

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

DTC does not believe that the proposed rule change would have any impact on competition. The proposed rule change would amend the By-Laws to: (1) Accurately reflect DTC's organizational structure and reflect changes to titles or offices and the related powers and duties of the Board and various designated officers, (2) accurately reflect (a) the process that is followed for setting compensation pursuant to the Compensation Committee Charter and (b) that the Non-Executive Chairman of the Board does not receive compensation, (3) permit the Board to continue to make necessary decisions in a timely and efficient manner by reducing the minimum number of required Board meetings, authorizing the Board to act by unanimous written consent in lieu of meetings, and make other related changes, and (4) enhance the clarity, transparency, and readability of the By-Laws by making technical changes and corrections. DTC does not believe that this proposal would affect any of its current practices regarding the rights or obligations of its Participants. Therefore, DTC believes that the proposal would not have any effect on its Participants and thus, would not have any impact or burden on competition.

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

DTC has not received any written comments relating to this proposal. DTC will notify the Commission of any written comments received by it.

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

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

- (A) By order approve or disapprove such proposed rule change, or
- (B) institute proceedings to determine whether the proposed rule change should be disapproved.

**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-DTC-2018-001 on the subject line.

*Paper Comments*

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

All submissions should refer to File Number SR-DTC-2018-001. This file number should be included on the subject line if email is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street NE, Washington, DC 20549 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of DTC and on DTCC's website (<http://dtcc.com/legal/sec-rule-filings.aspx>). All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-DTC-2018-001 and should be submitted on or before March 7, 2018.

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

**Eduardo A. Aleman,**  
Assistant Secretary.

[FR Doc. 2018-02984 Filed 2-13-18; 8:45 am]

**BILLING CODE 8011-01-P**

**SECURITIES AND EXCHANGE COMMISSION**

[Release No. 34-82658; File No. SR-OCC-2017-007]

**Self-Regulatory Organizations; the Options Clearing Corporation; Order Approving Proposed Rule Change Related to the Options Clearing Corporation's Margin Policy**

February 7, 2018.

**I. Introduction**

On December 11, 2017, the Options Clearing Corporation ("OCC") filed with the Securities and Exchange Commission ("Commission"), 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> proposed rule change SR-OCC-2017-007. On December 18, 2017, OCC filed Amendment No. 1 to the proposed rule change.<sup>3</sup> The proposed rule change, as modified by Amendment No. 1, was published for comment in the **Federal Register** on December 26, 2017.<sup>4</sup> The Commission did not receive any comments on the proposed rule change. This order approves the proposed rule change.

**II. Description of the Proposed Rule Change**

*A. Background*

As stated in the Notice, OCC filed the proposed rule change to formalize and update its Margin Policy, which describes OCC's approach for collecting margin and managing the credit exposure presented by its Clearing Members to ensure that the manner in which its margin methodologies are governed and implemented complies with Section 17A of the Act<sup>5</sup> and Rule 17Ad-22(e)(6) thereunder.<sup>6</sup> OCC stated that the Margin Policy is part of a broader framework used by OCC to promote compliance with Rule 17Ad-22(e)(6), including OCC's By-Laws, Rules, and other policies that are designed to support the resiliency of

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

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

<sup>3</sup> In Amendment No. 1, OCC modified a portion of its Margin Policy to: (i) State that OCC's Board of Directors ("Board") is ultimately responsible for annual review and approval of the Policy, and (ii) correctly cite provisions in OCC's Rules governing its stock loan program. OCC did not propose any other changes in Amendment No. 1.

<sup>4</sup> Securities Exchange Act Release No. 82355 (Dec. 19, 2017), 82 FR 61060 (Dec. 26, 2017) (SR-OCC-2017-007) ("Notice").

<sup>5</sup> 15 U.S.C. 78q-1.

<sup>6</sup> See Notice at 61061 (citing 17 CFR 240.17Ad-22(e)(6)).

