outcry and therefore not dependent on a Port, but a Port is nonetheless necessary to meet Market Maker quoting obligations. The Exchange notes that Floor Market Makers that do not meet this volume threshold for their options activity in open outcry would continue to be charged at the same rate for Port Fees as all other ATP Holders.

The Exchange believes that the proposal to re-format the section of the fee schedule describing Port Fees into a table, with distinct rows and columns, is reasonable, equitable and not unfairly discriminatory as the proposed change will reduce confusion and will make the fee schedule more transparent and easier for all participants to understand.

Finally, the Exchange believes that it is subject to significant competitive forces, as described below in the Exchange's statement regarding the burden on competition.

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

In accordance with Section 6(b)(8) of the Act,[16] the Exchange does not believe that the proposed rule change would impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The Exchange believes the proposed fee change is reasonably designed to be fair and equitable, and therefore, will not unduly burden any particular group of market participants trading on the Exchange vis-à-vis another group (*i.e.,* Market Markers versus non-Market Makers). Specifically, the Exchange believes that the reduced fee for ATP Holders that utilize more than 40 Ports will relieve any undue burden that the proposed fee change might have on Marker Makers. Further, the Exchange believes that the proposed discount to the monthly Port Fee, capped at $10,000 for those NYSE Amex Options Market Maker that executes at least 50% of their market maker volume in open outcry, likewise does not impose any undue burden on competition among and between market participants because as any market making firm can seek to place individual traders on the trading floor. In addition, the Exchange believes that the proposed changes will enhance the competiveness of the Exchange relative to other exchanges and, as noted above, the increased fees are comparable to port fees offered by competing option exchanges.[17] The Exchange notes that it operates in a highly competitive market in which market participants can readily favor competing venues. In such an environment, the Exchange must continually review, and consider adjusting, its fees and credits to remain competitive with other exchanges. For the reasons described above, the Exchange believes that the proposed rule change reflects this competitive environment.

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) [18] of the Act and subparagraph (f)(2) of Rule 19b–4 [19] 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) [20] of the Act to determine whether the proposed rule change should be approved or disapproved.

IV. Solicitation of Comments

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

Electronic Comments

- Use the Commission's Internet comment form (*http://www.sec.gov/rules/sro.shtml);* or
- Send an email to *rule-comments@sec.gov.* Please include File Number SR–NYSEMKT–2014–092 on the subject line.

Paper Comments

- Send paper comments in triplicate to Brent J. Fields, Secretary, Securities and Exchange Commission, 100 F Street NE., Washington, DC 20549.

All submissions should refer to File Number SR–NYSEMKT–2014–092. This file number should be included on the subject line if email is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet Web site (*http://www.sec.gov/rules/sro.shtml).* Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for Web site viewing and printing in the Commission's Public Reference Room, 100 F Street NE., Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of such filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR–NYSEMKT–2014–092 and should be submitted on or before November 28, 2014.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[21]

Kevin M. O'Neill,

Deputy Secretary.

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[16] 15 U.S.C. 78f(b)(8).

[17] *See supra* nn. 10–11.

[18] 15 U.S.C. 78s(b)(3)(A).

[19] 17 CFR 240.19b–4(f)(2).

[20] 15 U.S.C. 78s(b)(2)(B).

[21] 17 CFR 200.30–3(a)(12).

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–73483; File No. SR–OCC–2014–14]

Self-Regulatory Organizations; The Options Clearing Corporation; Order Approving Proposed Rule Change To Better Manage Risks Concentration and Other Risks Associated With Accepting Deposits of Common Stocks for Margin Purposes

October 31, 2014.

On July 15, 2014, The Options Clearing Corporation (''OCC'') filed with the Securities and Exchange

Commission (''Commission'') the proposed rule change SR–OCC–2014–14 pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (''Act'')[1] and Rule 19b–4 thereunder.[2] The proposed rule change was published for comment in the **Federal Register** on August 5, 2014.[3] The Commission did not receive any comments on the proposed rule change. This order approves the proposed rule change.

