

and Markets, pursuant to delegated authority.<sup>18</sup>

Kevin M. O'Neill,  
Deputy Secretary.

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-72560; File No. SR-NYSEARCA-2014-72]

### Self-Regulatory Organizations; NYSE Arca, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Amending the Fees for NYSE ArcaBook

July 8, 2014.

Pursuant to Section 19(b)(1) <sup>1</sup> of the Securities Exchange Act of 1934 (the "Act") <sup>2</sup> and Rule 19b-4 thereunder,<sup>3</sup> notice is hereby given that, on June 24, 2014, NYSE Arca, Inc. (the "Exchange" or "NYSE Arca") filed with the Securities and Exchange Commission (the "Commission") the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the self-regulatory organization. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The Exchange proposes to amend the fees for NYSE ArcaBook, which will be operative on July 1, 2014. The text of the proposed rule change is available on the Exchange's Web site at [www.nyse.com](http://www.nyse.com), at the principal office of the Exchange, and at the Commission's Public Reference Room.

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

In its filing with the Commission, the self-regulatory organization included statements concerning the purpose of, and basis for, the proposed rule change and discussed any comments it received on the proposed rule change. The text of those statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, 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 the fees for NYSE ArcaBook, which will be operative on July 1, 2014.

NYSE ArcaBook is a real-time market data product that is a compilation of all limit orders resident in the NYSE Arca limit order book. The Exchange charges the following monthly display fees for NYSE ArcaBook:<sup>4</sup>

Access Fee .....	\$2,000.
Redistribution Fee ...	\$1,500.
Subscriber Fees .....	Professional: \$40. Non-professional: \$10. Non-professional Fee Cap: \$20,000.

The cap applies to any broker-dealer for non-professional subscribers that maintain brokerage accounts with the broker-dealer.<sup>5</sup> The Exchange proposes to establish tiered non-professional user fees, which would remain at the current rate of \$10 per user for up to 1,500 non-professional users, and then decrease to \$6 per user for the next 1,500 non-professional users and then decrease to \$3 per user for all non-professional users above that level, with the non-professional fee cap for broker-dealers set at \$40,000. Most vendors with non-professional users will pay the same fees as they do today, while a small number of vendors with larger numbers of non-professional users will pay more than they do today.

The Exchange believes that the proposed rule change is consistent with the market-based approach of the Securities and Exchange Commission ("Commission"). The decision of the United States Court of Appeals for the District of Columbia Circuit in *NetCoalition v. SEC*, 615 F.3d 525 (D.C. Cir. 2010), upheld reliance by the Commission upon the existence of competitive market mechanisms to set reasonable and equitably allocated fees for proprietary market data:

In fact, the legislative history indicates that the Congress intended that the market system 'evolve through the interplay of competitive forces as unnecessary regulatory restrictions are removed' and that the SEC wield its regulatory power 'in those situations where competition may not be sufficient,' such as

in the creation of a 'consolidated transactional reporting system.'

*Id.* at 535 (quoting H.R. Rep. No. 94-229 at 92 (1975), as reprinted in 1975 U.S.C.A.N. 323). The court agreed with the Commission's conclusion that "Congress intended that 'competitive forces should dictate the services and practices that constitute the U.S. national market system for trading equity securities.'"<sup>6</sup>

As explained below in the Exchange's Statement on Burden on Competition, the Exchange believes that there is substantial evidence of competition in the marketplace for proprietary market data and that the Commission can rely upon such evidence in concluding that the fees proposed in this filing are the product of competition and therefore satisfy the relevant statutory standards.<sup>7</sup> In addition, the existence of alternatives to NYSE ArcaBook, including real-time consolidated data, free delayed consolidated data, and proprietary data from other sources, as described below, further ensures that the Exchange cannot set unreasonable fees, or fees that are unreasonably discriminatory, when vendors and subscribers can elect such alternatives.

