

Required fields are shown with yellow backgrounds and asterisks.

Filing by Investors' Exchange LLC  
 Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial * <input checked="" type="checkbox"/>	Amendment * <input type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) * <input type="checkbox"/>	Section 19(b)(3)(A) * <input checked="" type="checkbox"/>	Section 19(b)(3)(B) * <input type="checkbox"/>
Pilot <input type="checkbox"/>			Rule		
Extension of Time Period for Commission Action * <input type="checkbox"/>		Date Expires * <input type="text"/>	<input type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)	
			<input type="checkbox"/> 19b-4(f)(2)	<input type="checkbox"/> 19b-4(f)(5)	
			<input type="checkbox"/> 19b-4(f)(3)	<input checked="" type="checkbox"/> 19b-4(f)(6)	

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010	Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934
Section 806(e)(1) * <input type="checkbox"/>	Section 806(e)(2) * <input type="checkbox"/>
	Section 3C(b)(2) * <input type="checkbox"/>

Exhibit 2 Sent As Paper Document <input type="checkbox"/>	Exhibit 3 Sent As Paper Document <input type="checkbox"/>
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**Description**  
 Provide a brief description of the action (limit 250 characters, required when Initial is checked \*).  
 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.

**Contact Information**  
 Provide the name, telephone number, and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the action.

First Name \* Nathaniel      Last Name \* Kolodny  
 Title \* Lead Regulation Counsel  
 E-mail \* nathaniel.kolodny@iextrading.com  
 Telephone \* (646) 343-2034      Fax

**Signature**  
 Pursuant to the requirements of the Securities Exchange Act of 1934,  
 has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.  
 (Title \*)  
 Date 11/27/2019      Chief Regulatory Officer  
 By Claudia Crowley      claudia.crowley@iextrading.com  
 (Name \*)

NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EFFS website.

**Form 19b-4 Information \***

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The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.

**Exhibit 1 - Notice of Proposed Rule Change \***

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The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

**Exhibit 1A- Notice of Proposed Rule Change, Security-Based Swap Submission, or Advance Notice by Clearing Agencies \***

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The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change, security-based swap submission, or advance notice being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

**Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications**

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Exhibit Sent As Paper Document

Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.

**Exhibit 3 - Form, Report, or Questionnaire**

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Exhibit Sent As Paper Document

Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.

**Exhibit 4 - Marked Copies**

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The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.

**Exhibit 5 - Proposed Rule Text**

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The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.

**Partial Amendment**

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If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

1. Text of Proposed Rule Change

(a) Pursuant to the provisions of Section 19(b)(1) under the Securities Exchange Act of 1934 (“Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> 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 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>3</sup> and provided the Commission with the notice required by Rule 19b-4(f)(6)(iii) thereunder.<sup>4</sup>

A notice of the proposed rule change for publication in the Federal Register is attached hereto as Exhibit 1. The text of the proposed rule change is attached as Exhibit 5.

(b) The Exchange does not believe that the proposed rule change will have any direct effect, or any significant indirect effect, on any other Exchange rule in effect at the time of this filing.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

Senior management has approved the proposed rule change pursuant to authority delegated to it by the Board of the Exchange. No further action is required under the Exchange’s governing documents. Therefore, the Exchange’s internal procedures with respect to the proposed rule change are complete.

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

<sup>2</sup> 17 CFR 240.19b-4.

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

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

The persons on the Exchange staff prepared to respond to questions and comments on the proposed rule change are:

Claudia Crowley  
Chief Regulatory Officer  
Investors Exchange LLC  
646-343-2041

Nathaniel Kolodny  
Lead Regulation Counsel  
Investors Exchange LLC  
646-343-2034

3. Self-Regulatory Organization's Statement on the Purpose of, and Statutory Basis for, the Proposed Rule Change

a. 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>5</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 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

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<sup>5</sup> See Rule 1.160(s).

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>6</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 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

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<sup>6</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).

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>7</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 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.

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<sup>7</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.

b. Statutory Basis

IEX believes that the proposed rule change is consistent with the provisions of Sections 6(b)<sup>8</sup> of the Act in general, and furthers the objectives of Section 6(b)(5)<sup>9</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 notional basis (as well as the currently available gross notional basis risk control), and thereby contributes to the stability of the equities

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<sup>8</sup> 15 U.S.C. 78f.

