

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-87647; File No. SR-IEX-2019-13)

December 3, 2019

Self-Regulatory Organizations: Investors Exchange LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend Rule 11.380 to Expand the Exchange's Optional Aggregate Risk Controls Mechanism to Include a Net Notional Exposure Risk Check in Addition to the Gross Notional Exposure Risk Check

Pursuant to Section 19(b)(1)<sup>1</sup> of the Securities Exchange Act of 1934 (“Act”)<sup>2</sup> and Rule 19b-4 thereunder,<sup>3</sup> notice is hereby given that, on November 27, 2019, the Investors Exchange LLC (“IEX” or the “Exchange”) 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 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

Pursuant to the provisions of Section 19(b)(1) under the Act,<sup>4</sup> and Rule 19b-4 thereunder,<sup>5</sup> IEX is filing with the Commission a proposed rule change to amend Rule 11.380 to offer an optional net notional exposure risk check to Members and their clearing firms as part of the Exchange's Aggregate Risk Controls mechanism. The Exchange has designated this rule change as non-controversial under Section 19(b)(3)(A) of the Act<sup>6</sup> and provided the Commission

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

<sup>2</sup> 15 U.S.C. 78a.

<sup>3</sup> 17 CFR 240.19b-4.

<sup>4</sup> 15 U.S.C. 78s(b)(1).

<sup>5</sup> 17 CFR 240.19b-4.

<sup>6</sup> 15 U.S.C. 78s(b)(3)(A).

with the notice required by Rule 19b-4(f)(6)(iii) thereunder.<sup>7</sup>

The text of the proposed rule change is available at the Exchange's website at [www.iextrading.com](http://www.iextrading.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 the 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 statement may be examined at the places specified in Item IV below. The self-regulatory organization 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 amend Rule 11.380 to offer an optional net notional exposure risk check to Members and their clearing firms as part of the Exchange's Aggregate Risk Controls ("ARC") mechanism. Rule 11.380, entitled Risk Management, describes the Exchange's current optional ARC mechanism that is designed to assist IEX Members<sup>8</sup> and their clearing firms in their risk management efforts. IEX does not charge a fee for use of the ARC mechanism. As described in the rule, the ARC mechanism currently can be configured to provide trading limits based on the gross notional exposure for matched and routed trades for a Member or clearing firm's broker correspondent across MPIDs, by MPID, by FIX session or in combination, per clearing firm relationship or Member, as applicable ("Gross Notional

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<sup>7</sup> 17 CFR 240.19b-4(f)(6)(iii).

<sup>8</sup> See Rule 1.160(s).

Exposure”). Once the Gross Notional Exposure, as elected and configured by a Member or its clearing firm, has exceeded the pre-determined limit, IEX will automatically reject new orders and cancel all open orders for the applicable MPID(s) and/or FIX session specified. Further, the Gross Notional Exposure risk control may be increased or decreased on an intra-day basis by a Member or the clearing firm of a Member, as applicable. As specified in paragraph (a)(2)(A) of Rule 11.380, Gross Notional Exposure is calculated as the absolute sum of the notional value of all buy and sell trades (i.e., equal to the value of executed buys plus the absolute value of executed long sells plus the absolute value of executed short sells). There is no netting of buys and sales in the same symbol or across symbols. And the Gross Notional Exposure resets for each new trading day.

IEX proposes to revise the rule to provide Members or the clearing firms of Members with an additional option of configuring an ARC trading limit on the net notional exposure for matched and routed trades for a Member or clearing firm’s broker correspondent across MPIDs, by MPID, by FIX session or in combination, per clearing firm relationship or Member as applicable (“Net Notional Exposure”). IEX notes that other exchanges offer their members the option of a risk control based upon the member’s net notional exposure.<sup>9</sup> As proposed, once the Net Notional Exposure, as elected and configured by a Member or its clearing firm, has exceeded the pre-determined limit, IEX will automatically reject new orders and cancel all open orders for the applicable MPID(s) and/or FIX session specified. However, just as with the existing Gross Notional Exposure risk control, the proposed new Net Notional Exposure risk

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<sup>9</sup> See e.g., Nasdaq Stock Market (“Nasdaq”) Rule 6130; Cboe BZX Exchange, Inc. (“Cboe”) Rule 11.13 Interpretations and Policies .01(h); see also New York Stock Exchange LLC (“NYSE”) Technology FAQ and Best Practices: Equities (November 2019) Section 5.7, available at [https://www.nyse.com/publicdocs/nyse/markets/nyse/NYSE\\_Group\\_Equities\\_Technology\\_FAQ.pdf](https://www.nyse.com/publicdocs/nyse/markets/nyse/NYSE_Group_Equities_Technology_FAQ.pdf).

control may be increased or decreased on an intra-day basis by a Member or the clearing firm of a Member, as applicable. As specified in the proposed new paragraph (a)(2)(B) of Rule 11.380, Net Notional Exposure will be calculated as the absolute net sum of the notional value of all buy and sell trades (i.e., equal to the value of executed buys minus the absolute value of executed long sells minus the absolute value of executed short sells). Netting will be calculated across all symbols. And, as with Gross Notional Exposure risk controls, the proposed Net Notional Exposure risk control would reset for each new trading day.