As the *NetCoalition* decision noted, the Commission is not required to undertake a cost-of-service or ratemaking approach.<sup>8</sup> The Exchange believes that, even if it were possible as a matter of economic theory, cost-based pricing for non-core market data would be so complicated that it could not be done practically.<sup>9</sup>

<sup>6</sup> *NetCoalition*, 615 F.3d at 535.

<sup>7</sup> Section 916 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act") amended paragraph (A) of Section 19(b)(3) of the Act, 15 U.S.C. 78s(b)(3), to make clear that all exchange fees for market data may be filed by exchanges on an immediately effective basis.

<sup>8</sup> *NetCoalition*, 615 F.3d at 536.

<sup>9</sup> The Exchange believes that cost-based pricing would be impractical because it would create enormous administrative burdens for all parties, including the Commission, to cost-regulate a large number of participants and standardize and analyze extraordinary amounts of information, accounts, and reports. In addition, and as described below, it is impossible to regulate market data prices in isolation from prices charged by markets for other services that are joint products. Cost-based rate regulation would also lead to litigation and may distort incentives, including those to minimize costs and to innovate, leading to further waste. Under cost-based pricing, the Commission would be burdened with determining a fair rate of return, and the industry could experience frequent rate increases based on escalating expense levels. Even in industries historically subject to utility regulation, cost-based ratemaking has been discredited. As such, the Exchange believes that cost-based ratemaking would be inappropriate for proprietary market data and inconsistent with Congress's direction that the Commission use its authority to foster the development of the national

Continued

<sup>18</sup> 17 CFR 200.30-3(a)(12).

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

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

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

<sup>4</sup> See Securities Exchange Act Release No. 71483 (February 5, 2014), 79 FR 8217 (February 11, 2014) (SR-NYSEARCA-2014-12).

<sup>5</sup> See Securities Exchange Act Release No. 54597 (October 12, 2006), 71 FR 62029 (October 20, 2006) (SR-NYSEARCA-2006-21).

## 2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with the provisions of Section 6 of the Act,<sup>10</sup> in general, and Sections 6(b)(4) and 6(b)(5) of the Act,<sup>11</sup> in particular, in that it provides an equitable allocation of reasonable fees among its members, issuers, and other persons using its facilities and is not designed to permit unfair discrimination among customers, issuers, brokers, or dealers. The Exchange also believes that the proposed rule change is consistent with Section 11(A) of the Act<sup>12</sup> in that it is consistent with (i) fair competition among brokers and dealers, among exchange markets, and between exchange markets and markets other than exchange markets; and (ii) the availability to brokers, dealers, and investors of information with respect to quotations for and transactions in securities. Furthermore, the proposed rule change is consistent with Rule 603 of Regulation NMS,<sup>13</sup> which provides that any national securities exchange that distributes information with respect to quotations for or transactions in an NMS stock do so on terms that are not unreasonably discriminatory.

The Exchange believes that the increase in the non-professional fee cap is reasonable because until this year, the Exchange had not raised NYSE ArcaBook fees since they were proposed more than seven years ago in 2006, and the total non-professional user fee for all issues has remained the same since that time.<sup>14</sup> The Exchange has enhanced NYSE ArcaBook through delivery upgrades, and the message traffic has increased threefold. The Exchange believes that the new fees are fair and reasonable in light of increased quote message traffic and the Exchange's ongoing effort to improve the delivery technology for market data.

In addition, the Exchange believes that the proposed fees and cap are reasonable because they are less than the fees applicable to similar products offered by The NASDAQ Stock Market ("NASDAQ"). Under NASDAQ Rule 7023, NASDAQ offers (i) Level 2, which is the best-priced displayed orders or

quotes from each NASDAQ member for NASDAQ-listed issues, for \$9 per month per non-professional user; (ii) TotalView, which covers all displayed orders and quotes from all NASDAQ members for NASDAQ-listed issues for \$14 per month per non-professional user (which includes Level 2); and (iii) OpenView, which covers all displayed orders and quotes from all NASDAQ members for issues listed on other exchanges for \$1 per month per non-professional user. Together these fees total \$15 per month per non-professional subscriber to cover all issues. NASDAQ's monthly fee cap for broker-dealers to provide NASDAQ products to their non-professional customers is \$25,000, but it does not apply to Level 2 fees. In comparison, NYSE ArcaBook covers securities listed on NYSE Arca as well as other exchanges in a single product for \$10 or less per month per non-professional subscriber and no fees are excluded from the proposed cap; as such, the Exchange's proposed fees will be less than NASDAQ's fees for its three products.

