and its investment adviser(s), or any person controlling, controlled by or under common control with such investment adviser(s).

5. The Investing Fund Advisor, or Trustee or Sponsor, as applicable, will waive fees otherwise payable to it by the Investing Fund in an amount at least equal to any compensation (including fees received pursuant to any plan adopted by a Fund under rule 12b-1 under the Act) received from a Fund by the Investing Fund Advisor, or Trustee or Sponsor, or an affiliated person of the Investing Fund Advisor, or Trustee or Sponsor, other than any advisory fees paid to the Investing Fund Advisor, or Trustee, or Sponsor, or its affiliated person by the Fund, in connection with the investment by the Investing Fund in the Fund. Any Investing Fund Sub-Advisor will waive fees otherwise payable to the Investing Fund Sub-Advisor, directly or indirectly, by the Investing Management Company in an amount at least equal to any compensation received from a Fund by the Investing Fund Sub-Advisor, or an affiliated person of the Investing Fund Sub-Advisor, other than any advisory fees paid to the Investing Fund Sub-Advisor or its affiliated person by the Fund, in connection with the investment by the Investing Management Company in the Fund made at the direction of the Investing Fund Sub-Advisor. In the event that the Investing Fund Sub-Advisor waives fees, the benefit of the waiver will be passed through to the Investing Management Company.

6. No Investing Fund or Investing Fund Affiliate (except to the extent it is acting in its capacity as an investment adviser to a Fund) will cause a Fund to purchase a security in an Affiliated Underwriting.

7. The Board of a Fund, including a majority of the independent directors or trustees, will adopt procedures reasonably designed to monitor any purchases of securities by the Fund in an Affiliated Underwriting, once an investment by an Investing Fund in the securities of the Fund exceeds the limit of section 12(d)(1)(A)(i) of the Act, including any purchases made directly from an Underwriting Affiliate. The Board will review these purchases periodically, but no less frequently than annually, to determine whether the purchases were influenced by the investment by the Investing Fund in the Fund. The Board will consider, among other things: (i) Whether the purchases were consistent with the investment objectives and policies of the Fund; (ii) how the performance of securities purchased in an Affiliated Underwriting compares to the performance of comparable securities purchased during a comparable period of time in underwritings other than Affiliated Underwritings or to a benchmark such as a comparable market index; and (iii) whether the amount of securities purchased by the Fund in Affiliated Underwritings and the amount purchased directly from an Underwriting Affiliate have changed significantly from prior years. The Board will take any appropriate actions based on its review, including, if appropriate, the institution of procedures designed to assure that purchases of securities in Affiliated Underwritings are in the best interest of shareholders of the Fund.

8. Each Fund will maintain and preserve permanently in an easily accessible place a written copy of the procedures described in the preceding condition, and any modifications to such procedures, and will maintain and preserve for a period of not less than six years from the end of the fiscal year in which any purchase in an Affiliated Underwriting occurred, the first two years in an easily accessible place, a written record of each purchase of securities in Affiliated Underwritings once an investment by an Investing Fund in the securities of the Fund exceeds the limit of section 12(d)(1)(A)(i) of the Act, setting forth from whom the securities were acquired, the identity of the underwriting syndicate's members, the terms of the purchase, and the information or materials upon which the Board's determinations were made.

9. Before investing in a Fund in excess of the limits in section 12(d)(1)(A), an Investing Fund will execute a FOF Participation Agreement with the Fund stating that their respective boards of directors or trustees and their investment advisers, or Trustee and Sponsor, as applicable, understand the terms and conditions of the order, and agree to fulfill their responsibilities under the order. At the time of its investment in Shares of a Fund in excess of the limit in section 12(d)(1)(A)(i), an Investing Fund will notify the Fund of the investment. At such time, the Investing Fund will also transmit to the Fund a list of the names of each Investing Fund Affiliate and Underwriting Affiliate. The Investing Fund will notify the Fund of any changes to the list as soon as reasonably practicable after a change occurs. The Fund and the Investing Fund will maintain and preserve a copy of the order, the FOF Participation Agreement, and the list with any updated information for the duration of the investment and for a period of not less than six years thereafter, the first two years in an easily accessible place.

