model the single name CDS that causes the greatest loss when entering a state of default (i.e., the single name CDS that results in the greatest amount of loss when stress-tested). This change collateralizes the loss that would occur from the single name CDS that causes the greatest loss entering a state of default. Consequently, the amount of uncollateralized loss that would result from the three single name CDS contracts causing the greatest cumulative losses when entering a state of default is reduced, thereby reducing the amount of required guaranty fund contributions from clearing participants. ICC represents that the decrease in the guaranty fund and the increase in initial margin requirements are not symmetrical. Instead, based upon current portfolios, ICC approximates that for every $1 decrease to the guaranty fund there will be a corresponding increase to the initial margin requirements of approximately $5. 

ICC represents that Modification #2 will make it easier for clearing participants to evaluate the risk of their CDS clearing portfolio as measured by the impact of changing recovery rate assumptions. ICC is implementing this by removing the conditional recovery rate stress-scenarios and adding a new standalone recovery rate sensitivity component that is computed by considering changes in recovery rate assumptions that impact the net asset value of the CDS clearing portfolio. ICC argues that by making it easier for market participants to measure their risk, Modification #2 is consistent with the requirements of Section 17A of the Act.6

III. Discussion

Section 19(b)(2)(C) of the Act 4 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 the rules and regulations thereunder applicable to such organization. Section 17A(b)(3)(F) of the Act 5 requires, among other things, that the rules of a clearing agency be designed to remove impediments to and perfect the mechanism of a national system for the prompt and accurate clearance and settlement of securities transactions and to assure the safeguarding of securities and funds in the custody or control of the clearing agency or for which it is responsible.

Modification #1 will require each clearing participant to collateralize its greatest single name CDS exposure that it creates for other clearing participants. As such, Modification #1 will require clearing participants to bear a greater portion of the loss resulting from their default and also increases the amount of risk requirements ICC collects, thereby assuring the safeguarding of securities and funds in the custody or control of ICC or for which it is responsible. Modification #2 will require ICC to separately estimate requirements using various recovery rate assumptions and improve the ability of clearing participants to identify the impact of considering various changes to recovery rate assumptions on the net asset value of their CDS clearing portfolios, thereby removing an impediment to the prompt and accurate clearance and settlement of securities transactions.

IV. 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 6 and the rules thereunder.

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,7 that the proposed rule change (File No. SR–ICC–2012–053) be, and hereby is, approved.8

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.9

Kevin O’Neill,

Deputy Secretary.

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transparency and improving investor protection.

Participants in the ISP are required to designate specific NASDAQ order entry ports for use under the ISP and to meet specified criteria focused on market participation, liquidity provision, and high rates of order execution. Currently, a member that participates in the ISP receives a credit of $0.0001, $0.0003, or $0.0004 per share with respect to the number of shares of displayed liquidity provided by the member that execute at $1 or more per share. The precise credit rate is determined by factors designed to measure the degree of the member’s participation in the NASDAQ Market Center and the percentage of orders that it enters that execute—its “ISP Execution Ratio”—which is seen as indicative of retail or institutional participation. While making only minimal changes to the existing criteria for participation in the ISP, NASDAQ will reduce the credits paid under the program to $0.00005, $0.000275, and $0.000375 respectively. In addition, in one of the ISP tiers, the percentage of liquidity that a member is required to provide through ISP-designated ports will increase from 25% to 30%. With these changes, the requirements for existing ISP tiers, and the associated credits, will be as follows:

As provided in Rule 7014(c)(1), NASDAQ will pay a credit of $0.00005 per share with respect to all of a member’s displayed liquidity-providing orders that execute at a price of $1 or more per share during the month if the following conditions are met:

1. The member’s Participation Ratio for the month is equal to or greater than its Baseline Participation Ratio. The Participation Ratio is defined as follows: [(For a given month, the ratio of (A) the number of shares of liquidity provided in orders entered by the member through any of its NASDAQ ports and executed in the NASDAQ Market Center during such month to (B) the Consolidated Volume. “Consolidated Volume” is defined as follows: “For a given member in a month, the consolidated volume of shares of System Securities in executed orders reported to all consolidated transaction reporting plans by all exchanges and trade reporting facilities during such month.” “System Securities” means all securities listed on NASDAQ and all securities subject to the Consolidated Transaction Plan and the Consolidated Quotation Plan. “Baseline Participation Ratio” is defined as follows: “[W]ith respect to a member, the lower of such member’s Participation Ratio for the month of August 2010 or the month of August 2011, provided that in calculating such Participation Ratios, the numerator shall be increased by the amount (if any) of the member’s Indirect Order Flow for such month, and provided further that if the result is