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

OCC by ensuring that it appropriately sizes margin to market risks.<sup>7</sup>

The Margin Policy describes: (1) The treatment of the various types of positions held by Clearing Members in connection with margin calculations, (2) OCC's cross-margin programs with other clearing agencies, (3) the treatment of collateral included in margin calculations, (4) the model assumptions and market data OCC uses as inputs for its margin calculation methodologies, (5) OCC's margin calculation methodologies, (6) protocols surrounding OCC's exercise of margin calls and adjustments, and (7) daily backtesting and model validation that OCC conducts to measure performance of its margin methodologies. Each aspect of the Margin Policy is summarized below.

#### *B. The Proposed Change to OCC's Margin Policy*

##### 1. Treatment of Various Types of Positions

The Margin Policy describes how OCC treats the various types of positions it accepts from different types of market participants. OCC utilizes multiple types of Clearing Member accounts in order to comply with the relevant customer protection and segregation requirements of the Commission and the Commodity Futures Trading Commission. For example, OCC segregates and excludes long securities options positions from its margin requirement calculation under the assumption that such positions are fully paid and pose no additional risk to OCC. According to OCC, accounting for different types of products in different types of accounts allows OCC to set margin requirements commensurate with the actual risks presented by these positions.

##### 2. Cross-Margining

OCC maintains cross-margin programs with other clearinghouses and treats positions in index options, options on centrally cleared fund shares, and futures and options on futures held as part of one of the programs as if they were held within a single account at OCC.<sup>8</sup> According to OCC, its Margin Policy allows OCC to take these cross-margining agreements into consideration to establish a risk-based margin system that appropriately

measures its credit exposure and portfolio effects across products.

##### 3. Collateral

To mitigate its credit risk exposure, OCC generally requires Clearing Members to deposit collateral as margin with respect to each account type on the morning following the trade date. The Margin Policy provides a general description of how the use of deposits in lieu of margin and collateral in margins may affect margin calculations.<sup>9</sup> For example, the Margin Policy states that OCC permits Clearing Members to make deposits in lieu of margin, which enables them to meet their margin requirements for securities options by posting escrow deposits of acceptable collateral or specific deposits of the underlying security.<sup>10</sup>

OCC's Margin Policy also describes OCC's "collateral in margins" program.<sup>11</sup> Under this program, OCC computes margin requirements based on a combination of a Clearing Member's open positions in cleared contracts and any deposits of eligible collateral, while also incorporating scenarios that could exacerbate or mitigate risk exposure based upon the collateral type deposited. OCC states that the Margin Policy's recognition of risk interactions between open positions and clearing member collateral takes into account portfolio effects across products for the measurement of credit risk.<sup>12</sup>

##### 4. Model Assumptions, Sensitivity Analyses and Market Data

The Margin Policy states that all of OCC's critical margin model assumptions should be consistent with OCC's default management assumptions. To ensure that OCC complies with this requirement, the Margin Policy provides for a monthly sensitivity analysis and review of its parameters and assumptions for business backtesting, the results of which are reported to OCC's Model Risk Working Group, and may be escalated to OCC's Management Committee.

The Margin Policy also requires OCC to take measures to ensure the quality and completeness of its market data, including the use of redundant sources for market data and pricing system infrastructure. The Margin Policy requires OCC to prioritize the quality and reliability of data when selecting vendors, and to protect its ability to obtain data in a variety of market conditions. OCC states that it protects

the integrity of the data it receives by monitoring for delays, errors, or interruptions in the receipt or availability of price data. Further, the Margin Policy prescribes procedures for using alternative data, including settlement prices provided by a primary exchange or other data sources where final settlement values are not available from the listing exchange. The Margin Policy also states that OCC utilizes sound valuation models, system edit checks, and automated and manual controls with any price data it obtains.<sup>13</sup> Where OCC does not receive pricing information on a daily basis for a product, the Margin Policy states that OCC relies on modeled prices as a substitute for the daily price.<sup>14</sup>