10. Before approving any advisory contract under section 15 of the Act, the board of directors or trustees of each Investing Management Company, including a majority of the independent directors or trustees, will find that the advisory fees charged under such contract are based on services provided that will be in addition to, rather than duplicative of, the services provided under the advisory contract(s) of any Fund in which the Investing Management Company may invest. These findings and their basis will be recorded fully in the minute books of the appropriate Investing Management Company.

11. Any sales charges and/or service fees charged with respect to shares of an Investing Fund will not exceed the limits applicable to a fund of funds as set forth in NASD Conduct Rule 2830.

12. No Fund relying on the section 12(d)(1) relief will acquire securities of any investment company or company relying on section 3(c)(1) or 3(c)(7) of the Act in excess of the limits contained in section 12(d)(1)(A) of the Act, except to the extent permitted by exemptive relief from the Commission permitting the Fund to purchase shares of other investment companies for short-term cash management purposes.

For the Commission, by the Division of Investment Management, under delegated authority.

Kevin M. O'Neill,

Deputy Secretary

[FR Doc. 2012–31131 Filed 12–26–12; 8:45 am]

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–68498; File No. AN–FICC–2012–09]

Self-Regulatory Organizations; Fixed Income Clearing Corporation; Notice of Filing of Advance Notice and Notice of No Objection Relating to the Replacement of the Prepayment Component of the Value-at-Risk Charge

December 20, 2012.

Pursuant to Section 806(e)(1) of the Payment, Clearing, and Settlement Supervision Act of 2012 (''Clearing Supervision Act'') [1] and Rule 19b–4(n)(1)(i),[2] notice is hereby given that on November 14, 2012, the Fixed Income Clearing Corporation (''FICC'') filed

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

[2] 17 CFR 240.19b–4(n)(1)(i).

with the Securities and Exchange Commission (''Commission'') the advance notice described in Items I and II below, which Items have been prepared primarily by FICC. This publication serves as notice of no objection to the advance notice and solicits comments on the advance notice from interested persons.

I. Clearing Agency's Statement of the Terms of Substance of the Advance Notice

FICC is proposing to replace the prepayment model component (''Prepayment Model Change'') of the Mortgage-Backed Securities Division (''MBSD'') Value-at-Risk charge (''VaR Charge'').

II. Clearing Agency's Statement of the Purpose of, and Statutory Basis for, the Advance Notice

In its filing with the Commission, FICC included statements concerning the purpose of and basis for the advance notice and discussed any comments it received on the proposed rule change and advance notice. The text of these statements may be examined at the places specified in Item IV below. FICC has prepared summaries, set forth in sections A and B below, of the most significant aspects of such statements.[3]

(A) Clearing Agency's Statement of the Purpose of, and Statutory Basis for, the Advance Notice

Description of Change

(i) Overview

A key component of each MBSD clearing member's Required Fund Deposit (e.g., margin) is the VaR Charge.[4] The VaR Charge is based on simulating to-be-announced (''TBA'') price returns which are dependent on projecting interest rates and prepayment levels. FICC maps TBA eligible pools into TBA CUSIPS for cash flow calculations. The cash flow of a TBA CUSIP is the sum of all discounted future monthly cash flows. The future cash flows include the projected monthly principal payment (both scheduled payment and prepayment) and interest rate expense on the estimated outstanding balance.

The MBSD currently uses a prepayment model developed by the Office of Thrift Supervision (''OTS''); this particular model is no longer being supported with parameter updates. Therefore, the MBSD is proposing to replace the current model it is using with a new one which it has developed.

(ii) Structure of the New Model

The proposed new prepayment model would rely on market-observed data that would allow calibration to occur on a regular basis to capture the prepayment risk of the mortgage pools underlying the TBAs. Model parameters will be updated daily using a rolling window of 252-day historical two-year swap rates, ten-year swap rates, and mortgage current coupons for a given product category.

The two-year benchmark would allow FICC to estimate the potential prepayment impact from refinance opportunities offered by the adjustable rate mortgage market. The ten-year swap rate is a standard benchmark for fixed rate mortgages. The current coupon rates are implied from the TBA market prices. Therefore, the FICC believes that the new model will be more responsive to changing market conditions than the current prepayment model.