The Exchange further believes that the proposed subscriber fees are equitable and not unfairly discriminatory because the fee structure of differentiated professional and non-professional fees has long been used by the Exchange for other products, by other exchanges for their products, and by the CTA and CQ Plans in order to make data more broadly available to retail customers.<sup>15</sup> Continuing to offer NYSE ArcaBook to non-professional users with the same data available to professional users results in greater equity among data recipients.

The tiered structure with decreasing fees as the number of non-professional subscribers increases is equitable and not unfairly discriminatory because it is similar to the four-tier structure used for professional subscribers by the CTA and CQ for Network A data.<sup>16</sup> Most of the broker-dealers that purchase NYSE ArcaBook have fewer than 1,500 non-professional users and would be unaffected by the change in fees, and only a small number of broker-dealers that have a large number of non-professional users will pay more as a result of the proposed cap.

<sup>15</sup> See, e.g., Securities Exchange Act Release No. 20002, File No. S7-433 (July 22, 1983) (establishing non-professional fees for CTA data); NASDAQ Rules 7023(b), 7047.

<sup>16</sup> Those monthly fees are \$50 for 1–2 devices, \$30 for 3–999 devices, \$25 for 1,000–9,999 devices, and \$20 for 10,000 or more devices. See CTA Network A Rate Schedule, available at <http://www.nyxdata.com/nyxdata/default.aspx?tabid=518>.

The Exchange notes that it recently increased its access and professional fees for NYSE ArcaBook, which also had been unchanged since 2006,<sup>17</sup> and that it is equitable to apply an increase to the cap for non-professional users as well because they also benefit from the Exchange's ongoing effort to improve the delivery technology for market data. The Exchange believes that maintaining the cap at the increased level is equitable and not unfairly discriminatory because broker-dealers will continue to get the benefit of an enterprise cap and can continue to receive a substantial discount to what the cost would be without a cap. The Exchange believes that it has structured the proposed change in a manner that minimizes its impact on most broker-dealers; those that would pay more would have the largest number of customers over which to spread the cost. The Exchange believes that its proposal will continue to encourage the availability of the data to a broad spectrum of non-professional users.

The Exchange also notes that the use of NYSE ArcaBook is entirely optional. Firms have alternative market data products from which to choose. Moreover, the Exchange is not required to make these proprietary data products available or to offer any specific pricing alternatives to any customers.

For these reasons, the Exchange believes that the proposed fees are reasonable, equitable, and not unfairly discriminatory.

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

In accordance with Section 6(b)(8) of the Act,<sup>18</sup> the Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. An exchange's ability to price its proprietary data feed products is constrained by (1) the inherent contestability of the market for proprietary data and actual competition for the sale of such data, (2) the joint product nature of exchange platforms, and (3) the existence of alternatives to proprietary data.

*The Existence of Actual Competition.* The market for proprietary data products is currently competitive and inherently contestable because there is fierce competition for the inputs necessary to the creation of proprietary data and strict pricing discipline for the proprietary products themselves. Numerous exchanges compete with

market system, and that market forces will continue to provide appropriate pricing discipline. See Appendix C to NYSE's comments to the Commission's 2000 Concept Release on the Regulation of Market Information Fees and Revenues, which can be found on the Commission's Web site at <http://www.sec.gov/rules/concept/s72899/buck1.htm>.

<sup>10</sup> 15 U.S.C. 78f(b).

<sup>11</sup> 15 U.S.C. 78f(b)(4), (5).

<sup>12</sup> 15 U.S.C. 78k-1.

<sup>13</sup> See 17 CFR 242.603.

