7 to the list of rules in Options 11, Section 1 eligible for disposition pursuant to a minor fine.<sup>7</sup>

The Exchange is coordinating with FINRA and other Plan Participants to promote harmonized and consistent enforcement of all the Plan Participants’ CAT Compliance Rules. The Commission recently approved a Rule 17d-2 Plan under which the regulation of CAT Compliance Rules will be allocated among Plan Participants to reduce regulatory duplication for industry members that are members of more than one Participant (“common members”).<sup>8</sup> Under the Rule 17d-2 Plan, the regulation of CAT Compliance Rules with respect to common members that are members of FINRA is allocated to FINRA. Similarly, under the Rule 17d-2 Plan, responsibility for common members of multiple other Plan Participants and not a member of FINRA will be allocated among those other Plan Participants, including to the Exchange. For those non-common members who are allocated to the Exchange pursuant to the Rule 17d-2 Plan, the Exchange and FINRA entered into a Regulatory Services Agreement (“RSA”) pursuant to which FINRA will conduct surveillance, investigation, examination,

<sup>7</sup> FINRA’s maximum fine for minor rule violations under FINRA Rule 9216(b) is \$2,500. The Exchange will apply an identical maximum fine amount for eligible violations of General 7 to achieve consistency with FINRA and also to amend its minor rule violation plan (“MRVP”) to include such fines. Like FINRA, the Exchange would be able to pursue a fine greater than \$2,500 for violations of General 7 in a regular disciplinary proceeding or an acceptance, waiver, and consent (“AWC”) under General 5, Section 3 as appropriate. Any fine imposed in excess of \$2,500 or not otherwise covered by Rule 19d-1(c)(2) of the Act would be subject to prompt notice to the Commission pursuant to Rule 19d-1 under the Act. As noted below, in assessing the appropriateness of a minor rule fine with respect to CAT Compliance Rules, the Exchange will be guided by the same factors that FINRA utilizes. See text accompanying notes 9–10, *infra*.

<sup>8</sup> See Securities Exchange Act Release No. 88366 (March 12, 2020), 85 FR 15238 (March 17, 2020) (File No. 4-618).