A key component of any prepayment model is a mortgage rate model which estimates the current coupon (the secondary mortgage rate) for the TBA mortgage pools under various interest rate scenarios. The monthly prepayment speed will be estimated based on intensity function based on the refinancing incentive, loan age, and burnout (percentage of loans that fail to prepay despite apparent refinance incentives). This monthly prepayment speed is used to simulate TBA price returns for the VaR Charge component of the MBSD margin calculation. In the OTS model, the concept of ''seasonality'' is directly incorporated into the prepayment model. The factor is less of a driver of mortgage prepayment activity and FICC does not believe that it is necessary to incorporate this as a distinct assumption in the new prepayment model. There is a minor effect of seasonality through the pool factor.

During the analysis and design phase of the new prepayment model, FICC considered whether to utilize a ''security level'' model versus a ''loan level'' model. Loan level models focus on loan-to-value ratio, credit score, and spread at origination, which are aspects of hedging and risk assessment—particularly in evaluating exposure to involuntary prepayments (foreclosure, work-outs, etc.) that typically arise beyond TBA settlement cycle (less than 90 days). Loan level models are generally used by firms that trade and initiate mortgage-backed securities. FICC, whose processing activity at the MBSD spans a short horizon, chose a security level prepayment model which measures security level attributes that can measure short-term prepayment speed, i.e., the spread between the current coupon and the TBA coupon, seasoning, and average maturity. These are key attributes of voluntary prepayments that can impact TBA prices during the settlement cycle. FICC's external model validation team concluded that the proposed prepayment model is appropriate in measuring short-term prepayment speeds.

Anticipated Effect on and Management of Risks

FICC believes that the proposed Prepayment Model Change will enhance the risk management of the positions cleared at the MBSD. First, FICC believes that the proposed Prepayment Model Change will enhance risk management because the current prepayment model is no longer being supported with parameter updates, and thus relies on stale information and produces possibly inaccurate results. Second, as part of the migration to the new model, several steps were taken to reduce the potential risks to FICC and its members, including: validation of the proposed model by an external party, back-testing to validate model performance and analysis to determine the impact of the changes to the VaR requirements for the MBSD Members. Results of FICC's analysis indicate that the proposed Prepayment Model Change will be more responsive to changing market dynamics and FICC believes it will not negatively impact FICC and its members.

(B) Clearing Agency's Statement on Comments on the Advance Notice Received From Members, Participants, or Others

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

III. Date of Effectiveness of the Advance Notice and Timing for Commission Action

The proposed changes contained in the advance notice may be implemented pursuant to Section 806(e)(1)(G) of Clearing Supervision Act[5] if the Commission does not object to the proposed changes within 60 days of the later of (i) the date that the Commission receives the notice of the proposed changes or (ii) the date the Commission receives any further information it requests for consideration of the notice. The clearing agency shall not implement the proposed changes contained in the advance notice if the

[3] The Commission has modified the text of the summaries prepared by FICC.

[4] *See* MBSD Rule 4.

[5] 12 U.S.C. 5465(e)(1)(G).

Commission objects to the proposed changes.[6]

The Commission may extend the period for review by an additional 60 days if the proposed changes raise novel or complex issues, subject to the Commission providing the clearing agency with prompt written notice of the extension.[7] Proposed changes may be implemented in fewer than 60 days from the receipt of the advance notice, or the date the Commission receives any further information it requested, if the Commission notifies the clearing agency in writing that it does not object to the proposed changes and authorizes the clearing agency to implement the proposed changes on an earlier date, subject to any conditions imposed by the Commission.[8]

The clearing agency shall post notice on its web site of proposed changes that are implemented.[9]

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing. 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 AN–FICC–2012–09 on the subject line.

Paper Comments

- Send paper comments in triplicate to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, 100 F Street NE., Washington, DC 20549–1090.

All submissions should refer to File Number AN–FICC–2012–09. 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 advance notice that are filed with the Commission, and all written communications relating to the advance notice 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 filings also will be available for inspection and copying at the principal office of FICC and on FICC's Web site at *http://www.dtcc.com/downloads/legal/rule_filings/2012/ficc/FICC–AN–2012–09.pdf.*

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 AN–FICC–2012–09 and should be submitted on or before January 17, 2013.