<sup>9</sup> 15 U.S.C. 78f(b)(5).

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>10</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.

#### 4. 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>11</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

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<sup>10</sup> See supra note 6.

<sup>11</sup> See supra note 6.

firms of Members, and provides a mechanism to enable IEX Members 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.

5. 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.

6. Extension of Time Period for Commission Action

Not applicable.

7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2)

The Exchange has designated this rule filing as non-controversial under Section 19(b)(3)(A) of the Act<sup>12</sup> and paragraph (f)(6) of Rule 19b-4 thereunder.<sup>13</sup> The Exchange asserts that the proposed rule change: (1) will not significantly affect the protection of investors or the public interest, (2) will not impose any significant burden on competition, (3) and will not become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate. In addition, the Exchange provided the Commission with written notice of its intent to file the proposed rule change, along with a brief description and text of the proposed rule change, at least five business days prior to the date of filing.<sup>14</sup>

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<sup>12</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>13</sup> 17 CFR 240.19b-4.

<sup>14</sup> 17 CFR 240.19b-4(f)(6)(iii).

The Exchange believes that the proposed rule change meets the criteria of subparagraph (f)(6) of Rule 19b-4<sup>15</sup> because it merely expands the existing optional ARC mechanism to include a new Net Notional Exposure risk control. The Exchange also believes that the proposal would not significantly affect the protection of investors or the public interest; rather, the proposed rule change will benefit investors and the public interest by providing expanded risk management services to IEX Members and clearing firms. In addition, the Exchange does not believe that the proposal raises any new or novel issues not previously considered by the Commission in that other exchanges already offer similar risk management mechanisms to their Members, which were adopted by those exchanges pursuant to “non-controversial” rule filings.<sup>16</sup> Based on the foregoing, the Exchange has designated this rule filing as “non-controversial” under Section 19(b)(3)(A) of the Act<sup>17</sup> and paragraph (f)(6) of Rule 19b-4 thereunder.<sup>18</sup>

The Exchange will implement the proposed rule change within 90 days of filing, subject to the 30-day operative delay, and provide at least ten (10) days’ notice to Members and market participants of the implementation timeline.

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

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<sup>15</sup> 17 CFR 240.19b-4(f)(6).

<sup>16</sup> See e.g., Securities Exchange Act Release No. 68330 (November 30, 2012), 77 FR 72894 (December 6, 2012) (SR-BATS-2012-045); Securities Exchange Act Release No. 71555 (February 18, 2014), 79 FR 10218 (February 24, 2014) (SR-NASDAQ-2014-017).

<sup>17</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>18</sup> 17 CFR 240.19b-4.

19(b)(2)(B) of the Act to determine whether the proposed rule change should be approved or disapproved.<sup>19</sup>

8. Proposed Rule Change Based on the Rules of Another Self-Regulatory Organization or of the Commission

The proposed rule change is not based on the rules of another self-regulatory organization or of the Commission.

9. Security-Based Swap Submissions Filed Pursuant to Section 3C of the Act

Not applicable.

10. Advance Notices Filed Pursuant to Section 806(e) of the Payment, Clearing and Settlement Supervision Act

Not applicable.

11. Exhibits

Exhibit 1 – Form of Notice of the Proposed Rule Change for Publication in the Federal Register.

Exhibit 5 – Text of Proposed Rule Change.

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<sup>19</sup> 15 U.S.C. 78s(b)(2)(B).

EXHIBIT 1

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

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 (the "Act")<sup>2</sup> and Rule 19b-4 thereunder,<sup>3</sup> notice is hereby given that, on (date), 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, II and III 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)

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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.

of the Act<sup>6</sup> and provided the Commission 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

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

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

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

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 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-

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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).

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 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.

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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.

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 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,

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

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

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 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.

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

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 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

The Exchange has designated this rule filing as non-controversial under Section 19(b)(3)(A)<sup>15</sup> of the Act and Rule 19b-4(f)(6)<sup>16</sup> 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

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

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

<sup>16</sup> 17 CFR 240.19b-4(f)(6).

designate, it has become effective pursuant to Section 19(b)(3)(A) of the Act and Rule 19b-4(f)(6) thereunder.