I. Description

According to OCC, the purpose of this proposed rule change is to permit OCC to better manage concentration risk and wrong-way risk associated with accepting deposits of common stock for margin purposes. In order to manage such risks, OCC proposed to add an Interpretation and Policy to Rule 604, which specifies the forms of margin assets accepted by OCC, that will provide OCC with discretion with respect to giving value to assets deposited by a single clearing member to satisfy its margin requirement(s). In addition, OCC proposed to make clarifying amendments to an existing Interpretation and Policy under Rule 604 that gives OCC discretion to not give value to a particular type of margin collateral across all clearing members.

a. Background

OCC Rule 604 lists the types of assets that clearing members may deposit with OCC to satisfy their margin requirement(s) as well as sets forth eligibility criteria for such assets. According to OCC, common stocks, including Exchange Traded Funds (''ETFs'') and Exchange Traded Notes (''ETNs''), are the most common form of margin assets deposited by clearing members and currently comprise 68% of the $60.6 billion in clearing member margin deposits held by OCC (not including deposits in lieu of margin). According to OCC, since 2009, OCC has used its System for Theoretical Analysis and Numerical Simulations (''STANS''), which is OCC's daily automated Monte Carlo simulation-based margining methodology, to value common stocks deposited by clearing members as margin.[4] The value given to margin deposits depends on factors that include the price volatility and the price correlation relationship of common stock collateral to the balance of the cleared portfolio. The approach used by STANS incentivizes clearing members who chose to meet their margin obligations with deposits of common stocks to choose common stocks that hedge their related open positions.

According to OCC, notwithstanding the value STANS gives to deposits of common stocks, certain factors warrant OCC adjusting the value STANS gives to all clearing member margin deposits of a particular type of margin collateral. Such factors are set forth in Rule 604, Interpretation and Policy .14, and include the number of outstanding shares, number of outstanding shareholders and overall trading volume. OCC is proposing to add a new Interpretation and Policy to Rule 604 (the ''Interpretation'') so that OCC has discretion to not give margin credit to a particular clearing member when such clearing member deposits a concentrated amount of any common stock and when a common stock, deposited as margin, presents ''wrong-way risk'' to OCC. In addition, the Interpretation will provide OCC discretion to grant margin credit to a clearing member when it deposits shares of common stock that serve as a hedge to the clearing member's related open positions and would otherwise be not be given margin credit.[5]

b. Concentrated Deposits of Common Stock

OCC has determined that in the event it is necessary to liquidate a clearing member's positions (including the clearing member's margin collateral), OCC may be exposed to risk arising from a large quantity of a particular common stock deposited as margin by a clearing member. Specifically, depending on the relationship between the average daily trading volume of a particular security and the number of outstanding shares of such security deposited by a clearing member as margin, it is possible that the listed equities markets may not be able to quickly absorb all of the common stock OCC seeks to sell, or OCC may not be able to auction such securities, without an appreciable negative price impact. This occurrence, referred to by OCC as ''concentration risk,'' is greatest when the number of shares being sold is large and the average daily trading volume is low.

OCC's existing authority to not give value to otherwise eligible forms of margin only provides OCC with the discretion to not give value across all clearing member deposits of a particular common stock. However, concentration risk may be a clearing member and account-specific risk. In order to mitigate the concentration risk of a single clearing member, OCC plans to implement automated processes to monitor the composition of a clearing member's margin deposits. Such processes will identify concentration risk at both an account level and across all accounts of a clearing member. OCC proposed to add the Interpretation so that OCC has discretion to limit the margin credit granted to an individual clearing member that maintains a concentrated margin deposit of otherwise eligible common stock.

According to OCC, for the reasons stated above, OCC considers a common stock's average daily trading volume and the number of shares a clearing member deposited as margin to be the two most significant factors when making a decision to limit margin credit due to concentration risk. Accordingly, OCC will not give margin credit to clearing member margin deposits of a particular common stock in respect of a particular account when the deposited amount of such common stock is in excess of two times the average daily trade volume of such common stock over the most recent three month period. OCC's systems will continually assess the composition of clearing member margin deposits for each account maintained by the clearing member, including intra-day collateral substitutions in such accounts, to determine if a clearing member has a margin deposit with a concentrated amount of common stock. With respect to a given account, OCC's systems will automatically set appropriate limits on the amount of a particular common stock for which a clearing member may be given margin credit for any one of its

[1] 15 U.S.C. 78s(b)(1).

[2] 17 CFR 240.19b–4.