<sup>14</sup> See *supra* notes 4 and 5.

<sup>17</sup> See *supra* note 5.

<sup>18</sup> 15 U.S.C. 78f(b)(8).

each other for listings and order flow and sales of market data itself, providing virtually limitless opportunities for entrepreneurs who wish to compete in any or all of those areas, including producing and distributing their own market data. Proprietary data products are produced and distributed by each individual exchange, as well as other entities, in a vigorously competitive market.

Competitive markets for listings, order flow, executions, and transaction reports provide pricing discipline for the inputs of proprietary data products and therefore constrain markets from overpricing proprietary market data. The U.S. Department of Justice also has acknowledged the aggressive competition among exchanges, including for the sale of proprietary market data itself. In 2011, Assistant Attorney General Christine Varney stated that exchanges “compete head to head to offer real-time equity data products. These data products include the best bid and offer of every exchange and information on each equity trade, including the last sale.”<sup>19</sup>

It is common for broker-dealers to further exploit this recognized competitive constraint by sending their order flow and transaction reports to multiple markets, rather than providing them all to a single market. As a 2010 Commission Concept Release noted, the “current market structure can be described as dispersed and complex” with “trading volume . . . dispersed among many highly automated trading centers that compete for order flow in the same stocks” and “trading centers offer[ing] a wide range of services that are designed to attract different types of market participants with varying trading needs.”<sup>20</sup> More recently, SEC Chair White has noted that competition for order flow in exchange-listed equities is “intense” and divided among many trading venues, including exchanges, more than 40 alternative trading systems, and more than 250 broker-dealers.<sup>21</sup>

<sup>19</sup> Press Release, U.S. Department of Justice, Assistant Attorney General Christine Varney Holds Conference Call Regarding NASDAQ OMX Group Inc. and IntercontinentalExchange Inc. Abandoning Their Bid for NYSE Euronext (May 16, 2011), available at <http://www.justice.gov/iso/opa/atr/speeches/2011/at-speech-110516.html>.

<sup>20</sup> Concept Release on Equity Market Structure, Securities Exchange Act Release No. 61358 (Jan. 14, 2010), 75 FR 3594 (Jan. 21, 2010) (File No. S7-02-10).

<sup>21</sup> Mary Jo White, Enhancing Our Equity Market Structure, Sandler O'Neill & Partners, L.P. Global Exchange and Brokerage Conference, (June 5, 2014) (available on the Commission Web site), citing Tuttle, Laura, 2014, “OTC Trading: Description of Non-ATS OTC Trading in National Market System Stocks,” at 7–8.

In addition, in the case of products that are distributed through market data vendors, the market data vendors themselves provide additional price discipline for proprietary data products because they control the primary means of access to certain end users. These vendors impose price discipline based upon their business models. The Exchange believes that broker-dealers will not elect to make NYSE ArcaBook available to their non-professional customers unless the broker-dealers believe that such an offering will help them attract or retain customers. All of these operate as constraints on pricing proprietary data products.

*Joint Product Nature of Exchange Platform.* Transaction execution and proprietary data products are complementary in that market data is both an input and a byproduct of the execution service. In fact, market data and trade executions are a paradigmatic example of joint products with joint costs. The decision whether and on which platform to post an order will depend on the attributes of the platforms where the order can be posted, including the execution fees, data quality, and price and distribution of their data products. Without a platform for posting quotations and executing transactions, market data would not exist.

The costs of producing market data include not only the costs of the data distribution infrastructure, but also the costs of designing, maintaining, and operating the exchange’s transaction execution platform and the cost of regulating the exchange to ensure its fair operation and maintain investor confidence. The total return that a trading platform earns reflects the revenues it receives from both products and the joint costs it incurs. Moreover, an exchange’s broker-dealer customers view the costs of transaction executions and market data as a unified cost of doing business with the exchange.