##### 5. Margin Methodology

OCC's Margin Policy includes a description of OCC's System for Theoretical Analysis and Numerical Simulations ("STANS"), which is its margin methodology for all positions it margins on a net basis.<sup>15</sup> STANS is a risk-based methodology that is designed to produce a margin requirement that exceeds OCC's minimum regulatory obligations through the use of an Expected Shortfall methodology ("ES"), which is effectively a weighted average of tail losses beyond the 99% Value-at-Risk ("VaR") level. OCC states that STANS may produce significant variations in the ES in Clearing Member Accounts. Under its current approach, OCC relies upon the expert judgment of its staff to identify whether the variation demonstrates that STANS is not functioning as expected, but has no set variance level which would trigger further review. Under the proposed change, OCC would implement a new 5% tolerance for standard error in STANS, such that if the five percent threshold is reached, OCC must investigate further whether STANS is appropriately measuring the risk presented by a Clearing Member's account.

The Margin Policy also explains how STANS calculates margin by utilizing Monte Carlo simulations of portfolio values at a two-day risk horizon based on the behavior of various risk factors affecting: (i) Values at a two-day risk horizon, and (ii) values of Clearing Member accounts, including implied volatility surfaces of options for all equity and index risk factors.<sup>16</sup> OCC states that this two-day risk horizon is consistent with the STANS assumption

<sup>7</sup> See *id.* at 61061 (citing CCA Adopting Release, 81 FR 70786, 70812 (Oct. 13, 2016)), (explaining that the requirements of Rule 17Ad-22(e)(6) "further support the resiliency of a covered clearing agency by requiring the covered clearing agency to have policies and procedures that are designed to appropriately size . . . margin to market risks").

<sup>8</sup> See *id.*

<sup>9</sup> See *id.* at 61061–62.

<sup>10</sup> See Notice at 61061–62.

<sup>11</sup> See *id.* at 61062.

<sup>12</sup> See *id.*

<sup>13</sup> See Notice at 61062.

<sup>14</sup> See *id.* at 61062–63.

<sup>15</sup> See *id.* at 61063.

<sup>16</sup> See Notice at 61063.

of a two-day liquidation period for all positions margined on a net basis and is based on a thorough analysis of market conditions and the risks associated with the products OCC clears.<sup>17</sup>

The Margin Policy also provides for the daily evaluation of the market data that supports STANS and a monthly recalibration to ensure that it accounts for market conditions over the past month. This includes the use of “scale factors” to account for daily changes in market volatility between monthly recalibrations. Further, the Margin Policy has the ability to use alternatives to STANS for certain product accounts, including the ability to apply add-on charges and surcharges for certain Clearing Members who present higher risk levels, as well as the use of Standard Portfolio Analysis of Risk margin methodology (“SPAN”) for certain segregated futures accounts. According to OCC, these procedures are designed to ensure that OCC complies with the requirement that its risk based margin system calculates margin on a portfolio level and sets initial margin requirements that meet “an established single-tail confidence level of at least 99 percent” with respect to each portfolio’s distribution of future exposure.

#### 6. Margin Calls and Adjustments

The Margin Policy describes OCC’s process for daily calculation and collection of margin requirements, as well as making intraday margin calls and adjustments. Pursuant to the Margin Policy, OCC issues margin calls during standard trading hours when unrealized losses exceeding 50% of an account’s total risk charges are observed for that account based on start-of-day positions. The Margin Policy specifies the timing of such calls, price minimums, exceptions, and the necessary approvals that must be obtained. The Margin Policy also states that additional margin adjustments may be performed as the need arises following approval by an officer of OCC.<sup>18</sup>

#### 7. Backtesting and Model Validation

The Margin Policy requires OCC to conduct daily backtesting for each margin account and to analyze in detail all accounts exhibiting losses in excess of calculated margin requirements. OCC states that any exceedances under the Margin Policy are required to be reported at least monthly and evaluated through OCC’s governance process for model risk management, as well as an annual evaluation by OCC’s independent Model Validation Group

(“MVG”) of the overall performance of STANS and its associated models. The results of this annual MVG evaluation and any recommendations would then be presented to the OCC Board’s Risk Committee.