[3] Securities Exchange Act Release No. 72717 (July 30, 2014), 79 FR 45523 (August 5, 2014) (SR–OCC–2014–14). OCC also filed proposals contained in this proposed rule change as an advance notice under Section 806(e)(1) of the Payment, Clearing, and Settlement Supervision Act of 2010 (''Payment, Clearing and Settlement Supervision Act'') and Rule 19b–4(n)(1) of the Act, which was published for comment in the **Federal Register** on August 15, 2014. 12 U.S.C. 5465(e)(1); 17 CFR 240.19b–4(n)(1). *See* Securities Exchange Act Release No. 72803 (August 11, 2014), 79 FR 48285 (August 15, 2014) (SR–OCC–2014–803). The Commission did not receive any comments on the advance notice.

[4] *See* Securities Exchange Act Release No. 58158 (July 15, 2008), 73 FR 42646 (July 22, 2008) (SR–OCC–2007–20).

[5] According to OCC, consistent with the language contained in existing Interpretation & Policy .14, the Interpretation provides OCC with discretion in determining the amount of margin credit given to deposits of common stock by an individual clearing member as such determination would be based on positions held and common stock deposits made by such clearing member on a given business day. However, as discussed in the following two sections, OCC also has developed certain automated processes as well as additional internal policies that describe how OCC presently intends to exercise such discretion. According to OCC, these additional internal policies are included in OCC's collateral risk management policy, which will not be implemented until approval of this rule change with changes thereto being subject to additional rule filings.

tier accounts. In addition, and with respect to all of a clearing member's accounts, OCC will impose an add-on margin charge if, in aggregate, a clearing member deposits a concentrated amount of a particular common stock as margin across all of its accounts. The add-on margin charge will operate to negate the margin credit given to the concentrated margin deposit, and will be collected, when applicable, as part of OCC's standard morning margin process. OCC will assess the add-on margin charge across all of a clearing member's accounts on a pro-rata basis (based on the amount of the particular common stock in each of a clearing member's accounts).[6]

According to OCC, OCC staff has been monitoring concentrated common stock positions, assessing the impact of the proposed rule change described in this filing and contacting clearing members affected by the proposed rule change. OCC believes that clearing members will be able to comply with the proposed rule change without making significant changes to their day-to-day business operations. In December 2013, an information memo was posted to inform all members of the upcoming change. According to OCC, since January 2014, OCC staff has been in contact with any clearing member that would be affected by the proposed rule change. On a weekly basis, any clearing member that would see a reduction of 10% or more of its collateral value is contacted and provided an explanation of the policy and a list of concentrated positions observed in this analysis. On a monthly basis, all clearing members exhibiting any concentration risk are contacted to provide an explanation of the proposed policy and a list of concentrated positions. In both cases, clearing members are encouraged to proactively reduce concentrated positions to conform to the proposed policy. As of June 2014, twenty-five members would be affected. Implementation of the Interpretation would result in disallowing $1.2 billion in collateral value and result in margin calls for six members totaling $710 million.

[6] According to OCC, since a 2-day limit is first checked at each account, it is possible that a clearing member with multiple accounts may have more than 2-days of a given common stock on deposit in aggregate. To control this condition, a final check is done on the aggregate amount of shares held by a clearing member across all of its accounts. For example, if a particular clearing member has three accounts each holding 2-days volume of a specific common stock, the clearing member check would identify that the member was holding six days of volume in aggregate. To mitigate this risk, an add-on charge equal to the market value of four days of volume would be applied to all accounts holding that security on a pro-rata basis.

Moreover, in July 2014, OCC made an automated report concerning concentrated margin deposits of common stock available to all clearing members.

c. Wrong-Way Risk

OCC also proposed to use the Interpretation to address the risk that the common stock a clearing member has deposited as margin and which is issued by the clearing member itself or an affiliate of the clearing member will lose value in the event the clearing member providing such margin defaults, which is known as ''wrong-way risk.'' According to OCC, wrong-way risk occurs when a clearing member makes a deposit of common stock issued by it or an affiliate and, in the event the clearing member defaults, the clearing member's common stock margin deposit will also be losing value at the same time because there is likely to be a strong correlation between the clearing member's creditworthiness and the value of such common stock. In order to address wrong-way risk, the Interpretation will implement automated systems that will not give margin credit to a clearing member that deposits common stock issued by such clearing member or an affiliate as margin collateral. OCC proposed to define ''affiliate'' broadly in the Interpretation to include any entity with direct or indirect equity ownership of 10% of the clearing member, or any entity for which the clearing member holds 10% of the direct or indirect equity ownership.[7]