The Exchange believes that the proposed rule change meets the criteria of subparagraph (f)(6) of Rule 19b-4<sup>17</sup> because it merely expands the existing optional ARC mechanism to include a new Net Notional Exposure risk control. The Exchange also believes that the proposal would not significantly affect the protection of investors or the public interest; rather, the proposed rule change will benefit investors and the public interest by providing expanded risk management services to IEX Members and clearing firms. In addition, the Exchange does not believe that the proposal raises any new or novel issues not previously considered by the Commission in that other exchanges already offer similar risk management mechanisms to their Members, which were adopted by those exchanges pursuant to “non-controversial” rule filings.<sup>18</sup> Based on the foregoing, the Exchange has designated this rule filing as “non-controversial” under Section 19(b)(3)(A) of the Act<sup>19</sup> and paragraph (f)(6) of Rule 19b-4 thereunder.<sup>20</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 under Section

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

<sup>18</sup> See e.g., Securities Exchange Act Release No. 68330 (November 30, 2012), 77 FR 72894 (December 6, 2012) (SR-BATS-2012-045); Securities Exchange Act Release No. 71555 (February 18, 2014), 79 FR 10218 (February 24, 2014) (SR-NASDAQ-2014-017).

<sup>19</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>20</sup> 17 CFR 240.19b-4.

19(b)(2)(B)<sup>21</sup> of the Act to determine whether the proposed rule change 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>); or
- Send an email 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 Vanessa Countryman, 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 in 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 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

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<sup>21</sup> 15 U.S.C. 78s(b)(2)(B).

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 Section, 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 will also be available for inspection and copying at the IEX's principal office and on its Internet website at [www.iextrading.com](http://www.iextrading.com). 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>22</sup>

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<sup>22</sup> 17 CFR 200.30-3(a)(12).

## Exhibit 5 – Text of Proposed Rule Change

Proposed new language is underlined; proposed deletions are in brackets.

## CHAPTER 11. TRADING RULES

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## Rule 11.380. Risk Management

## (a) Aggregate Risk Controls (“ARC”).

- (1) ARCs may be optionally elected by a Member or the clearing firm of a Member.
- (2) [IEX ]ARCs can be configured to accumulate and specify a limit or limits on the [g]Gross [n]Notional [e]Exposure, Net Notional Exposure, or both, as defined in subparagraphs (a)(2)(A) and (a)(2)(B), respectively (“ARC Limit”). ARC Limits can be configured 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. If an ARC Limit is exceeded[accumulates the gross notional value of matched and routed trades for a Member or clearing firm’s broker correspondent as specified in subparagraph (a)(2)(A), and will automatically reject] new orders will be automatically rejected and [cancel] all open orders will be cancelled[ when the gross notional exposure has exceeded a pre-determined limit]. [IEX]Any ARC Limit may be increased or decreased on an intra-day basis by a Member or the clearing firm of a Member, as applicable.
- (A) “Gross [n]Notional [e]Exposure” is calculated as the absolute sum of the notional value of all buy and sell trades: 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 [n]Notional [e]Exposure resets for each new trading day.
- (B) “Net Notional Exposure” is calculated as the absolute net sum of the notional value of all buy and sell trades: equal to the value of executed buys minus the absolute value of executed long sells minus the absolute value of executed short sells. Netting is calculated across symbols. Net Notional Exposure resets for each new trading day.
- (3) Notwithstanding the foregoing, after the Lock-in Time for the Opening (Closing) Auction and before the Opening (Closing) Auction match, if a Member exceeds their pre-determined ARC [l]Limit as configured by the Member or their clearing firm, IEX

will not cancel such Member's orders that are on the Opening (Closing) Auction Book ("Locked-in Orders"). Immediately after the Opening (Closing) Auction match, any unexecuted portion of Locked-in Orders will be canceled.

- (b) Members, including clearing firms, seeking to utilize ARC shall contact IEX Market Operations at [marketops@iextrading.com](mailto:marketops@iextrading.com).

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