### III. Discussion and Commission Findings

Section 19(b)(2)(C) of the Act<sup>19</sup> directs the Commission to approve a proposed rule change of a self-regulatory organization if it finds that such proposed rule change is consistent with the requirements of the Act and rules and regulations thereunder applicable to such organization. The Commission finds that the proposal is consistent with Section 17A(b)(3)(F) of the Act<sup>20</sup> and Rule 17Ad–22(e)(6)<sup>21</sup> thereunder, as described in detail below.

#### A. Consistency With Section 17A(b)(3)(F) of the Act

Section 17A(b)(3)(F) of the Act<sup>22</sup> requires, among other things, that the rules of a clearing agency be designed to assure the safeguarding of securities and funds which are in its custody or control or for which it is responsible, and, in general, to protect investors and the public interest. As described above, the Margin Policy provides a framework for managing the credit exposure presented to OCC by its Clearing Members through the calculation and collection of margin. That framework includes: (1) The treatment of the various types of positions held by Clearing Members in connection with margin calculations, (2) OCC’s cross-margin programs with other clearing agencies, (3) the treatment of collateral included in margin calculations, (4) the model assumptions and market data OCC uses as inputs for its margin calculation methodologies, (5) OCC’s margin calculation methodologies, (6) protocols surrounding OCC’s exercise of margin calls and adjustments, and (7) daily backtesting and model validation that OCC conducts to measure performance of its margin methodologies. These matters, in turn, directly relate to OCC’s ability to accurately risk manage Clearing Member portfolios by calculating and collecting an appropriate amount of collateral. The Commission believes that the proposed Margin Policy is designed to help ensure that OCC’s margin methodology calculates and collects margin sufficient to mitigate OCC’s credit exposure to a

Clearing Member default. The Commission also believes that accurate calculation of margin is necessary to help ensure that OCC is able to risk manage the default of a Clearing Member without recourse to the assets of non-defaulting Clearing Members, which supports the safeguarding of securities and funds in OCC’s custody or control. The Commission further believes that calculating and collecting sufficient margin would permit OCC to continue to perform its duties as a clearing agency after a default without disruption to non-defaulting market participants, thereby protecting investors and the public interest. Accordingly, the Commission finds that the proposed Margin Policy is designed to promote the accurate clearance and settlement of securities transactions, and is therefore consistent with Section 17A(b)(3)(F) of the Act.<sup>23</sup>

#### B. Consistency With Rule 17Ad–22(e)(6)

Rule 17Ad–22(e)(6) generally requires each covered clearing agency that provides central counterparty services to establish, implement, maintain, and enforce policies and procedures reasonably designed to, among other things, cover its credit exposures to its participants through the establishment of a risk-based margin system that meets certain standards.<sup>24</sup>

##### 1. Rule 17Ad–22(e)(6)(i)

Rule 17Ad–22(e)(6)(i) generally requires a covered clearing agency to establish a risk-based margin system that considers and produces margin levels commensurate with the risks and particular attributes of each relevant product, portfolio, and market.<sup>25</sup> The Commission believes that the Margin Policy describes and formalizes OCC’s approach for collecting margin and managing the credit exposures of each of its Clearing Members to set margin requirements commensurate with the actual risks presented. The Margin Policy allows OCC to take into account the different types of products across different types of accounts, including the use of its existing STANS methodology to address the particular attributes and risk factors of the products being margined, using cross-margining agreements with other clearinghouses, excluding fully collateralized positions from its margin requirement, and permitting the use of deposits in lieu of margin and collateral in margins to incentivize Clearing Members to post collateral that reduces

<sup>19</sup> 15 U.S.C. 78s(b)(2)(C).

<sup>20</sup> 15 U.S.C. 78q–1(b)(3)(F).

<sup>21</sup> 17 CFR 240.17Ad–22(e)(6).