zero for either month, the Baseline Participation Ratio shall be deemed to be 0.485% (when rounded to three decimal places).” “Indirect Order Flow” is defined as follows: “[F]or a given member in a given month, the number of shares of liquidity provided in orders entered into the NASDAQ Market Center at the member’s direction by another member with minimal substantive intermediation by such other member and executed in the NASDAQ Market Center during such month.” These terms have the meanings assigned to them in Rule 4751. MIOC and SIOC orders are forms of “immediate or cancel” orders and therefore cannot be liquidity-providing orders.

Previously, 25%.
per share with respect to shares of displayed liquidity executed at a price of $1 or more and entered through ISP-designated ports, and $0.000005 per share with respect to all other shares of displayed liquidity executed at a price of $1 or more, if the following conditions are met:

(1) The member’s Participation Ratio for the month exceeds its Baseline Participation Ratio by at least 0.43%.
(2) The member’s “ISP Execution Ratio” for the month is less than 10.
(3) The shares of liquidity provided through ISP-designated ports during the month are equal to or greater than 0.2% of Consolidated Volume during the month.
(4) At least 40% of the liquidity provided by the member during the month is provided through ISP-designated ports.

Alternatively, as provided in Rule 7014(c)(3), NASDAQ will pay a credit of $0.000275 per share with respect to shares of displayed liquidity executed at a price of $1 or more and entered through ISP-designated ports, and $0.000005 per share with respect to all other shares of displayed liquidity executed at a price of $1 or more, if the following conditions are met:

(1) The member’s Participation Ratio for the month exceeds its Baseline Participation Ratio by at least 0.30%.
(2) The member’s “ISP Execution Ratio” for the month is less than 10.
(3) The shares of liquidity provided through ISP-designated ports during the month are equal to or greater than 0.2% of Consolidated Volume during the month.
(4) At least 80% of the liquidity provided by the member during the month is provided through ISP-designated ports.
(5) The member has an average daily volume during the month of more than 100,000 contracts of liquidity provided through one or more of its Nasdaq Options Market participant identifiers (“MDPs”), provided that such liquidity is provided through Public Customer Orders, as defined in Chapter I, Section 1 of the Nasdaq Options Market Rules; and

(6) The no broker shares of liquidity provided through ISP-designated ports and total shares accessed, provided, or routed through ISP-designated ports during the month is at least 0.70.

As provided in Rule 7014(c)(4), NASDAQ will pay a credit of $0.000375 per share with respect to shares of displayed liquidity executed at a price of $1 or more and entered through ISP-designated ports, and $0.000005 per share with respect to all other shares of displayed liquidity executed at a price of $1 or more, if the following conditions are met:

(1) The member’s Participation Ratio for the month exceeds its Baseline Participation Ratio by at least 0.86%.
(2) The member’s “ISP Execution Ratio” for the month is less than 10.
(3) The shares of liquidity provided through ISP-designated ports during the month are equal to or greater than 0.2% of Consolidated Volume during the month.
(4) At least 40% of the liquidity provided by the member during the month is provided through ISP-designated ports.

NASDAQ is also deleting Rule 7014(i), which contains obsolete language describing a rule for calculating the ISP during the month of December 2011.

**Execution and Routing Fees and Credits**

NASDAQ is making a number of changes to its fee and credit schedule for order execution and routing. Overall, the changes are designed to (i) raise additional revenue to offset reductions caused by a sustained decrease in trading volumes in the U.S. capital markets, and (ii) encourage members that provide liquidity through non-displayed orders to do so, to a greater extent, through orders that offer price improvement. Specifically, NASDAQ is proposing to make the following changes to Rule 7018(a), which governs execution and routing of order for securities priced at $1 or more per share:

