

will enhance investor confidence and protection.

In approving the proposed rule change, the Commission has considered the proposed rule change's impact on efficiency, competition, and capital formation.<sup>164</sup> The Commission believes that the proposed rule change includes accommodations that help promote efficiency because the proposed rule change is designed to allow flexibility for each dealer to adapt its policies and procedures to be reasonably related to the nature of its business, including its level of sales and trading activity and the type of customer transactions at issue. The Commission also believes that the reasonable diligence standard and the SMMP customer affirmation are sufficiently flexible to be met by a diverse population of dealers and allows a dealer to evidence compliance in a manner that may be different from that used by another dealer. The Commission does not believe that the proposed rule change would impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act since it would apply to all dealers who engage in municipal securities transactions. The Commission also believes that the proposed rule change takes into account competitive concerns that could arise from the diversity of dealer characteristics because proposed Rule G-18 embodies a broad and flexible principles-based standard. The Commission has reviewed the record for the proposed rule change and notes that the record does not contain any information to indicate that the proposed rule change would have a negative effect on capital formation.

As noted above, the Commission received six comment letters on the filing. The Commission believes that the MSRB considered carefully and responded adequately to comments and concerns regarding the proposed rule change. While commenters suggested changes to the filing or opposed certain aspects of the proposed rule change, the Commission notes that no commenters argued that the proposed rule change was inconsistent with the applicable provisions of the Act.

For the reasons noted above, including those discussed in the MSRB Response Letter, the Commission believes that the proposed rule change is consistent with the Act.

## V. Conclusion

*It is therefore ordered*, pursuant to Section 19(b)(2) of the Act,<sup>165</sup> that the

proposed rule change (SR-MSRB-2014-07) be, and hereby is, approved.

For the Commission, pursuant to delegated authority.<sup>166</sup>

**Brent J. Fields,**  
Secretary.

[FR Doc. 2014-29023 Filed 12-10-14; 8:45 am]

BILLING CODE 8011-01-P

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-73755; File Nos. SR-FICC-2014-810; SR-NSCC-2014-811; SR-DTC-2014-812]

### Self-Regulatory Organizations; Fixed Income Clearing Corporation; National Securities Clearing Corporation; The Depository Trust Company; Notice of Filing of Advance Notices, as Amended, To Amend and Restate the Third Amended and Restated Shareholders Agreement, Dated as of December 7, 2005

December 5, 2014.

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<sup>1</sup> ("Clearing Supervision Act") and Rule 19b-4(n)(1)(i)<sup>2</sup> under the Securities Exchange Act of 1934, notice is hereby given that on November 5, 2014, Fixed Income Clearing Corporation ("FICC"), National Securities Clearing Corporation ("NSCC"), and The Depository Trust Company ("DTC," together with FICC and NSCC, "Operating Subsidiaries") filed with the Securities and Exchange Commission ("Commission") the advance notices SR-FICC-2014-810, SR-NSCC-2014-811 and SR-DTC-2014-812 ("Advance Notices"), respectively, as described in Items I and II below, which Items have been prepared primarily by the Operating Subsidiaries. On November 17, 2014, the Operating Subsidiaries each filed Amendments No. 1 to the Advance Notices.<sup>3</sup> On November 17, 2014 FICC withdrew Amendment No. 1 and filed Amendment No. 2 to advance notice SR-FICC-2014-810.<sup>4</sup> The Commission

<sup>166</sup> 17 CFR 200.30-3(a)(12).

<sup>1</sup> 12 U.S.C. 5465(e)(1).

<sup>2</sup> 17 CFR 240.19b-4(n)(1)(i).

<sup>3</sup> NSCC and DTC filed Amendment Nos. 1 to provide additional description of the changes proposed in advance notices SR-NSCC-2014-811 and SR-DTC-2014-812, respectively.

<sup>4</sup> FICC withdrew Amendment No. 1 to advance notice SR-FICC-2014-810 due to an error in filing the amendment. FICC filed Amendment No. 2 to advance notice SR-FICC-2014-810 in order to provide additional description of the changes proposed in the advance notice.

is publishing this notice to solicit comments on the Advance Notices, as amended, from interested persons.