Other market participants have noted that the liquidity provided by the order book, trade execution, core market data, and non-core market data are joint products of a joint platform and have common costs.<sup>22</sup> The Exchange also

<sup>22</sup> See Securities Exchange Act Release No. 62887 (Sept. 10, 2010), 75 FR 57092, 57095 (Sept. 17, 2010) (SR-Phlx-2010-121); Securities Exchange Act Release No. 62907 (Sept. 14, 2010), 75 FR 57314, 57317 (Sept. 20, 2010) (SR-NASDAQ-2010-110); and Securities Exchange Act Release No. 62908 (Sept. 14, 2010), 75 FR 57321, 57324 (Sept. 20, 2010) (SR-NASDAQ-2010-111) (“all of the exchange’s costs are incurred for the unified purposes of attracting order flow, executing and/or routing orders, and generating and selling data about market activity. The total return that an exchange earns reflects the revenues it receives

notes that the economics literature confirms that there is no way to allocate common costs between joint products that would shed any light on competitive or efficient pricing.”<sup>23</sup>

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

The level of competition and contestability in the market is evident in the numerous alternative venues that compete for order flow, including 12 equities self-regulatory organization (“SRO”) markets, as well as internalizing broker-dealers (“BDs”) and various forms of alternative trading

from the joint products and the total costs of the joint products.”); see also Securities Exchange Act Release Nos. 71217 (Dec. 31, 2013), 79 FR 875, 877 (Jan. 7, 2014) (SR-NASDAQ-2013-162) and 70945 (Nov. 26, 2013), 78 FR 72740, 72741 (Dec. 3, 2013) (SR-NASDAQ-2013-142) (“Transaction execution and proprietary data products are complementary in that market data is both an input and a byproduct of the execution service. In fact, market data and trade execution are a paradigmatic example of joint products with joint costs.”).

<sup>23</sup> See generally Mark Hirschey, *Fundamentals of Managerial Economics*, at 600 (2009) (“It is important to note, however, that although it is possible to determine the separate marginal costs of goods produced in variable proportions, it is impossible to determine their individual average costs. This is because common costs are expenses necessary for manufacture of a joint product. Common costs of production—raw material and equipment costs, management expenses, and other overhead—cannot be allocated to each individual by-product on any economically sound basis. . . . Any allocation of common costs is wrong and arbitrary.”). This is not new economic theory. See, e.g., F.W. Taussig, “A Contribution to the Theory of Railway Rates,” *Quarterly Journal of Economics* V(4) 438, 465 (July 1891) (“Yet, surely, the division is purely arbitrary. These items of cost, in fact, are jointly incurred for both sorts of traffic; and I cannot share the hope entertained by the statistician of the Commission, Professor Henry C. Adams, that we shall ever reach a mode of apportionment that will lead to trustworthy results.”).

systems ("ATs"), including dark pools and electronic communication networks ("ECNs"). Competition among trading platforms can be expected to constrain the aggregate return that each platform earns from the sale of its joint products, but different platforms may choose from a range of possible, and equally reasonable, pricing strategies as the means of recovering total costs. For example, some platforms may choose to pay rebates to attract orders, charge relatively low prices for market data products (or provide market data products free of charge), and charge relatively high prices for accessing posted liquidity. Other platforms may choose a strategy of paying lower rebates (or no rebates) to attract orders, setting relatively high prices for market data products, or setting relatively low prices for accessing posted liquidity. In this environment, there is no economic basis for regulating maximum prices for one of the joint products in an industry in which suppliers face competitive constraints with regard to the joint offering.

*Existence of Alternatives.* The large number of SROs, BDs, and ATs that currently produce proprietary data or are currently capable of producing it provides further pricing discipline for proprietary data products. Each SRO, ATs, and BD is currently permitted to produce proprietary data products, and many currently do or have announced plans to do so, including but not limited to the Exchange, NYSE, NYSE MKT, NASDAQ OMX, BATS, and Direct Edge.