OCC has addressed the impact of the change designed to address wrong-way risk. As of June 2014, there were 73 clearing members whose parent or an affiliate has issued securities trading on U.S. exchanges. As of June 2014, there are six clearing members that would be affected by virtue of having made margin deposits of their own or an affiliate's common stock. In total, these shares equaled $132 million and accounted for less than one half of one percent of the total market value of valued securities pledged as margin at OCC. In July 2014, OCC made information available to each clearing member that indicates which of its deposits of common stock would not receive margin credit under the proposed change due to wrong-way risk considerations, as described above.[8]

[7] This standard is based on the provisions of OCC Rule 215(a)(5).

[8] OCC believes that by providing such information clearing members will be better able to adjust their margin deposits at OCC to conform to the proposed rule change if it is approved.

d. Deposits That Hedge Open Positions

In addition to the above, OCC also proposed to include language in the Interpretation so that it has discretion to give margin credit to common stock deposited as margin that would otherwise not be given margin credit in circumstances when such common stock acts as a hedge (*i.e.,* the member holds an equivalent short position in cleared contracts on the same underlying security). This condition will be checked in both the account and clearing member level. For example, if a clearing member deposits the common stock of an affiliate as margin collateral, which, pursuant to the above, would ordinarily not be given value for the purposes of granting margin credit, OCC may nevertheless give value to such common stock for the purposes of granting margin credit to the extent such common stock acts as a hedge against open positions of the clearing member. In this case, a decline in the value of the margin deposit would be wholly or partially offset by an increase in the value in the open position. Moreover, in such a situation, OCC will systematically limit the margin credit granted to the lesser of a multiple of the daily trading volume or the ''delta equivalent position'' [9] for the particular common stock, taking into account the hedging position.[10] OCC believes that this policy will further encourage clearing members to deposit margin collateral that hedges their related open

[9] According to OCC, the ''delta equivalent position'' is the equivalent number of underlying shares represented by the aggregation of cleared products on that same underlying instrument. This value is calculated using the ''delta'' of the option or futures contract, which is the ratio between the theoretical change in the price of the options or futures contract to the corresponding change in the price of an underlying asset. Thus, delta measures the sensitivity of an options or futures contract price to changes in the price of the underlying asset. For example, a delta of +0.7 means that for every $1 increase in the price of the underlying stock, the price of a call option will increase by $0.70. Delta for an option or future can be expressed in shares of the underlying asset. For example, a standard put option with a delta of −.45 would have a delta of −45 shares, because the unit of trading is 100 shares.

[10] Assume, for example, an average daily trade volume of 250 shares, a threshold of 2 times the average daily trade volume, and a delta of -300 shares for the options on a particular security in a particular account. A position of 700 shares that did not hedge any short options or futures would receive credit for only 500 shares (*i.e.,* 2 times the average daily trade volume). If the net long position in the account, when combined with the delta of short option and futures position, were only 400, credit would be given for the entire 700 shares since the delta equivalent position is below the 500 share threshold. However, if the option delta were +300, the net long position would be 1000, and credit would only be given for 500 shares because the delta equivalent position would exceed the 500 share threshold.

positions and is in line with the valuation methods within STANS. This policy will also facilitate OCC's management of its and its participants' credit exposure as well as the liquidation of a clearing member's portfolio should the need arise.

e. Other Proposed Changes

OCC also proposed to make certain clarifying changes in order to accommodate the adoption of the Interpretation into its Rules. Primarily, OCC proposed to add language to OCC Rule 604, Interpretation and Policy .14, to clarify that such Interpretation and Policy concerns OCC's authority to not give value to certain margin deposits for all clearing members (whereas the Interpretation applies to particular clearing member(s)). In addition, OCC proposed to remove language from OCC Rule 604, Interpretation and Policy .14, to improve readability as well as to remove ''factors'' concerning number of shares and affiliates since OCC's authority with respect to such factors will be more clearly described in the Interpretation. Finally, OCC proposed to renumber the Interpretations and Policies of Rule 604 in order to accommodate the adoption of the Interpretation.

II. Discussion and Commission Findings

Section 19(b)(2)(C) of the Act [11] directs the Commission to approve a proposed rule change of a self-regulatory organization if it finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to such organization.

