

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-78945; File No. SR-IEX-2016-15)

September 27, 2016

Self-Regulatory Organizations: Investors Exchange LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Related to Optional Risk Management Controls

Pursuant to Section 19(b)(1)¹ of the Securities Exchange Act of 1934 (the “Act”)² and Rule 19b-4 thereunder,³ notice is hereby given that, on September 22, 2016, the Investors Exchange LLC (“IEX” or the “Exchange”) filed with the Securities and Exchange Commission (the “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 Securities Exchange Act of 1934 (“Act”),⁴ and Rule 19b-4 thereunder,⁵ Investors Exchange LLC (“IEX” or “Exchange”) is filing with the Securities and Exchange Commission (“Commission”) a proposed rule change to amend Rule 11.380 to provide that the Aggregate Risk Controls (“ARC”) mechanism is available to any IEX Member as well as to clearing firms for their broker correspondent IEX Member firms, and to specify the manner in which Members shall contact IEX to arrange to utilize the ARC mechanism. The Exchange has designated this rule change as non-controversial under Section

¹ 15 U.S.C. 78s(b)(1).

² 15 U.S.C. 78a.

³ 17 CFR 240.19b-4.

⁴ 15 U.S.C. 78s(b)(1).

⁵ 17 CFR 240.19b-4.

19(b)(3)(A) of the Act⁶ and provided the Commission with the notice required by Rule 19b-4(f)(6)(iii) thereunder.⁷

The text of the proposed rule change is available at the Exchange's website at 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 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 Statutory Basis for, the Proposed Rule Change

1. Purpose

Rule 11.380, entitled Risk Management, describes the optional ARC mechanism that is designed to assist IEX clearing firms⁸ in their risk management efforts. IEX does not charge a fee for use of ARC. As described in the rule, ARC can be configured to provide trading limits based on the gross notional exposure for matched and routed trades for a clearing firm's broker correspondent across MPIDs, by MPID, by FIX session or in combination, per clearing firm

⁶ 15 U.S.C. 78s(b)(3)(A).

⁷ 17 CFR 240.19b-4(f)(6)(iii).

⁸ As described in Rule 11.250(a), a clearing firm is an IEX Member that is a member of a registered clearing agency. Pursuant to IEX Rule 2.160(c)(4) an IEX Member must be a member of a registered clearing agency or clear transactions executed on the Exchange through another Member that is a member of a registered clearing agency.

relationship. As specified in the rule, ARCs are elected, and the upper value of any limits is set by the clearing firm of a Member. Once the gross notional exposure, as elected and configured, has exceeded the pre-determined limit, IEX will reject new orders and cancel all open orders for the applicable MPID(s) and/or FIX session specified. As specified in paragraph (a)(3)(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. Gross notional exposure resets for each new trading day.

IEX proposes to revise the rule to provide that ARC is optionally available to any Member as well as to clearing firms for their broker correspondent IEX Member firms. This change will serve to clarify that ARC may be used by a clearing firm Member for its own trading on IEX as well as for its correspondent firm customers that are IEX Members. Because a Member that is self-clearing technically has a “clearing firm relationship” with itself, the Exchange believes that the rule already provides that ARC may be used by a clearing firm Member for its own trading on IEX. In addition, IEX proposes to amend Rule 11.380 to provide that ARC is available to any Member. Thus, as proposed, ARC may be elected by a Member for its own trading on IEX (whether or not such Member is self-clearing) as well as by a clearing firm Member for its correspondent firm customers that are IEX Members.⁹ In addition, IEX proposes to add new text to provide that ARC limits may be increased or decreased on an intra-day basis by a Member or the clearing firm of a Member, as applicable. Further, IEX proposes to make several nonsubstantive changes to subparagraphs (a)(2) and (3) of the rule text to

⁹ 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 a lower limit(s) being applicable.

simplify and streamline such provisions, including replacing GNE as a defined term within the rule text with references simply to “gross notional exposure” throughout. Finally, IEX proposes to add new paragraph (b) to Rule 11.380 to provide that Members shall contact IEX Market Operations to arrange to utilize the ARC mechanism. Accordingly, IEX proposes to make the following revisions to the rule:

1. References in paragraph (a) to the term “Clearing Firms” will be replaced with “Members”.
2. Paragraph (a)(1) will be revised to state that ARCs are elected by a Member or the clearing firm of a Member.
3. Paragraphs (a)(2) and (3) will be revised to combine the provisions, replace the defined term GNE with references to “gross notional exposure” throughout, and state that gross notional exposure accumulates the notional values for a Member or a clearing firm’s broker correspondent.
4. New paragraph (b) will be added to specify that Members shall contact IEX Market Operations at marketops@iextrading.com to arrange to utilize ARC.

IEX believes that making ARC available to all Members as an optional service will enhance the risk management tools available to IEX Members. The Exchange notes, however, that use of ARC by a Member does not automatically constitute compliance with IEX rules or SEC rules, nor does it replace Member-managed risk management solutions. The Exchange does not propose to require Members to use ARC, and Members may use any other appropriate risk-management tool or service instead of, or in combination with, ARC. The Exchange will not provide preferential treatment to Members using ARC, nor will the use of ARC impact a Member’s use of IEX other than when it results in orders being rejected or cancelled pursuant to

ARC. In addition, IEX will continue to provide ARC to Members without charge.