The fact that proprietary data from ATs, BDs, and vendors can bypass SROs is significant in two respects. First, non-SROs can compete directly with SROs for the production and sale of proprietary data products. Second, because a single order or transaction report can appear in an SRO proprietary product, a non-SRO proprietary product, or both, the amount of data available via proprietary products is greater in size than the actual number of orders and transaction reports that exist in the marketplace. Because market data users can thus find suitable substitutes for most proprietary market data products, such as the NASDAQ products described herein, a market that overprices its market data products stands a high risk that users may substitute another source of market data information for its own.

Those competitive pressures imposed by available alternatives are evident in the Exchange's proposed pricing. As noted above, the proposed fees for NYSE ArcaBook are less than the fees charged by NASDAQ for non-

professional use of its depth-of-book products.

In addition to the competition and price discipline described above, the market for proprietary data products is also highly contestable because market entry is rapid and inexpensive. The history of electronic trading is replete with examples of entrants that swiftly grew into some of the largest electronic trading platforms and proprietary data producers: Archipelago, Bloomberg Tradebook, Island, RediBook, Attain, TradeECN, BATS, and Direct Edge. Today, BATS and Direct Edge provide certain market data at no charge on their Web sites in order to attract more order flow, and use revenue rebates from resulting additional executions to maintain low execution charges for their users.<sup>24</sup>

Further, data products are valuable to certain end users only insofar as they provide information that end users expect will assist them or their customers. The Exchange believes that only broker-dealers that expect to derive a reasonable benefit from offering NYSE ArcaBook to their non-professional customers will choose to pay the attendant monthly fees.

In establishing the proposed fees, the Exchange considered the competitiveness of the market for proprietary data and all of the implications of that competition. The Exchange believes that it has considered all relevant factors and has not considered irrelevant factors in order to establish fair, reasonable, and not unreasonably discriminatory fees and an equitable allocation of fees among all users. The existence of alternatives to the Exchange's products, including proprietary data from other sources, ensures that the Exchange cannot set unreasonable fees, or fees that are unreasonably discriminatory, when vendors and subscribers can elect these alternatives or choose not to purchase a specific proprietary data product if its cost to purchase is not justified by the returns any particular vendor or subscriber would achieve through the purchase.

<sup>24</sup> This is simply a securities market-specific example of the well-established principle that in certain circumstances more sales at lower margins can be more profitable than fewer sales at higher margins; this example is additional evidence that market data is an inherent part of a market's joint platform.

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

No written comments were solicited or received with respect to the proposed rule change.

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

The foregoing rule change is effective upon filing pursuant to Section 19(b)(3)(A)<sup>25</sup> of the Act and subparagraph (f)(2) of Rule 19b-4<sup>26</sup> thereunder, because it establishes a due, fee, or other charge imposed by the Exchange.

At any time within 60 days of the filing of such 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)<sup>27</sup> 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](mailto:rule-comments@sec.gov). Please include File Number SR-NYSEARCA-2014-72 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-NYSEARCA-2014-72. 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

<sup>25</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>26</sup> 17 CFR 240.19b-4(f)(2).

<sup>27</sup> 15 U.S.C. 78s(b)(2)(B).

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 will also be available for inspection and copying at the NYSE's principal office and on its Internet Web site at [www.nyse.com](http://www.nyse.com). 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–2014–72 and should be submitted on or before August 4, 2014.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>28</sup>

**Kevin M. O'Neill,**

*Deputy Secretary.*

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–72551; File No. SR–ICEEU–2014–06]

### Self-Regulatory Organizations; ICE Clear Europe Limited; Order Approving Proposed Rule Change Regarding Investment Losses and Non-Default Losses

July 8, 2014.

#### I. Introduction

On May 30, 2014, ICE Clear Europe Limited (“ICE Clear Europe”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change SR–ICEEU–2014–06 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> The proposed rule change was published for comment in the **Federal**

**Register** on June 6, 2014.<sup>3</sup> The Commission received no comment letters regarding the proposed change. For the reasons discussed below, the Commission is granting approval of the proposed rule change.