## I. Clearing Agencies' Statement of the Terms of Substance of the Advance Notices

The Advance Notices, as amended, were filed by the Operating Subsidiaries in connection with the amendment and restatement of the Third Amended and Restated Shareholders Agreement, dated as of December 7, 2005 ("Existing Shareholders Agreement"), by and among The Depository Trust & Clearing Corporation ("DTCC"), Operating Subsidiaries, and the other parties thereto (such Existing Shareholders Agreement as so proposed to be amended and restated, "Revised Shareholders Agreement"), as more fully described below.

## II. Clearing Agencies' Statement of the Purpose of, and Statutory Basis for, the Advance Notices

In their filings with the Commission, the Operating Subsidiaries included statements concerning the purpose of and basis for the Advance Notices, as amended, and discussed any comments received on the Advance Notices, as amended. The text of these statements may be examined at the places specified in Item IV below. The Operating Subsidiaries have prepared summaries, set forth in sections (A) and (B) below, of the most significant aspects of these statements.

### (A) Clearing Agencies' Statement on Comments on the Advance Notices Received From Members, Participants, or Others

Beginning in June 2014, DTCC has conducted outreach to users of the services and facilities of the Operating Subsidiaries in order to provide them with advance notice of the proposed changes and the impact on a firm-by-firm basis. The outreach efforts have included providing individual shareholder firms with statements of their projected potential impact. As of the date of this filing, no written comments relating to the proposed changes have been received in response to this outreach. The Commission will be notified of any written comments received.

### (B) Advance Notices Filed Pursuant to Section 806(e) of the Payment, Clearing and Settlement Supervision Act

#### Description of Change

The Existing Shareholders Agreement is proposed to be amended to: (1) Update and simplify the formulas used to allocate shares of the common stock

<sup>164</sup> See 15 U.S.C. 78c(f).

<sup>165</sup> 15 U.S.C. 78s(b)(2).

of DTCC ("Common Shares") among users of the Operating Subsidiaries, which are DTCC's registered clearing agency subsidiaries, and to determine the purchase price of Common Shares for purposes of such allocations and other transfers of Common Shares; (2) provide for the requirement to purchase newly-issued Common Shares by holders of Common Shares ("Common Share Holders") that are required to purchase and own Common Shares ("Mandatory Share Holders"), subject to the approval of Mandatory Share Holders holding two-thirds of all Common Shares held by Mandatory Share Holders; (3) provide for the repurchase of Common Shares from Mandatory Share Holders by DTCC, in an aggregate amount up to the aggregate amount of all newly-issued Common Shares purchased by Mandatory Share Holders; (4) provide for the reallocation of entitlements to own Common Shares at least once every three calendar years, but not otherwise limiting the frequency of such reallocation; and (5) make other conforming and technical changes as described below and as shown on Exhibit 3 to this filing.<sup>5</sup> Common Share Holders which are permitted but not required to purchase and own Common Shares ("Voluntary Share Holders") would not be required to purchase any newly-issued Common Shares or to sell any Common Shares to DTCC in connection with such a repurchase.

The proposed changes to the Existing Shareholders Agreement are the product of a comprehensive review by DTCC of its ownership, governance and capital structure, undertaken for the purposes of increasing the financial resources available to support the conduct of the businesses of the Operating Subsidiaries and enhancing regulatory risk management.<sup>6</sup> The proposed amendments are subject to the non-objection of the Commission to the Advance Notices as well as the consent of the Common Share Holders.

*Existing Shareholders Agreement.* Pursuant to the Existing Shareholders Agreement and the rules of each of the

Operating Subsidiaries,<sup>7</sup> certain members and participants are required to be Mandatory Share Holders and parties to the Existing Shareholders Agreement; certain members and participants are permitted, but not required, to be Voluntary Share Holders and parties to the Existing Shareholders Agreement; and certain members and participants are not permitted to purchase and own Common Shares or become parties to the Existing Shareholders Agreement.

