

is designed to promote just and equitable principles of trade, remove impediments to and perfect the mechanisms of a free and open market and a national market system and, in general, to protect investors and the public interest.

This change is designed to benefit investors, who will be able to trade at better prices due to narrower spreads in in-the-money option series covered by the proposed rule change. The Exchange believes that market makers should maintain quotes that are no wider than the spread between the NBBO in the underlying security, as they can hedge their positions by trading in the underlying security at the NBBO, which may be narrower than the quotation on the primary market. As explained above, the Exchange believes that measuring the permissible width of a market maker's quote against the NBBO more accurately reflects the current trading environment where multiple trading venues contribute to the prevailing market price of a security underlying an options series traded on the ISE.

(B) Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The proposed rule change is intended to encourage tighter markets in in-the-money option series and is not designed to have any competitive impact. While market makers may be required to narrow their quotes in these series, the proposed rule change still affords sufficient flexibility to allow market makers to do so while managing their risk by hedging in the underlying security at the NBBO.

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

The Exchange has not solicited, and does not intend to solicit, comments on this proposed rule change. The Exchange has not received any unsolicited written comments from members or other interested parties.

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. Please include File Number SR-ISE-2014-31 on the subject line.

Paper Comments

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

All submissions should refer to File Number SR-ISE-2014-31. 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 ISE. 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-ISE-2014-31 and should be submitted on or before July 11, 2014.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.⁶

Kevin M. O'Neill,
Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-72398; File No. SR-ISEGemini-2014-15]

Self-Regulatory Organizations; ISE Gemini, LLC; Notice of Filing of a Proposed Rule Change on Bid/Offer Differentials for In-The-Money Option Series

June 16, 2014.

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 June 5, 2014, ISE Gemini, LLC ("Exchange" or "ISE Gemini") filed with the Securities and Exchange Commission ("SEC" or "Commission") the proposed rule change as described in Items I and II below, which Items have been prepared by the self-regulatory organization. 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

ISE Gemini proposes to amend its rules to require that market makers quoting certain in-the-money options series maintain quotes that are no wider than the spread between the NBBO in the underlying security. The text of the proposed rule change is available on the Exchange's Web site (<http://www.ise.com>), at the principal office of the Exchange, 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 self-regulatory organization 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 self-regulatory organization has prepared summaries, set forth in

⁶ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

sections A, B and C below, of the most significant aspects of such statements.

(A) Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

The purpose of the proposed rule change is to amend Rule 803(b)(4)(i) to require that market makers quoting certain in-the-money options series maintain quotes that are no wider than the spread between the national best bid and offer ("NBBO") in the underlying security. The Exchange believes that requiring that market makers post tighter quotes in these option series will improve market quality to the benefit of investors that trade on ISE Gemini.

In the course of maintaining fair and orderly markets in appointed options classes, market makers are generally required to price options contracts fairly by, among other things, bidding and offering so as to create differences of no more than \$5 between the bid and offer following the opening rotation in an options contract.³ In addition, Rule 803(b)(4)(i) presently permits market makers to submit quotes with wider bid/offer differentials for in-the-money options series where the market for the underlying security is wider than the market maker's regular quotation requirements. In particular, a market maker quoting an in-the-money options series may submit quotes that are as wide as the quotation on the primary market of the underlying security. For example, if the primary market for ABC has a quote of \$65 (bid)–\$73 (offer), ISE Gemini market makers may quote in-the-money option series on that security with a bid/offer differential of \$8. The wider bid/offer differentials allowed in these circumstances are intended to give market makers more flexibility with respect to their quoting obligations as options are priced relative to the price of the underlying security.

The Exchange proposes to change this obligation to instead require that market makers quoting these in-the-money options series maintain quotes that are no wider than the spread between the NBBO in the underlying security. A market maker quoting an in-the-money options series can hedge its position by trading in the underlying security at the NBBO, which may be narrower than the quotation on the primary market. For

instance, in the example above, other exchanges that trade ABC may collectively have a higher bid of \$66 and a lower offer of \$72. Under the proposed rule, ISE Gemini market makers would be required to quote in-the-money option series on ABC with a bid/offer differential of no more than \$6. The Exchange believes that measuring the permissible width of a market maker's quote against the NBBO more accurately reflects the current trading environment where multiple trading venues contribute to the prevailing market price of a security underlying an options series traded on ISE Gemini.

2. Basis

The Exchange believes that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder that are applicable to a national securities exchange, and, in particular, with the requirements of Section 6(b) of the Act.⁴ In particular, the proposal is consistent with Section 6(b)(5) of the Act,⁵ because is designed to promote just and equitable principles of trade, remove impediments to and perfect the mechanisms of a free and open market and a national market system and, in general, to protect investors and the public interest.

This change is designed to benefit investors, who will be able to trade at better prices due to narrower spreads in in-the-money option series covered by the proposed rule change. The Exchange believes that market makers should maintain quotes that are no wider than the spread between the NBBO in the underlying security, as they can hedge their positions by trading in the underlying security at the NBBO, which may be narrower than the quotation on the primary market. As explained above, the Exchange believes that measuring the permissible width of a market maker's quote against the NBBO more accurately reflects the current trading environment where multiple trading venues contribute to the prevailing market price of a security underlying an options series traded on ISE Gemini.

(B) Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The proposed rule change is intended to encourage tighter markets in in-the-money option series and is not designed

to have any competitive impact. While market makers may be required to narrow their quotes in these series, the proposed rule change still affords sufficient flexibility to allow market makers to do so while managing their risk by hedging in the underlying security at the NBBO.