- Currently, NASDAQ pays credits that range from $0.0010 to $0.0015 per share executed with respect to liquidity provided through non-displayed orders. NASDAQ proposes to replace these credits with a credit of $0.0017 or $0.0015 per share for liquidity provided through midpoint pegged or midpoint peg post-only orders (collectively, “midpoint orders”), and a credit of $0.0010 per share executed for all other non-displayed orders. With respect to midpoint orders, the $0.0017 rate will apply if a member provides an average daily volume of more than 3 million shares through midpoint orders during the month, and the $0.0015 rate will apply if the member provides an average daily volume of 3 million or fewer shares through midpoint orders during the month. NASDAQ’s pricing structure is generally designed to encourage the provision of liquidity through displayed orders, since the credits paid with respect to such orders are consistently higher than those for non-displayed orders. However, the change reflects a concomitant goal of encouraging members that use non-displayed orders to also offer price improvement through the use of orders that are designed to execute at the midpoint of the national best bid and offer. In a related change, NASDAQ is also eliminating a liquidity provider rebate tier under which a member earns a credit of $0.0015 per share executed for non-displayed orders, and a credit of $0.0020 per share for displayed orders if the member provides 3 million or more shares of liquidity through non-displayed orders. This change is being made because the tier is inconsistent with the goal of paying a higher non-displayed order rebate with respect to midpoint orders.

- NASDAQ is eliminating a favorable charge of $0.0027 per share executed for orders that employ the SAVE or Pegged Order may be executed in sub-pennies if necessary to obtain a midpoint price. A new timestamp is created for the order each time it is automatically adjusted.

**Midpoint Peg Post-Only Orders** are orders that are priced in the same manner as Midpoint Peg Orders. Upon entry, a Midpoint Peg Post-Only Order will always post to the book unless it is a buy (sell) order that is priced higher than (lower than) a resting sell (buy) order, in which case it will be rejected or cancelled, as applicable. While a Midpoint Peg Post-Only Order that posts to the book is locking a preexisting non-displayed order, the Midpoint Peg Post-Only Order will execute against an incoming order only if the price of the incoming buy (sell) order is higher (lower) than the price of the pre-existing order.

**SAVE** is a routing option under which orders may either (i) route to the NASDAQ OMX BX Equities Market (“BX”) and NASDAQ OMX PSX (“PSX”), check the System, and then route to other destinations on the System routing table, or (ii) may check the System first and then route to destinations on the System routing table. If shares remain un-executed after routing, they are posted to...
SOLV 21 routing strategy but that execute in the Nasdaq Market Center. Accordingly, such orders will be charged the otherwise applicable fee of $0.0030 per share executed. Similarly, the fee for SAVE, SOLV, or TFTY 22 orders that execute at the New York Stock Exchange (“NYSE”) will increase from $0.0022 per share executed to $0.0023 per share executed, and the fee for SAVE or SOLV orders that execute at venues other than NASDAQ, NYSE, BX, or PSX will increase from $0.0026 per share executed to $0.0029 per share executed.

With respect to Rule 7018(b), NASDAQ is proposing to eliminate the liquidity provider rebate of $0.00009 per share executed with respect to securities priced at more than $0.05 but less than $1 per share. As a result, NASDAQ will pay no liquidity provider rebate for securities priced under $1 per share.

2. Statutory Basis

NASDAQ believes that the proposed rule change is consistent with the provisions of Section 6 of the Act,23 in general, and with Sections 6(b)(4) and 6(b)(5) of the Act,24 in particular, in that it provides for the equitable allocation of reasonable dues, fees and other charges among members and issuers and other persons using any facility or system which NASDAQ operates or controls, and is not designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

Changes to the ISP

The ISP encourages members to add targeted liquidity that is executed in the Nasdaq Market Center. NASDAQ believes that the reduction in the rebates paid under the ISP from $0.0001, $0.0003, and $0.0004 to $0.00005, $0.000275, and $0.000375 is reasonable, because it provides a means for NASDAQ to reduce costs during a period of persistently low trading volumes, while maintaining the overall structure of the ISP for the purpose of providing incentives for retail and institutional investors to provide targeted liquidity at NASDAQ. The change is consistent with an equitable allocation of fees: Although the change maintains the ISP’s purpose of paying higher rebates to certain market participants in order to encourage them to benefit all NASDAQ members through the submission of targeted liquidity, the change reduces the disparity between rebates paid to ISP participants and other members for providing liquidity. Accordingly, it results in a fee structure in which available rebates are allocated more equitably among market participants. Similarly, although NASDAQ believes that the price differentiation inherent in the ISP is fair, because it is designed to benefit all market participants by drawing targeted liquidity to the Exchange, the change reduces the level of discrimination between the rebates paid to ISP participants and those paid to other liquidity providers.