<sup>22</sup> 15 U.S.C. 78q–1(b)(3)(F).

<sup>23</sup> *Id.*

<sup>24</sup> 17 CFR 240.17Ad–22(e)(6).

<sup>25</sup> 17 CFR 240.17Ad–22(e)(6)(i).

<sup>17</sup> See *id.*

<sup>18</sup> See Notice at 61064.

OCC's exposures in cleared contracts. Therefore, the Commission believes that the Margin Policy is consistent with Rule 17Ad-22(e)(6)(i).

2. Rule 17Ad-22(e)(6)(ii)

Rule 17Ad-22(e)(6)(ii) generally requires a covered clearing agency to establish a risk-based margin system that collects margin at least daily and have the operational capacity to make intraday margin calls.<sup>26</sup> The Margin Policy describes the process for calculating and collecting margin on a daily basis, and for making intraday margin calls and adjustments, as needed. The Margin Policy further specifies the timing of such calls, price minimums that must be collected, the process for allowing exceptions, and the necessary approvals that must be obtained. Therefore, the Commission believes that the Margin Policy establishes a process to collect margin daily and make intraday margin calls, and finds, therefore, that it is consistent with Rule 17Ad-22(e)(6)(ii).

3. Rule 17Ad-22(e)(6)(iii)

Rule 17Ad-22(e)(6)(iii) generally requires a covered clearing agency to establish a risk-based margin system that calculates margin sufficient to cover its potential future exposure to participants,<sup>27</sup> which the Commission defines as the maximum exposure estimated to occur at a future point in time with an established single-tailed confidence level of at least 99%.<sup>28</sup> The Margin Policy states that OCC uses STANS to estimate ES, the weighted average of tail losses beyond the 99% VaR level, with a 5% tolerance to calculate margin with respect to each portfolio's distribution of future exposure. The Margin Policy further describes OCC's assumptions with respect to a two-day liquidation period that covers potential future exposure between the last margin collection and close-out of a position should there be Clearing Member default. Therefore, the Commission believes that the Margin Policy is intended to facilitate OCC's calculation of margin amounts sufficient to cover potential future exposure to participants, and, therefore, that the Margin Policy is consistent with Rule 17Ad-22(e)(6)(iii).

4. Rule 17Ad-22(e)(6)(iv)

Rule 17Ad-22(e)(6)(iv) generally requires a covered clearing agency to establish a risk-based margin system

that uses "reliable sources of timely price data" and use "procedures and sound valuation models for addressing circumstances in which pricing data are not readily available or reliable."<sup>29</sup> The Margin Policy describes the measures OCC is required to take to ensure the quality and completeness of market data it acquires, including the use of redundant sources of market data, prioritizing the quality and reliability of data, and to prioritize the ability of vendors to provide data during market stress. The Margin Policy also requires OCC to use sound valuation models, system checks, and automated and manual controls for data it obtains, and to use primary exchange prices and alternatives, including modeling, in instances when data is not available or reliable. The Commission finds that the Margin Policy requires OCC to use reliable sources of timely price data, and describes procedures to address circumstances where such data is not readily available or reliable. Therefore, the Commission finds that the Margin Policy is consistent with Rule 17Ad-22(e)(6)(iv).

5. Rule 17Ad-22(e)(6)(v)

Rule 17Ad-22(e)(6)(v) generally requires a covered clearing agency to establish a risk-based margin system that uses an appropriate method for measuring credit exposure that accounts for relevant product risk factors and portfolio effects across products.<sup>30</sup> The Commission believes that the Margin Policy takes into account the risks and particular attributes of different products in different accounts and portfolios to permit OCC to set margin commensurate with the actual risks that the product presents to OCC. The Commission also believes that the use of cross-margining agreements, as described in the Margin Policy, allows OCC to set margins based upon the particular credit exposure and portfolio effects across products. The Commission further believes that the Margin Policy's allowance for offsets and exclusions for deposits in lieu of margin and collateral in margins permits OCC to set margin based upon the actual credit exposure to its Clearing Members. Accordingly, the Commission finds that the Margin Policy allows OCC to measure credit exposure in a manner that accounts for product risk factors and portfolio effects across products, and finds, therefore, that it is consistent with Rule 17Ad-22(e)(6)(v).