Under the proposed rule change, Members or their clearing firms, if they choose to avail themselves of IEX's ARC mechanism, may elect to configure the ARC mechanism to accumulate and specify a limit or limits on either the Gross Notional Exposure, the newly-offered Net Notional Exposure, or both (collectively defined in the proposed new rule as the "ARC Limit").<sup>10</sup>

IEX believes that adding a Net Notional Exposure risk control to its existing ARC mechanism will enhance the risk management tools available to IEX Members. The Exchange notes, however, that use of an ARC Limit by a Member or the clearing firm of a Member does not automatically constitute compliance with IEX rules or SEC rules, nor does it replace Member-managed and clearing firm-managed risk management solutions. The Exchange does not propose to require Members or their clearing firms to use the ARC mechanism, and Members and their clearing firms may use any other appropriate risk-management tool or service instead of, or in combination with, IEX's ARC mechanism. The Exchange will not provide preferential treatment to Members or clearing firms using IEX's ARC mechanism, nor will the use of the

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<sup>10</sup> In the case of a Member that is subject to ARC Limits set by its clearing firm, the Member will be advised of such limits by IEX. In the event a Member that is subject to ARC Limits set by its clearing firm also elects to set ARC Limits for its own trading, the Exchange will apply both such limits with the lower of the ARC Limits being applicable since it will trigger first.

ARC mechanism impact a Member's or clearing firm's use of IEX other than when it results in orders being rejected or cancelled pursuant to the ARC Limit. In addition, IEX will continue to provide the ARC mechanism to Members and clearing firms without charge.

## 2. Statutory Basis

IEX believes that the proposed rule change is consistent with the provisions of Sections 6(b)<sup>11</sup> of the Act in general, and furthers the objectives of Section 6(b)(5)<sup>12</sup> of the Act, in particular, in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest by enhancing the risk management protections available to Exchange Members and their clearing firms. The Exchange believes that the proposed rule change supports these objectives because it is designed to enable all IEX Members an additional option for how to manage and limit their own trading exposure (whether on the basis of the Member's Gross Notional Exposure, Net Notional Exposure, or both) on IEX, in addition to enabling clearing firms an additional option to monitor their correspondent Members' trading exposure as well as their own trading exposure (whether on the basis of the clearing firm's Gross Notional Exposure, Net Notional Exposure, or both), including by intra-day increases or decreases in the limits.

Further, the Exchange believes that the proposed rule change is consistent with the protection of investors and the public interest because it provides an additional mechanism to enable IEX Members and clearing firms of IEX Members to manage their risk by preventing trading that exceeds a Member's, or clearing firm of a Member's, financial resources on a net

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<sup>11</sup> 15 U.S.C. 78f.

<sup>12</sup> 15 U.S.C. 78f(b)(5).

notional basis (as well as the currently available gross notional basis risk control), and thereby contributes to the stability of the equities markets. Thus, the Exchange believes the addition of a Net Notional Exposure risk control offers Members and their clearing firms an important compliance tool that Members and their clearing firms may use to help maintain the regulatory integrity of the markets.

The Exchange notes that other exchanges' rules provide for similar functionality, as discussed in the Purpose section, and accordingly IEX does not believe that the proposed rule change raises any new or novel issues not already considered by the Commission.<sup>13</sup>

In addition, the Exchange believes that the proposal is consistent with just and equitable principles of trade and not unfairly discriminatory because the ARC mechanism is available to all IEX Members and their clearing firms without charge.

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

IEX 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. The proposal is designed to expand the Exchange's existing, optional, ARC mechanism by adding a new Net Notional Exposure risk control as described in the Purpose section. The Exchange is not proposing to charge any fee for use of any aspect of its ARC mechanism, which as proposed, is available to all Members and clearing firms of Members without charge. The Exchange does not believe the proposed rule change will impose any burden on intermarket competition because other exchanges offer similar functionality.<sup>14</sup> The Exchange also does not believe that the proposal will impose an burden on intramarket competition because it is available to all Members, and clearing firms of Members, and provides a mechanism to enable IEX Members

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<sup>13</sup> See supra note 9.

<sup>14</sup> See supra note 9.

and clearing firms to manage their risk by preventing trading that is erroneous or exceeds a Member's or clearing firm's financial resources, thereby contributing to the stability of the equities markets. Accordingly, the Exchange does not believe that this proposal will have any impact on competition.

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

Because the foregoing proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A)(iii) of the Act<sup>15</sup> and subparagraph (f)(6) of Rule 19b-4 thereunder.<sup>16</sup>

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.

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<sup>15</sup> 15 U.S.C. 78s(b)(3)(A)(iii).

<sup>16</sup> 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6) requires a self-regulatory organization to give the Commission written notice of its intent to file the proposed rule change at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.

#### 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 e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-IEX-2019-13 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-IEX-2019-13. This file number should be included on the subject line if e-mail 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 the Exchange. 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-IEX-2019-13 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>17</sup>

Jill M. Peterson  
Assistant Secretary

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