Finally, NASDAQ believes that the change to increase the percentage of liquidity provided through ISP-designated ports needed for a member to qualify for the lowest ISP tier is reasonable because it will reduce the likelihood that members that do not represent retail or institutional customers will be able to “game” the program by channelling a portion of their orders that they intend to execute through ISP-designated ports and thereby receive a credit with respect to those orders. The change is equitable because the ISP is designed to attract and benefit targeted liquidity, and therefore it is equitable to take measures to reduce the likelihood that ISP incentives will be paid to members that do not provide targeted liquidity. Finally, the change is not unfairly discriminatory because excluding members that do not represent retail or institutional customers is consistent with the established purposes of the ISP.

Rebates for Non-Displayed Liquidity

The changes to the rebates payable with respect to liquidity provided through non-displayed orders are reasonable because, consistent with NASDAQ’s goal of reducing expenses, they direct the focus of rebates away from non-displayed liquidity in general and toward non-displayed liquidity provided through midpoint orders. Because such orders provide price improvement, NASDAQ believes that it is reasonable to use rebates to encourage their use, while still maintaining a rebate structure that places even greater emphasis on the value of displayed liquidity in advancing transparency and price discovery. As a result of the change, the rebate paid for non-displayed liquidity, other than liquidity provided through midpoint orders, will decrease for some market participants, but the rebate paid with respect to midpoint orders will remain constant or increase for all market participants. The change is consistent with an equitable allocation of fees because it is designed to encourage members that provide liquidity through non-displayed orders to benefit other market participants through price improvement. Finally, the change is not unfairly discriminatory: the elements of differentiation between displayed and non-displayed liquidity and midpoint orders for non-displayed orders are fair because they promote the goals of price discovery and
encouraging market participants to provide price improvement.

Rebates for Stocks Priced Under $1

NASDAQ believes that the elimination of the rebate for liquidity provided in stocks priced under $1 is reasonable because the amount of this rebate is extremely small and therefore of minimal value to market participants. For example, the rebate on a 1000 share trade is just $0.09. NASDAQ believes that the change is consistent with an equitable allocation of fees, since the rebate is not being replaced by a fee, so there is no charge for liquidity providers to execute trades in these stocks.

Finally, NASDAQ believes that the change is not unfairly discriminatory because the per-trade revenues associated with executions of these stocks are also very small. Accordingly, NASDAQ believes that it is not unfair to pay a rebate with respect to higher priced stocks, while declining to pay a rebate with respect to these stocks.

Finally, NASDAQ notes that it operates in a highly competitive market in which market participants can readily favor competing venues if they deem fee levels at a particular venue to be excessive, or rebate opportunities available at other venues to be more favorable. In such an environment, NASDAQ must continually adjust its fees to remain competitive with other exchanges and with alternative trading systems that have been exempted from compliance with the statutory standards applicable to exchanges. These competitive forces help to ensure that NASDAQ’s fees are reasonable, equitably allocated, and not unfairly discriminatory since market participants can largely avoid fees to which they object by changing their trading behavior.

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

NASDAQ does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act, as amended. Because the market for order execution is extremely competitive, members may readily opt to disfavor NASDAQ’s execution services if they believe that alternatives offer them better value. For this reason and the reasons discussed in connection with the statutory basis for the proposed rule change, NASDAQ does not believe that the proposed changes will impair the ability of members or competing order execution venues to maintain their competitive standing in the financial markets.

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

Written comments were neither solicited nor received.

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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)(ii) of the Act. At any time within 60 days of the filing of the 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 to determine whether the proposed rule 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);
- Send an email to rule-comments@sec.gov. Please include File Number SR–NASDAQ–2012–053 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 SR–NASDAQ–2012–053 on the subject line. Written comments were neither solicited nor received.

SECURITIES AND EXCHANGE COMMISSION


Self-Regulatory Organizations; ICE Clear Credit LLC; Notice of Filing and Order Granting Accelerated Approval of Proposed Rule Change To Add Margin Collection Requirements for Futures Commission Merchant Clearing Participants


Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)  and Rule 19b–4 thereunder, notice is hereby given that on April 23, 2012, ICE Clear Credit LLC (“ICC”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I and II below, which Items have been prepared primarily by ICC. The Commission is publishing this Notice and Order to solicit comments on the proposed rule change from interested persons and to approve the proposed rule change on an accelerated basis.