Section 2.01 of the Existing Shareholders Agreement provides for the periodic reallocation of Common Shares in order to accommodate changes in the users of the Operating Subsidiaries and changes in the users' use of the services and facilities of the Operating Subsidiaries. Entitlements to purchase and own Common Shares are reallocated no more frequently than once a year and no less frequently than once every three years. Such a reallocation is, in every case, based on relative use of the services and facilities of the Operating Subsidiaries over the period since the last reallocation.<sup>8</sup> In each reallocation, users (whether or not they are already Common Share Holders) that are permitted but not required to purchase and own Common Shares ("Voluntary Purchaser Participants") may purchase Common Shares in amounts commensurate with their use of the services and facilities of the Operating Subsidiaries. Users (whether or not they are already Common Share Holders) that are required to purchase and own Common Shares ("Mandatory Purchaser Participants") must purchase and own Common Shares in amounts (i) commensurate with their use of the services and facilities of the Operating Subsidiaries plus (ii) a pro-rata amount of any Common Shares that Voluntary Purchaser Participants have a right to purchase but do not elect to purchase. In each reallocation, each Common Share Holder (whether a Voluntary Purchaser Participant or a Mandatory Purchaser Participant) that owns more Common Shares than its share entitlement has the obligation to sell its excess Common Shares so that such

Common Shares may be reallocated to Voluntary Purchaser Participants that elect to purchase Common Shares and Mandatory Purchaser Participants that are required to purchase Common Shares, in accordance with their entitlements.

Under the Existing Shareholders Agreement, the formula used to calculate entitlements for this periodic reallocation of Common Shares takes into account fees paid to the Operating Subsidiaries, as well as the average market value of securities held in custody at DTC (referred to as "DTC long positions") by the applicable user, in each case, over the relevant reallocation period. Additionally, the purchase price of each Common Share, which is calculated annually, is determined by a formula based on the book value of DTCC less a portion of the retained earnings of the Operating Subsidiaries.

The Existing Shareholders Agreement further provides that Common Share Holders have the right to elect all of the directors of DTCC (other than two directors elected by the holders of the shares of existing preferred stock of DTCC), and to vote on all other matters on which shareholders are entitled to vote. The Existing Shareholders Agreement further provides that a person elected as a director of DTCC also serves as a director of each of the Operating Subsidiaries, coordinating governance of DTC, NSCC, and FICC with their parent company, DTCC.

*Proposed Amendments to the Existing Shareholders Agreement.* The Revised Shareholders Agreement would: (1) Remove the DTC long positions from the formula used to determine the allocation of entitlements to purchase Common Shares; (2) revise the formula for determining the purchase price of Common Shares to reflect the tangible book value of DTCC and eliminate any deduction of the retained earnings of the Operating Subsidiaries; (3) provide for the purchase of newly-issued Common Shares by Mandatory Share Holders, subject to the approval of Mandatory Share Holders holding two-thirds of all outstanding Common Shares held by Mandatory Share Holders; (4) provide for the repurchase of Common Shares from Mandatory Share Holders by DTCC, in an aggregate amount up to the aggregate amount of all newly-issued Common Shares purchased by Mandatory Share Holders; (5) provide for the reallocation of entitlements to own Common Shares at least once every three calendar years, but not otherwise limiting the frequency of such reallocation; and (6) make other conforming and technical changes as

<sup>5</sup> Commission notes that Exhibit 3 to the Advance Notices was filed confidentially by the Operating Subsidiaries and is not attached to this notice.

<sup>6</sup> On July 18, 2012, the Financial Stability Oversight Council ("FSOC") designated each of the Operating Subsidiaries a systemically important financial market utility under Title VIII of the Clearing Supervision Act. See FSOC 2012 Annual Report, Appendix A, available at <http://www.treasury.gov/initiatives/fsoc/Documents/2012%20Annual%20Report.pdf>. Therefore, each of the Operating Subsidiaries is required to comply with the enhanced regulatory supervision and risk-management requirements under the Clearing Supervision Act.

<sup>7</sup> See DTC Rule 31 (DTCC Shareholders Agreement); NSCC Rule 64 (DTCC Shareholders Agreement); Mortgage-Backed Securities Division of FICC ("MBS") Rule 39 (DTCC Shareholders Agreement); and Government Securities Division of FICC ("GSD") Rule 49 (DTCC Shareholders Agreement), available at <http://dtcc.com/legal/rules-and-procedures.aspx>.

<sup>8</sup> Additionally, and separately from the periodic reallocation, Common Shares are redistributed from time to time to Common Share Holders pursuant to Section 2.02 of the Existing Shareholders Agreement as a result of member retirements.

described below and as shown on Exhibit 3 to this filing.