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

The Exchange has not solicited, and does not intend to solicit, comments on this proposed rule change. The Exchange has not received any unsolicited written comments from members or other interested parties.

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. Please include File Number SR-ISEGemini-2014-15 on the subject line.

Paper Comments

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

All submissions should refer to File Number SR-ISEGemini-2014-15. 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/>

³ See Rule 803(b). Unless ISE Gemini establishes wider differentials for specific option classes, bid/offer differentials prior to the opening rotation must be no more than \$0.25, \$0.40, \$0.50, \$0.80, or \$1, with the larger bid/offer differentials permitted for option contracts with higher priced bids. *Id.*

⁴ 15 U.S.C. 78f(b).

⁵ 15 U.S.C. 78f(b)(5).

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-ISEGemini-2014-15 and should be submitted on or before July 11, 2014.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.⁶

Kevin M. O'Neill,
Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-72397; File No. SR-ICC-2014-05]

Self-Regulatory Organizations; ICE Clear Credit LLC; Order Approving Proposed Rule Change To Update ICC's Policy Regarding Valuation of Maturing U.S. Treasury Securities and Update ICC's Collateral Asset Haircut Methodology

June 16, 2014.

I. Introduction

On April 22, 2014, ICE Clear Credit LLC ("ICC") filed with the Securities and Exchange Commission ("Commission") the proposed rule change SR-ICC-2014-05 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 May 8, 2014.³ The Commission received no comment letters regarding the proposed change. For the reasons discussed below, the Commission is granting approval of the proposed rule change.

II. Description

ICC is proposing to update (1) its policy regarding valuation of maturing U.S. Treasury securities, and (2) its collateral asset haircut methodology. Under the proposed change, ICC will reduce the collateral valuation of maturing securities to \$0 two business days prior to maturity. Clearing Participants will receive notice the week prior to any collateral maturity dates and will be encouraged to replace maturing securities with other acceptable collateral. If collateral matures while on deposit with ICC, proceeds will be credited to the margin or guaranty fund account, as appropriate, when received by ICC on the maturity day.

ICC has stated that it and other IntercontinentalExchange, Inc. clearing houses have applied this methodology when nearing the U.S. debt ceiling, so that this proposed rule change will provide consistent collateral valuation certainty at all times, as well as consistent implementation of this policy across other IntercontinentalExchange, Inc. clearing houses. ICC has also stated that revaluing the maturing securities two business days prior to maturity will allow for collection of additional margin or guaranty fund, if required, prior to maturity. ICC's Treasury Operations Policies and Procedures will be updated to reflect this change, and ICC plans to notify Clearing Participants of the change via circular, upon approval by the Commission.

Furthermore, in order to provide consistency in the calculation of collateral asset haircuts among the IntercontinentalExchange, Inc. clearing houses, ICC is updating its Risk Management Framework pursuant to the proposed change. Currently at ICC, haircuts for relevant assets (e.g. U.S. Treasury securities and currencies) are calculated using a five-day liquidation period and a 99% confidence interval expected shortfall calculation. Under the proposed rule change, the IntercontinentalExchange, Inc. clearing houses will calculate haircuts for relevant assets using the greater (which may be rounded to the nearest 1%) of: (i) The haircut determined using a five-day liquidation period and a 99%

confidence interval expected shortfall calculation (currently used at ICC), and (ii) the haircut determined using a two day holding period and 99.9% confidence interval Value-at-Risk calculation. ICC has stated that because the haircut currently used by ICC, that is, the haircut determined by using the five-day liquidation period and a 99% confidence interval expected shortfall calculation, is usually greater than the haircut determined using the two day holding period and a 99.9% confidence interval Value-at-Risk calculation, the haircut currently used at ICC will continue to be the driver of haircuts and thus, this proposed rule change will have little practical impact on ICC's current haircut values. Furthermore, ICC has stated that as applied to currencies, should ICC choose to use one haircut for a given foreign exchange pair (e.g. USD v. Euro, Euro v. USD), ICC will apply the more conservative haircut. ICC has also stated that the changes to the methodology for calculation of collateral asset haircuts do not require any operational changes.

III. Discussion and Commission Findings

Section 19(b)(2)(C) of the Act⁴ directs the Commission to approve a proposed rule change of a self-regulatory organization if the Commission finds that such proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to such self-regulatory organization. Section 17A(b)(3)(F) of the Act⁵ requires, among other things, that the rules of a clearing agency are designed to promote the prompt and accurate clearance and settlement of securities transactions and, to the extent applicable, derivative agreements, contracts, and transactions, 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 and, in general, to protect investors and the public interest.

The Commission finds that the proposed rule change is consistent with the requirements of Section 17A of the Act.⁶ The proposed change to ICC's valuation of maturing securities will ensure ICC maintains adequate liquidity and the proposed change to ICC's haircut methodology will provide appropriate collateral valuation in a manner consistent or more conservative than existing policy. The proposed changes, therefore, are each consistent

⁶ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ Securities Exchange Act Release No. 34-72083 (May 2, 2014), 79 FR 26490 (May 8, 2014) (SR-ICC-2014-05).

⁴ 15 U.S.C. 78s(b)(2)(C).

⁵ 15 U.S.C. 78q-1(b)(3)(F).

⁶ 15 U.S.C. 78q-1.