2. Statutory Basis

IEX believes that the proposed rule change is consistent with the provisions of Sections 6(b)¹⁰ of the Act in general, and furthers the objectives of Section 6(b)(5)¹¹ 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 clarifying and enhancing the risk management protections available to Exchange members. The Exchange believes that the proposed rule change supports these objectives because it is designed to enable all IEX Members to manage and limit their own trading exposure on IEX, in addition to enabling clearing firms to monitor their correspondent firm customer and their own trading exposure, 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 a mechanism to enable IEX Members to manage their risk by preventing trading that is erroneous or exceeds a Member's financial resources, and thereby contributing to the stability of the equities markets.

The Exchange also believes that the aspects of the proposed rule change that clarify that ARC is available to clearing firms for their own trading on IEX is consistent with the protection of investors and the public interest because it will eliminate any confusion in this regard among IEX Members.

¹⁰ 15 U.S.C. 78f.

¹¹ 15 U.S.C. 78f(b)(5).

In addition, the Exchange believes that the nonsubstantive changes to subparagraphs (a)(2) and (3) of the rule text to simplify and streamline such provisions are consistent with the protection of investors and the public interest because such changes will enhance the readability of the relevant rule provisions.

Finally, the Exchange believes that adding rule text to specify how IEX Members shall contact IEX Market Operations to arrange to utilize the ARC mechanism will provide greater clarity and eliminate any confusion in this regard.

The Exchange notes that most other exchanges offer risk management tools to their members, with functionality similar to ARC.¹²

In addition, the Exchange believes that the proposal is consistent with just and equitable principles of trade because ARC is available to all IEX Members 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 clarify and expand the availability of the optional ARC risk management mechanism as described in the Purpose section. The Exchange is not proposing to charge any fee for use of ARC, which as proposed, is available to all Members without charge. The Exchange does not believe the proposed rule change will impose any intermarket burden on competition because other exchanges offer similar functionality.¹³ The Exchange also does not believe that the proposal will impose an intramarket burden on competition because it is

¹² See, for example, Nasdaq Stock Market LLC Rules 6100 – 6120; Securities Exchange Act Release No. 68330 (November 30, 2012), 77 FR 72894 (December 6, 2012) (File No. SR-BATS-2012-045 concerning Bats BZX Exchange, Inc. (formerly BATS Exchange, Inc.) Risk Management Tool).

¹³ See, supra note 12.

available to all Members and provides a mechanism to enable IEX Members to manage their risk by preventing trading that is erroneous or exceeds a Member's financial resources, thereby contributing to the stability of the equities markets. Accordingly, this proposal will have no 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

The Exchange has designated this rule filing as non-controversial under Section 19(b)(3)(A)¹⁴ of the Act and Rule 19b-4(f)(6)¹⁵ thereunder. Because the 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 if consistent with the protection of investors and the public interest, it has become effective pursuant to Section 19(b)(3)(A) of the Act and Rule 19b-4(f)(6) thereunder.¹⁶

A proposed rule change filed under Rule 19b-4(f)(6)¹⁷ normally does not become operative prior to 30 days after the date of the filing. However, pursuant to Rule 19b-4(f)(6)(iii),¹⁸ the Commission may designate a shorter time if such action is consistent with the

¹⁴ 15 U.S.C. 78s(b)(3)(A).

¹⁵ 17 CFR 240.19b-4(f)(6).

¹⁶ 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.

¹⁷ 17 CFR 240.19b-4(f)(6).

¹⁸ 17 CFR 240.19b-4(f)(6)(iii).

protection of investors and the public interest. The Exchange has asked the Commission to waive the 30-day operative delay to make ARC risk management protections immediately available to all Members. While IEX has proposed certain clarifying changes to Rule 11.380 that do not materially alter the scope of the rule, the primary material change extends the rule beyond clearing brokers and makes the ARC optionally available to any Member. IEX has represented above that, if an IEX Member elects to use the ARC, IEX will inform that Member if its clearing firm also set ARC limits for the Member, in which case IEX would apply the lower limit. The Commission believes that extending the ARC functionality to all Members will provide them with an additional tool that can be used as part of a Member's approach to risk management, which may promote the maintenance of fair and orderly markets. For this reason, the Commission believes that waiver of the operative delay is consistent with the protection of investors and the public interest. Accordingly, the Commission hereby waives the operative delay and designates the proposed rule change operative upon filing.¹⁹

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 under Section 19(b)(2)(B)²⁰ of the Act to determine whether the proposed rule change should be approved or disapproved.

IV. Solicitation of Comments

¹⁹ For purposes only of waiving the 30-day operative delay, the Commission has also considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

²⁰ 15 U.S.C. 78s(b)(2)(B).

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. Please include File Number SR-IEX-2016-15 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-IEX-2016-15. 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; 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-IEX-2016-15 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.²¹

Robert W. Errett
Deputy Secretary

²¹ 17 CFR 200.30-3(a)(12).