(1) Update Common Share Allocation Formula

The formula used to periodically reallocate entitlements to purchase Common Shares, defined in Section 1.01 of the Existing Shareholders Agreement as the "Common Share Amount," is historical and, in the view of DTCC, no longer an appropriate measure of use of the Operating Subsidiaries.

The Common Share Amount calculation was based on the Shareholders Agreement of DTC, which was in effect before DTC became a subsidiary of DTCC in 1999. It was adopted to balance the interests of custodian banks with other types of users of DTC, including broker-dealers, that did not hold securities inventory at DTC but paid transactional fees for services. The current formula provides that (i) 80% of the entitlement to purchase Common Shares is based on the amount of fees paid by a user to the Operating Subsidiaries during the period starting on the first day of the calendar year in which the previous allocation was made and ending on the last day of the calendar year preceding the calendar year in which the allocation is to be made ("Allocation Period"), and (ii) the remaining 20% of the entitlement is based on the average market value of all securities credited to the DTC account of that user, *i.e.*, its DTC long positions, as of the end of the last business day of each month during the Allocation Period.

Today, all users of the three Operating Subsidiaries pay fees to one or more of the Operating Subsidiaries based on usage of the services and facilities of the Operating Subsidiaries, including fees for DTC long positions. Accordingly, DTCC has determined that it is no longer appropriate to factor into the calculation of share entitlements both the market value of DTC long positions and fees paid to DTC in respect of such DTC long positions. The Revised Shareholders Agreement would update the formula used to periodically reallocate entitlements to purchase Common Shares, defined in Section 1.01 of the Revised Shareholders Agreement as the "Common Share Allocation Amount," to eliminate the market value of DTC long positions, so that the formula would be based solely on fees paid to the Operating Subsidiaries.

Both the composition of users of the Operating Subsidiaries as well as the users' use of the services and facilities of the Operating Subsidiaries have

changed over time, and today the consistent metric for measuring such use across the Operating Subsidiaries is fees paid. Therefore, and in order to ensure that the allocations of entitlements to purchase Common Shares continue to be proportionate to the use of the Operating Subsidiaries, DTCC is proposing to update the formula by removing the market value of DTC long positions, and basing the allocations entirely on fees paid to the Operating Subsidiaries. While custodian banks with securities holdings at DTC may be entitled (and required) to purchase fewer Common Shares as a result of this proposal, those Common Shares would be re-allocated to other Common Share Holders proportionally. The proposal would adjust the overall shareholding of Common Shares so that it is based on a uniform metric across the Operating Subsidiaries that is representative of the current use of the Operating Subsidiaries.

(2) Amendment of Common Share Price Formula

As described below, two amendments are proposed to the formula for the purchase price of Common Shares. First, the deduction of a portion of retained earnings, a vestige of the historical development of DTCC, would be eliminated. Second, instead of full book value, the basis of the revised formula would be the tangible book value of DTCC. With these changes, the value of Common Shares for purchases, sales, and transfers should more closely reflect the liquidation value of the enterprise.

Under Section 1.01 of the Existing Shareholders Agreement, the price of Common Shares, the "Common Share Price," is defined by a formula that excludes a portion of the retained earnings of the Operating Subsidiaries from DTCC's book value. The Common Share Price is the price used (i) in connection with purchases and sales of Common Shares among Voluntary Purchaser Participants and Mandatory Purchaser Participants in the periodic reallocation of Common Shares and (ii) in connection with the transfer of the Common Shares of retiring or disqualified Common Share Holders. The Revised Shareholders Agreement would replace the formula contained in the Existing Shareholders Agreement with a formula designed to reflect the tangible book value of DTCC, *i.e.*, the full book value of DTCC less intangible items of book value (goodwill and intangible assets) and the liquidation