#### II. Description

ICE Clear Europe is proposing to update its Rules to address certain investment losses on margin and guaranty fund contributions provided by clearing members (as defined more fully below, “Investment Losses”) as well as other losses to the clearing house arising other than from a clearing member default (as defined more fully below, “Non-Default Losses”), including losses from general business risk and operational risk. According to ICE Clear Europe, the change to its Rules would (i) require ICE Clear Europe to apply a specified amount of its own assets to cover non-default losses and investment losses (“Loss Assets”) and (ii) require clearing members in all product categories to make contributions (referred to as “Collateral Offset Obligations”) to cover Investment Losses (but not other Non-Default Losses) that exceed the available clearing house Loss Assets. ICE Clear Europe has also stated that the proposed change would also limit its liability for losses arising from a failure of a bank or similar custodian.

United Kingdom law requires ICE Clear Europe to have rules addressing the allocation of non-default losses that threaten the clearing house's solvency and to have plans to maintain continuity of services if such continuity is threatened as a result of such losses. Plans to address losses from general business risk are also an element of the CPSS–IOSCO Principles for Financial Market Infrastructures.<sup>4</sup>

According to ICE Clear Europe, Part 1 of its Rules has been provisionally revised to include new definitions for “Investment Losses” and “Non-Default Losses,” which form the basis of the new loss allocation provisions. ICE Clear Europe has proposed creating a new definition of “Investment Losses” to mean losses incurred or suffered by

the clearing house arising in connection with the default of the issuer of any instrument and/or counterparty to any repurchase or reverse repurchase contract or similar transaction in respect of investment or reinvestment by the clearing house of margin (other than variation margin) or guaranty fund contributions other than a loss resulting from the clearing house's failure to follow its own investment policies or a loss resulting from custodial losses. ICE Clear Europe has stated that Investment Losses will be allocated separately from losses arising from a default. ICE Clear Europe has also stated that an investment loss relating to margin or guaranty fund contributions provided by a defaulting clearing member will be included in the calculation of Investment Losses, and that the amount of Investment Losses will thus not be reduced by any amounts ICE Clear Europe may use from its default resources under Parts 9 and 11 of its Rules (including guaranty fund contributions or assessments) to address losses from a default.

ICE Clear Europe has also proposed to add a definition of “Non-Default Losses” to mean losses suffered by the clearing house (other than Investment Losses) arising in connection with any event other than an event of default and which threaten the solvency of the clearing house. In addition, ICE Clear Europe has proposed a new definition for “Collateral Offset Obligations,” which refers to obligations of a clearing member arising pursuant to new Rule 919, as discussed below, to make payments to the clearing house in respect of Investment Losses, which offset obligations of the clearing house to pay the clearing member or return assets in respect of margin provided to the clearing house by the clearing member. ICE Clear Europe has stated that it has also proposed to add new definitions for “Custodian” (which is used in new Rule 919), and “Loss Assets,” meaning assets of the clearing house itself that are intended to be applied to Investment Losses and Non-Default Losses under Rule 919 as described below.

ICE Clear Europe also proposes changes in Rules 111 and 905 to conform and clarify the description of various types of losses or liabilities that may be borne by the clearing house, through addition of references to “claims” and “shortfalls,” in order to provide for consistent use of language throughout its Rules where other references are made to losses.

ICE Clear Europe has stated that the proposed change would also adopt new Rule 919, which includes the allocation

<sup>3</sup> Securities Exchange Act Release No. 34–72297 (June 2, 2014), 79 FR 32792 (June 6, 2014) (SR–ICEEU–2014–06).

<sup>4</sup> ICE Clear Europe has also noted that the Commodity Futures Trading Commission has adopted a similar requirement for systemically important derivatives clearing organizations and “subpart C” derivatives clearing organizations in CFTC Rule 39.33(b)(2), and that the Commission has proposed a similar requirement for certain “covered clearing agencies” in proposed Rule 17Ad–22(e)(15). See Standards for Covered Clearing Agencies, Proposed rule, Securities Exchange Act Release No. 34–71699 (Mar. 12, 2014), 79 FR 29507 (May 22, 2014).

<sup>28</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.