6. Rule 17Ad-22(e)(6)(vi)

Rule 17Ad-22(e)(6)(vi) generally requires a covered clearing agency to establish a risk-based margin system that is monitored by management on an ongoing basis and is regularly reviewed, tested, and verified.<sup>31</sup> The Commission finds that the Margin Policy requires the MVG to perform an independent evaluation of the overall performance of OCC's margin model, and present its findings and recommendations to OCC's Board on at least an annual basis. The Margin Policy further requires OCC to conduct daily backtesting for each margin account and to analyze in detail all accounts that exhibit losses in excess of calculated margin. The Margin Policy also requires that any such exceedances be reported at least monthly and be evaluated through OCC's governance processes. The Commission believes that the Margin Policy establishes a process for ongoing monitoring, review, testing, and verification, and finds, therefore, that it is consistent with Rule 17Ad-22(e)(6)(vi).

7. Rule 17Ad-22(e)(6)(vii)

Rule 17Ad-22(e)(6)(vii) generally requires a covered clearing agency to establish policies and procedures designed to perform model validation for its credit risk models not less than annually or more frequently as may be contemplated by the covered clearing agency's risk management framework.<sup>32</sup> The Commission finds that the Margin Policy requires an independent review of OCC's risk model be conducted at least annually by MVG, who then presents its findings and recommendations to the Risk Committee of OCC's Board. The Commission believes that the Margin Policy establishes policies and procedures to perform model validation not less than annually, and finds, therefore, that it is consistent with Rule 17Ad-22(e)(6)(vii).

#### IV. Conclusion

On the basis of the foregoing, the Commission finds that the Margin Policy is consistent with the requirements of the Act, and in particular, with the requirements of Section 17A of the Act<sup>33</sup> and Rule 17Ad-22(e)(6) thereunder.

*It is therefore ordered*, pursuant to Section 19(b)(2) of the Act,<sup>34</sup> that the

<sup>31</sup> 17 CFR 240.17Ad-22(e)(6)(vi).

<sup>32</sup> 17 CFR 240.17Ad-22(e)(6)(vii).

<sup>33</sup> 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).

<sup>34</sup> 15 U.S.C. 78s(b)(2).

<sup>26</sup> 17 CFR 240.17Ad-22(e)(6)(ii).

<sup>27</sup> 17 CFR 240.17Ad-22(e)(6)(iii).

<sup>28</sup> See Standards for Covered Clearing Agencies, 81 FR 70786, 70817 (Oct. 13, 2016) (citing 17 CFR 240.17Ad-22(a)(14)).

<sup>29</sup> 17 CFR 240.17Ad-22(e)(6)(iv).

<sup>30</sup> 17 CFR 240.17Ad-22(e)(6)(v).

proposed rule change (SR-OCC-2017-007) be, and it hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated Authority.<sup>35</sup>

**Eduardo A. Aleman,**

*Assistant Secretary.*

[FR Doc. 2018-02973 Filed 2-13-18; 8:45 am]

BILLING CODE 8011-01-P

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-82665; File No. SR-C2-2018-003]

### Self-Regulatory Organizations; Cboe C2 Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating to the Options Regulatory Fee

February 8, 2018.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on January 31, 2018, Cboe C2 Exchange, Inc. (the “Exchange” or “C2 Options”) 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 Exchange. 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 seeks to amend its Fees Schedule. The text of the proposed rule change is available on the Exchange’s website (<http://www.c2exchange.com/Legal/>), at the Exchange’s Office of the Secretary, 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 Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of

the most significant aspects of such statements.