preference of the preferred stock of DTCC.<sup>9</sup>

When DTC and NSCC became subsidiaries of DTCC, the DTC shareholders who were DTC participants exchanged their DTC shares for DTCC Common Shares and became Common Share Holders. At that time, no members of NSCC ("NSCC Members") were NSCC shareholders, so no NSCC Members became Common Share Holders. NSCC Members were first given the opportunity to purchase Common Shares in the year 2000 share reallocation. It was considered unfair double-counting for NSCC Members to purchase DTCC Common Shares in that share reallocation at a price augmented by the retained earnings of NSCC. For this reason, the retained earnings of NSCC were deducted from DTCC's book value in determining the price of Common Shares. When Government Securities Clearing Corporation and MBS Clearing Corporation (later merged to become FICC) became subsidiaries of DTCC in 2002, this construct was continued. Under the Existing Shareholders Agreement, the price of Common Shares is determined by deducting the aggregate amount of the retained earnings of each of the Operating Subsidiaries (although the deduction of DTC retained earnings is limited to \$24,007,000, an amount representing the retained earnings of DTC as of December 31, 2001) from the book value of the Common Shares as of December 31 of the preceding calendar year.

As stated, the deduction of the retained earnings of the Operating Subsidiaries in this formula was intended to be a one-time adjustment to address unfairness to the participants of the Operating Subsidiaries that was tied to the corporate transactions through which each Operating Subsidiary was integrated into the DTCC family. Therefore, with the passage of time and the turnover in participants, the deduction no longer serves this historical purpose, or any purpose, in the reallocations of entitlements to purchase Common Shares that occurred after the integration of the Operating Subsidiaries. The proposed change is a part of the effort to update the Existing Shareholders Agreement.

In the Revised Shareholders Agreement, the formula for the purchase price of Common Shares would be based on the tangible book value of

<sup>9</sup>Intangible items of book value used in this calculation, *i.e.*, goodwill and intangible assets, are shown on DTCC's Consolidated Statement of Financial Condition, which is available on the DTCC Web site at <http://dtcc.com/legal/financial-statements.aspx>.

DTCC, a price that would more accurately represent the liquidation value of DTCC, and keep the price more stable and predictable over time. While the proposal may cause the purchase price of Common Shares to increase somewhat, it should not materially impair the ability of the members and participants of the Operating Subsidiaries to acquire Common Shares.

(3) Raise Capital Through the Issue and Sale of Newly-Issued Common Shares to Mandatory Share Holders

In order to raise capital for business purposes, the Revised Shareholders Agreement would provide that DTCC may sell newly-issued Common Shares to Mandatory Share Holders on a mandatory basis. Proceeds of the sale of these newly-issued Common Shares would be contributed by DTCC to the Operating Subsidiaries as capital as needed so that the Operating Subsidiaries may continue to provide efficiently for the prompt and accurate clearance and settlement of securities transactions in U.S. securities markets. Each issuance and required purchase of Common Shares for this purpose would be subject to the approval of the Mandatory Share Holders holding two-thirds of all Common Shares held by Mandatory Share Holders. Voluntary Share Holders would not be required or permitted to purchase these newly-issued Common Shares.

The Operating Subsidiaries require additional capital to support their business operations. Historically, they have operated on an at-cost or near-cost basis and rebated any excess revenues to users of their services. Recently, however, the Operating Subsidiaries have experienced a greater need to increase capital to meet higher operating costs and, as systemically important financial market utilities, to satisfy heightened risk management requirements. DTCC has performed extensive analyses to determine these needs, and has considered alternative means to address them. A principal objective is maintenance of sufficient, readily available, liquid net assets to allow the Operating Subsidiaries to meet current and projected operating requirements under a range of scenarios, including adverse market conditions. An increase in fees was deemed impractical because it would not necessarily generate sufficient resources in a reasonable time frame and depends on transactional volumes, which may be volatile. DTCC was also concerned with the financial burden that significant fee increases could place on users over an extended period.

As a user-owned and governed organization, DTCC does not have access to public markets to raise common equity. Accordingly, the Revised Shareholders Agreement would contain a mechanism to provide DTCC with the ability to raise capital by selling newly-issued Common Shares to Mandatory Share Holders on a mandatory basis, pro rata in accordance with their shareholdings at the time of such sale. As the principal users of the services and facilities of the Operating Subsidiaries, Mandatory Share Holders benefit directly from the critical clearance and settlement services provided by the Operating Subsidiaries. Importantly, the mechanism would only be exercised with the approval of Mandatory Share Holders holding two-thirds of all Common Shares held by Mandatory Share Holders. Therefore, the implementation of this mechanism for any particular amount of capital or number of Common Shares, at any time, would require a vote of the Mandatory Share Holders.