V. Commission Findings and Notice of No Objection

(A) Standard of Review

Although Title VIII does not specify a standard that the Commission must apply to determine whether to object to an advance notice, the Commission believes that the purpose of Title VIII, as stated under Section 802(b),[10] is relevant to the review of advance notices.

The stated purpose of Title VIII is to mitigate systemic risk in the financial system and promote financial stability, by (among other things) authorizing the Federal Reserve Board to promote uniform risk management standards for systemically important FMUs, and providing an enhanced role for the Federal Reserve Board in the supervising of risk management standards for systemically important FMUs.[11] Therefore, the Commission believes that when reviewing advance notices for FMUs, the consistency of an advance notice with Title VIII may be judged principally by reference to the consistency of the advance notice with applicable rules of the Federal Reserve Board governing payment, clearing, and settlement activity of the designated FMU.[12]

Section 805(a) requires the Federal Reserve Board and authorizes the Commission to prescribe standards for the payment, clearing, and settlement activities of FMUs designated as systemically important, in consultation with the supervisory agencies. Section 805(b) of the Clearing Supervision Act[13] requires 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.

The relevant rules of the Federal Reserve Board prescribing risk management standards for designated FMUs by their terms do not apply to designated FMUs that are clearing agencies registered with the Commission.[14] Therefore, the Commission believes that the objectives and principles by which the Federal Reserve Board is required and the Commission is authorized to promulgate such rules, as expressed in Section 805(b) of Title VIII,[15] are the appropriate standards at this time by which to evaluate advance notices.[16] Accordingly, the analysis set forth below is organized by reference to the stated objectives and principles in Section 805(b).

(B) Discussion of Advance Notice

The modeling of Prepayment Risk could significantly affect the risk management functions of the clearing agency that are related to systemic risk. The output of a prepayment model becomes an input into the calculation of the VaR Charge, which in turn determines a member's required clearing fund deposit. Weaknesses in the model could lead to the clearing fund being inappropriately low, and thus exposing the clearing agency to greater risk should a member default.

The OTS Model is no longer supported by parameter updates and has not been supported by such updates since December 31, 2011. The current model's reliance on stale parameters results in a potentially inaccurate determination of the speed of prepayments and thus a potentially inaccurate VaR Charge. This lack of calibration makes the OTS Model

[6] 12 U.S.C. 5465(e)(1)(F).

[7] 12 U.S.C. 5465(e)(1)(H).

[8] 12 U.S.C. 5465(e)(1)(I).

[9] 17 CFR 240.19b–4(n)(1)(i).

[10] 12 U.S.C. 5461(b).

[11] 12 U.S.C. 5461(b).

[12] *See* Financial Market Utilities, 77 FR 45907 (Aug. 2, 2012).

[13] 12 U.S.C. 5464(b).

[14] 12 CFR 234.1(b).

[15] 12 U.S.C. 5464(b).

[16] The risk management standards that have been adopted by the Commission in Rule 17Ad–22 are substantially similar to those of the Federal Reserve Board applicable to designated FMUs other than those designated clearing organizations registered with the CFTC or clearing agencies registered with the Commission. *See* Clearing Agency Standards, Exchange Act Release No. 34–68080 (Oct. 22, 2012). To the extent such Commission standards are in effect at the time advance notices are reviewed in the future, the standards would be relevant to the analysis. Moreover, the analysis of clearing agency rule filings under the Exchange Act would incorporate such standards directly.

unreliable and increases the risk that MBSD is not collecting sufficient margin given market conditions. Moving to the FICC Model that can be updated as the economic environment changes promotes robust risk management and reduces systemic risk because these changes can be more accurately reflected in margin calculations.

The Commission is conditioning its notice of no objection on FICC implementing policies and procedures reasonably designed to ensure that FICC timely analyzes and monitors the performance and appropriateness of the FICC Model. As discussed above, the OTS model directly incorporates the concept of seasonality, while the FICC model does not. In addition, the FICC model relies on market-observed data to capture the prepayment risk of the mortgage pools underlying the TBAs. The Commission understands that the OTS and many industry models use historical data on actual prepayments to determine the level of prepayment risk. The Commission believes it is important for both FICC and the Commission to observe how the FICC model compares to actual seasonality and prepayment history, two parameters that had previously informed the OTS model. As a result, the Commission would expect such policies and procedures to assess the performance of the FICC Model as compared to other published or calculated prepayment rate forecasts and to analyze the VaR coverage resulting from the use of the FICC Model as compared to the coverage that would be obtained after applying alternate VaR methodologies, such as the index-based haircut methodology already utilized by FICC. The Commission expects that this analysis would be disseminated to the Commission on a monthly basis.