The Commission finds that the proposed rule change is consistent with Section 17A(b)(3)(F) of the Act,[12] and Rule 17Ad–22(b)(2) of the Act.[13] Section 17A(b)(3)(F) of the Act [14] requires a registered clearing agency to have rules that are designed to, among other things, promote the prompt and accurate clearance and settlement of securities transactions, and to assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible. OCC's proposed rule change is consistent with this rule because by implementing margin collateral requirements that address concentration risk and wrong-way risk, OCC's proposed rule change is consistent with promoting the prompt and accurate clearance and settlement of securities transactions and assuring the safeguarding of securities and funds which are in OCC's custody or control or for which OCC is responsible. The proposed changes are designed to reduce the risk that clearing member margin assets would be insufficient should OCC need to use such assets to close-out positions of a defaulted clearing member. The changes are also designed to facilitate OCC to timely meet its settlement obligations because the proposed change will diminish the likelihood that a large percentage of the value of a defaulting clearing member's margin assets would not be available to OCC to cover losses in the event of a clearing member default.

OCC's proposed rule change is consistent with Rule17Ad–22(b)(2) of the Act.[15] Rule 17Ad–22(b)(2) of the Act [16] requires a registered clearing agency that performs central counterparty services to, among other things, establish, implement, maintain and enforce written policies and procedures reasonably designed to use margin requirements to limit its credit exposures to participants under normal market conditions. This proposal is consistent with this rule because it is reasonably designed to permit OCC to use margin requirements to limit its credit exposures to clearing members under normal market conditions in two ways. First, it is reasonably designed to limit OCC's credit exposures to clearing members whose collateral portfolios could present concentration risk. Specifically, it addresses concentration risk by particular clearing member and by particular account by giving OCC discretion to disapprove as margin collateral certain securities, based on the number of shares deposited, by particular clearing member and by particular account, while also considering deposits that hedge open positions. It also clarifies that OCC's existing authority to not give value to certain margin deposits applies to all clearing members, as opposed to particular clearing members.[17] Second, it is reasonably designed to limit OCC's credit exposures to clearing members whose collateral portfolios could present wrong-way risk. Specifically, it addresses wrong-way risk presented by clearing members who deposit as margin securities that are issued by the clearing member itself or by an affiliate of the clearing member. It addresses this type of wrong-way risk by giving OCC discretion to disapprove as margin collateral, with respect to a particular clearing member, any security issued by such clearing member or by an affiliate of such clearing member, while also considering deposits that hedge open positions.

Rule 17Ad–22(b)(2) of the Act [18] also requires a registered clearing agency that performs central counterparty services to, among other things, establish, implement, maintain and enforce written policies and procedures reasonably designed to use risk-based models and parameters to set margin requirements. This proposal is consistent with this rule because it permits OCC to use risk-based models and parameters to set margin requirements in a way that takes into account concentration risk and wrong-way risk, as described above.

III. Conclusion

On the basis of the foregoing, the Commission finds that the proposal is consistent with the requirements of the Act and, in particular, with the requirements of Section 17A of the Act [19] and the rules and regulations thereunder.

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,[20] that the proposed rule change (SR–OCC–2014–14) be, and it hereby is, approved, as of the date of this order or the date of a notice by the Commission noticing, pursuant to Section 806(e)(1)(I) of the Payment, Clearing and Settlement Supervision Act,[21] that the Commission does not object to the proposal in OCC's advance notice (SR–OCC–2014–803) and OCC is authorized to implement the proposal, whichever is later.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[22]

Kevin M. O'Neill,

Deputy Secretary.

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[11] 15 U.S.C. 78s(b)(2)(C).

[12] 15 U.S.C. 78q–1(b)(3)(F).

[13] 17 CFR 240.17Ad–22(b)(2).

[14] 15 U.S.C. 78q–1(b)(3)(F).

[15] 17 CFR 240.17Ad–22(b)(2).

[16] *Id.*

[17] *See* Rule 604, Interpretation and Policy .15 (providing OCC discretion to disapprove as margin collateral securities that meet certain factors, including trading volume, number of outstanding shareholder, number of outstanding shares, volatility and liquidity).

[18] 17 CFR 240.17Ad–22(b)(2).

[19] In approving this proposed rule change, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. *See* 15 U.S.C. 78c(f).

[20] 15 U.S.C. 78s(b)(2).

[21] 12 U.S.C. 5465(e)(1)(I).

[22] 17 CFR 200.30–3(a)(12).