(4) Mandatory Repurchase of Common Shares

The Revised Shareholders Agreement would also provide a mechanism under which DTCC may repurchase Common Shares from Mandatory Share Holders on a mandatory basis in an aggregate amount up to the aggregate amount of all newly-issued Common Shares purchased by Mandatory Share Holders. This would be at the discretion of the DTCC Board of Directors (which includes all the same directors as the Boards of DTC, NSCC, and FICC), to allow flexibility to return funds to Mandatory Share Holders if the Operating Subsidiaries have capital in excess of their capital needs.

(5) Frequency of Reallocation of Already-Issued Common Shares

The Revised Shareholders Agreement would provide that the reallocation of entitlements to own already issued Common Shares may take place when determined by the DTCC Board of Directors, but no less frequently than once every three calendar years. While the Existing Shareholders Agreement restricts DTCC from performing this reallocation more frequently than once a year, the proposed change would remove this restriction in order to allow more frequent reallocations, when appropriate. Each reallocation aligns a Common Share Holder's entitlements to own already issued Common Shares with that firm's use of the Operating Subsidiaries. This update will permit these alignments to take place more frequently and ownership of Common

Shares can be a more contemporaneous reflection usage.

(6) Other Conforming and Technical Amendments to the Existing Shareholders Agreement

The Revised Shareholders Agreement would also include certain other technical amendments, including conforming and clarifying changes, as reflected on Exhibit 3 to this filing. Among those changes is an amendment to the definition of "Common Share Amount" in Section 1.01 of the Existing Shareholders Agreement (called the "Common Share *Allocation* Amount" in the Revised Shareholders Agreement), to clarify that the calculation does not include any fees that are pass-through fees, *i.e.*, amounts collected by an Operating Subsidiary for the account of a third party and paid by that Operating Subsidiary to a third party.

The definition of "Settlement" in Section 1.01 of the Existing Shareholders Agreement will also be amended to move the time at which settlement is effected from 5:00 p.m. New York City Time on the Settlement Date, as such terms are defined in the Existing Shareholders Agreement, to 4:00 p.m. New York City Time on the Settlement Date. This is an operational change in order to align Common Share settlement times with the routine times of end of day settlement for each of the Operating Subsidiaries.

A further clarifying amendment would include members of MBSD, other than Cash-Settling Bank Members (as such term is defined in the Rules of MBSD), within the definition of "Mandatory Purchaser Participants." As a result of the Commission's approval in 2012 of FICC becoming a central counterparty for transactions processed and cleared at its mortgage-backed securities division, the change would apply to the users of MBSD the general rule that full service members, including users of guaranteed services, of an Operating Subsidiary are Mandatory Purchaser Participants.

The Revised Shareholders Agreement would also amend the definition of "Qualified Person," which sets forth the types of entities that may hold Common Shares, to exclude: (1) Federal Reserve Banks, because it was never intended that such governmental authorities should be required to own shares in DTCC, notwithstanding that they may use certain services of the Operating Subsidiaries; (2) central counterparties or central securities depositories, because these link arrangements are for the purpose of extending clearing agency services across borders or among closely related activities and products

but not for ownership purposes; and (3) any other financial market infrastructure or utility that the DTCC Board of Directors determines shall not be a "Qualified Person." The Revised Shareholders Agreement would also update the definition of "Deliver" to include more convenient and contemporary methods of delivering notices, for example, by electronic mail where appropriate. Finally, Section 2.02 is proposed to be updated regarding the transfer of Common Shares in the event that a Common Share Holder is no longer a Qualified Person, to provide that the pro-rata re-distribution of those Common Shares to all other Common Share Holders take place at the beginning of the following calendar year rather than contemporaneously with such Common Share Holder ceasing to be a Qualified Person, as provided in the Existing Shareholders Agreement. This change reflects current practice and is more practical, administratively.