The Commission believes that the replacement of the OTS Model with the FICC Model, subject to the conditions described above, meets the objectives and principles for the risk management standards prescribed under Section 805(a). The ability for FICC to update the FICC Model in response to changing economic conditions allows FICC to more appropriately calculate and collect margin, which better enables FICC to respond in the event that a member defaults. This in turn promotes robust risk management and safety and soundness, reduces systemic risk and supports the stability of the broader financial system.

Conclusion

It is therefore noticed, pursuant to Section 806(e)(1)(I) of the Clearing Supervision Act,[17] that, the Commission *does not object* to the Prepayment Model Change (File No. AN–FICC–2012–09) and that FICC be and hereby is *authorized* to implement the Prepayment Model Change (File No. AN–FICC–2012–09) subject to FICC implementing policies and procedures reasonably designed to ensure that FICC timely analyzes and monitors the performance and appropriateness of the FICC Model.

By the Commission.

Kevin O'Neill,

Deputy Secretary.

[FR Doc. 2012–31129 Filed 12–26–12; 8:45 am]

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–68490; File No. SR–CME–2012–46]

Self-Regulatory Organizations; Chicago Mercantile Exchange Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Amend the Fee Schedule Applicable to its OTC Credit Default Swap Clearing Offering

December 20, 2012.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (''Act'') [1] and Rule 19b–4 thereunder,[2] notice is hereby given that on December 18, 2012, the Chicago Mercantile Exchange Inc. (''CME'' or ''Exchange'') filed with the Securities and Exchange Commission (''Commission'') the proposed rule change as described in Items I, II and III below, which Items have been prepared primarily by CME. CME filed the proposed rule change pursuant to Section 19(b)(3)(A)(ii) [3] of the Act and Rule 19b–4(f)(2) [4] thereunder so that the proposal was effective upon filing with the Commission. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

CME is proposing to amend the fee schedule that currently applies to its OTC Credit Default Swap clearing offering. The text of the proposed rule change is available at the Exchange's Web site at *http://www.cmegroup.com,* at the principal office of the Exchange, and at the Commission's Public Reference Room.

II. Clearing Agency's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the clearing agency included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The clearing agency has prepared summaries, set forth in sections (A), (B) and (C) below, of the most significant aspects of such statements.

(A) Clearing Agency's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

This filing proposes to make minor amendments to the current fee schedule that applies to CDX North American Index Credit Default Swaps cleared at CME. The only modification that is proposed is to extend the current twenty five percent (25%) discount of base clearing fees for all market participants that clear OTC North American Index CDS products at CME for another year. This discount was scheduled to expire as of December 31, 2012.

The proposed changes are related to fees and therefore will become effective immediately. However, the proposed fee changes will become operative as of January 2, 2013. CME has also certified the proposed rule changes that are the subject of this filing to the Commodity Futures Trading Commission (''CFTC''), in CFTC Submission 12–464.

The proposed CME rule amendments establish or change a member due, fee, or other charge imposed by CME under Section 19(b)(3)(A)(ii) of the Securities Exchange Act of 1934 and Rule 19b–4(f)(2) thereunder. CME believes that the proposed rule change is consistent with the requirements of the Securities Exchange Act of 1934 and the rules and regulations thereunder and, in particular, to 17A(b)(3)(D), in that it provides for the equitable allocation of reasonable dues, fees, and other charges among participants. The proposed changes apply to all market participants clearing trades at CME. CME believes the modifications should encourage firms to submit additional volume into the system which should help ensure readiness and also help build open interest ahead of a regulatory mandate. CME notes that it operates in a highly competitive market in which market participants can readily direct business to competing venues.

[17] 12 U.S.C. 5465(e)(1)(I).

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

[2] 17 CFR 240.19b–4.

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

[4] 17 CFR 240.19b–4(f)(2).