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

##### 1. Purpose

The Exchange proposes to decrease the Options Regulatory Fee (“ORF”) from \$.0015 per contract to \$.0014 per contract in order to help ensure that revenue collected from the ORF, in combination with other regulatory fees and fines, meets the Exchange’s total regulatory costs. The proposed fee change will be operative on February 1, 2018.

The ORF is assessed by C2 Options to each Trading Permit Holder (“TPH”) for options transactions cleared by the TPH that are cleared by the Options Clearing Corporation (OCC) in the customer range, regardless of the exchange on which the transaction occurs.<sup>3</sup> In other words, the Exchange imposes the ORF on all customer-range transactions cleared by a TPH, even if the transactions do not take place on the Exchange. The ORF is collected by OCC on behalf of the Exchange from the Clearing Trading Permit Holder (“CTPH”) or non-CTPH that ultimately clears the transaction. With respect to linkage transactions, C2 Options reimburses its routing broker providing Routing Services pursuant to C2 Options Rule 6.36 for options regulatory fees it incurs in connection with the Routing Services it provides.

Revenue generated from ORF, when combined with all of the Exchange’s other regulatory fees and fines, is designed to recover a material portion of the regulatory costs to the Exchange of the supervision and regulation of TPH customer options business. Regulatory costs include direct regulatory expenses and certain indirect expenses for work allocated in support of the regulatory function. The direct expenses include in-house and third party service provider costs to support the day to day regulatory work such as surveillances, investigations and examinations. The indirect expenses include support from such areas as human resources, legal, information technology and accounting. These indirect expenses are estimated to be approximately 6% of C2 Options’ total regulatory costs for 2018. Thus, direct expenses are estimated to be approximately 94% of total regulatory costs for 2018. In addition, it is C2 Options’ practice that revenue generated

from ORF not exceed more than 75% of total annual regulatory costs. These expectations are estimated, preliminary and may change. These expectations are estimated, preliminary and may change. [sic] There can be no assurance that our final costs for 2018 will not differ materially from these expectations and prior practice; however, the Exchange believes that revenue generated from the ORF, when combined with all of the Exchange’s other regulatory fees and fines, will cover a material portion, but not all, of the Exchange’s regulatory costs.

The Exchange also notes that its regulatory responsibilities with respect to TPH compliance with options sales practice rules have largely been allocated to FINRA under a 17d-2 agreement.<sup>4</sup> The ORF is not designed to cover the cost of that options sales practice regulation.

The Exchange will continue to monitor the amount of revenue collected from the ORF to ensure that it, in combination with its other regulatory fees and fines, does not exceed the Exchange’s total regulatory costs. The Exchange monitors its regulatory costs and revenues at a minimum on a semi-annual basis. If the Exchange determines regulatory revenues exceed or are insufficient to cover a material portion of its regulatory costs, the Exchange will adjust the ORF by submitting a fee change filing to the Commission. The Exchange notifies TPHs of adjustments to the ORF via regulatory circular. The Exchange endeavors to provide TPHs with such notice at least 30 calendar days prior to the effective date of the change.

##### 2. Statutory Basis

The Exchange believes the proposed rule change is consistent with the Securities Exchange Act of 1934 (the “Act”) and the rules and regulations thereunder applicable to the Exchange and, in particular, the requirements of Section 6(b) of the Act.<sup>5</sup> Specifically, the Exchange believes the proposed rule change is consistent with Section 6(b)(4) of the Act,<sup>6</sup> which provides that Exchange rules may provide for the equitable allocation of reasonable dues, fees, and other charges among its TPHs and other persons using its facilities. Additionally, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)<sup>7</sup> requirement that the rules of an exchange not be designed

<sup>4</sup> See Securities Exchange Act Release No. 76309 (October 29, 2015), 80 FR 68361 (November 4, 2015).

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

<sup>6</sup> 15 U.S.C. 78f(b)(4).

<sup>7</sup> 15 U.S.C. 78f(b)(5).

<sup>35</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.

<sup>3</sup> The ORF also applies to customer-range transactions executed during Extended Trading Hours.