#### Anticipated Effect on and Management of Risk

The DTCC Board of Directors unanimously approved the proposed amendments described in this filing. In evaluating these proposals, the Board carefully considered the expectations and obligations that are imposed on the Operating Subsidiaries as systemically important financial market utilities in the national system for clearance and settlement of securities transactions. The proposed changes would reduce the risks presented by the Operating Subsidiaries. The proposed change to the formula used to reallocate entitlements to purchase Common Shares would bring this methodology up to date so that the allocation accurately reflects the use of the services and facilities of the Operating Subsidiaries. The proposal to update the formula used to determine the price of Common Shares would provide an updated pricing approach, eliminating historical adjustments that are no longer relevant and providing a price based on tangible book value. The proposal to provide for the issuance of additional Common Shares by DTCC, subject to shareholder approval, for required purchase by Mandatory Share Holders, would provide a necessary source of capital for the protection of the Operating Subsidiaries, their members, and the financial markets in which they operate. The proposal also includes a mechanism under which DTCC may repurchase Common Shares from Mandatory Share Holders on a mandatory basis, at the discretion of the DTCC Board of Directors, so that funds may be returned to Mandatory Share

Holders that furnished additional capital through this mechanism, for example, if, and when, there is excess capital.

Section 805(b) of the Clearing Supervision Act states that the objectives and principles for the risk management standards prescribed under Section 805(a) shall be to promote robust risk management, promote safety and soundness, reduce systemic risks, and support the stability of the broader financial system.<sup>10</sup> The proposal represents a fair and appropriate apportionment of the business risks of the Operating Subsidiaries among their users, and would allow DTCC to raise capital for the Operating Subsidiaries in order to continue to carry on their businesses in an efficient and effective manner, thereby promoting safety and soundness of the operations of the Operating Subsidiaries, reducing their general business risks as well as systemic risk, and supporting stability in the U.S. securities markets and the broader financial system. Additionally, the provision for DTCC, subject to Mandatory Share Holder approval, to sell newly-issued Common Shares to Mandatory Share Holders is critical to the capitalization of the Operating Subsidiaries. Maintenance of adequate financial resources is a key element in reducing systemic risk, and serves to limit the contagion that could flow from an isolated disruption to the wider financial markets. In this way, the proposal to raise capital would also reduce systemic risk and serves to promote the prompt and accurate clearance and settlement of securities transactions and the protection of investors, particularly in times of market stress or crisis. The proposed provision that would allow for the repurchase of Common Shares from Mandatory Share Holders at the discretion of the DTCC Board of Directors protects Mandatory Share Holders by returning funds to those firms, for example, if, and when, there is excess capital.

Finally, the proposal to allow DTCC to reallocate entitlements to own Common Shares more frequently than once every year allows DTCC to align ownership of Common Shares with Common Share Holders' usage of the Operating Subsidiaries on a more contemporaneous basis, when appropriate. This proposed change reduces the risk that Common Share Holders own Common Shares that are no longer proportionate to their current use of the Operating Subsidiaries.

<sup>10</sup> 12 U.S.C. 5461(a), (b).

*Implementation Timeframe.* The Revised Shareholders Agreement would become effective (1) upon the approval of the Common Share Holders; and (2) if the Commission does not object to the Advance Notices within 60 days of the later of (i) the date the Commission receives the Advance Notices, or (ii) the date the Commission receives any further information it requests for consideration of the Advance Notices.

#### III. Date of Effectiveness of the Advance Notices, and Timing for Commission Action

The proposed change may be implemented if the Commission does not object to the proposed change within 60 days of the later of (i) the date that the proposed change was filed with the Commission or (ii) the date that any additional information requested by the Commission is received. The Operating Subsidiaries shall not implement the proposed change if the Commission has any objection to the proposed change.

The Commission may extend the period for review by an additional 60 days if the proposed change raises novel or complex issues, subject to the Commission providing the Operating Subsidiaries with prompt written notice of the extension. A proposed change may be implemented in less than 60 days from the date the Advance Notices were filed, or the date further information requested by the Commission is received, if the Commission notifies the Operating Subsidiaries in writing that it does not object to the proposed change and authorizes the Operating Subsidiaries to implement the proposed change on an earlier date, subject to any conditions imposed by the Commission.

The Operating Subsidiaries shall post notice on DTCC's Web site of proposed changes that are implemented.

#### IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the Advance Notices are consistent with the Clearing Supervision 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-FICC-2014-810, SR-NSCC-2014-811 or SR-DTC-2014-812 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-FICC-2014-810, SR-NSCC-2014-811 or SR-DTC-2014-812. One of these file numbers should be included on the subject line if email is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet Web site (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the Advance Notices that are filed with the Commission, and all written communications relating to the Advance Notices between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for Web site viewing and printing in the Commission's Public Reference Room, 100 F Street NE., Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Operating Subsidiaries and on DTCC's Web site at <http://dtcc.com/legal/sec-rule-filings.aspx>. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-FICC-2014-810, SR-NSCC-2014-811 or SR-DTC-2014-812 and should be submitted on or before January 2, 2015.

By the Commission.

**Kevin M. O'Neill,**

*Deputy Secretary.*

[FR Doc. 2014-29005 Filed 12-10-14; 8:45 am]

**BILLING CODE 8011-01-P**

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-73762; File No. SR-FINRA-2014-050]

### Self-Regulatory Organizations; Financial Industry Regulatory Authority, Inc.; Notice of Filing of a Proposed Rule Change To Amend TRACE Rules To Require Members To Identify Transactions With Non-Member Affiliates and To Change How FINRA Disseminates a Subset of Such Transactions

December 5, 2014.

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 November 21, 2014, Financial Industry Regulatory Authority, Inc. ("FINRA") filed with the Securities and Exchange Commission ("SEC" or "Commission") the proposed rule change as described in Items I, II, and III below, which Items have been prepared by FINRA. 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

FINRA is proposing to amend the FINRA Rule 6700 Series (Trade Reporting and Compliance Engine (TRACE)) to require members to identify transactions with non-member affiliates, and to change how FINRA disseminates a specific subset of these transactions.

The text of the proposed rule change is available on FINRA's Web site at <http://www.finra.org>, at the principal office of FINRA 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, FINRA 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. FINRA 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

FINRA is amending the TRACE rules: (1) To add a new contra-party type to be used in TRACE reports to identify transactions with non-member affiliates, and (2) to require firms to identify when transactions with non-member affiliates meet specified conditions, so that FINRA can suppress dissemination of those trades.

FINRA Rule 6730 (Transaction Reporting) sets forth the requirements applicable to members for reporting transactions in TRACE-Eligible Securities.<sup>3</sup> Rule 6730(c) (Transaction Information To Be Reported) describes the items of information that must be included in a TRACE trade report. Among other things, members must identify the other side (*i.e.*, contra-party or counterparty) for each transaction.<sup>4</sup> Where the contra-party is a FINRA member, the reporting member must provide the contra-party's designated Market Participant ID ("MPID") in the trade report. All other contra-parties (including non-member affiliates) can only be identified as a "customer" when reporting the transaction to TRACE.

FINRA is proposing to amend Rule 6730 to introduce a new contra-party type to identify non-member affiliates of the member reporting the trade, and to disseminate publicly this contra-party identifier.<sup>5</sup> Currently, as noted above, when a member engages in a transaction with a non-member affiliate, that transaction is reported by the member as a trade with a customer. Thus, the proposal would provide FINRA and market participants with additional identifying information regarding the

<sup>3</sup> Rule 6710 generally defines a "TRACE-Eligible Security" as: (1) A debt security that is U.S. dollar-denominated and issued by a U.S. or foreign private issuer (and, if a "restricted security" as defined in Securities Act Rule 144(a)(3), sold pursuant to Securities Act Rule 144A); or (2) a debt security that is U.S. dollar-denominated and issued or guaranteed by an "Agency" as defined in Rule 6710(k) or a "Government-Sponsored Enterprise" as defined in Rule 6710(n).

<sup>4</sup> FINRA Rule 6730(c)(6) provides that each TRACE trade report shall contain the contra-party's identifier.

<sup>5</sup> The proposed rule change would add a new definition to Rule 6710 to define "non-member affiliate" as a non-member entity that controls, is controlled by or is under common control with a member. For the purposes of this definition, "control," along with any derivative thereof, means legal, beneficial, or equitable ownership, directly or indirectly, of 25 percent or more of the capital stock (or other ownership interest, if not a corporation) of any entity ordinarily having voting rights. The term "common control" means the same natural person or entity controls two or more entities.

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

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