

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-80266; File No. SR-PEARL-2017-12]

### Self-Regulatory Organizations; MIAx PEARL, LLC; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change To Amend MIAx PEARL Rules 517A, Aggregate Risk Manager for EEMs (“ARM-E”), and 517B, Aggregate Risk Manager for Market Makers (“ARM-M”)

March 17, 2017.

Pursuant to the provisions of Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”) <sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on March 6, 2017, MIAx PEARL, LLC (“MIAx PEARL” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”) a proposed rule change as described in Items I, II, and III below, which Items have been prepared by the Exchange. 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

The Exchange is filing a proposal to amend Exchange Rules Rule 517A, Aggregate Risk Manager for EEMs (“ARM-E”), and 517B, Aggregate Risk Manager for Market Makers (“ARM-M”).

The text of the proposed rule change is available on the Exchange’s Web site at <http://www.miaxoptions.com/rule-filings/pearl> at MIAx PEARL’s principal office, 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 Exchange 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 Exchange 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

The Exchange proposes to amend Exchange Rules 517A, ARM-E, and 517B, ARM-M by adopting and adding proposed Interpretations and Policies .01 to Rule 517A to state that the MIAx PEARL System <sup>3</sup> does not include in a specific Electronic Exchange Member’s (“EEM”) <sup>4</sup> EEM Counting Program (described below) contracts executed as a result of an immediate-or-cancel (“IOC”) order <sup>5</sup> submitted by such EEM, and to adopt and add Interpretations and Policies .02 to Rule 517B, stating that the System does not include in a specific Market Maker’s <sup>6</sup> MM Counting Program (described below) contracts executed as a result of an immediate-or-cancel (“IOC”) order submitted by such MM.

##### ARM-E

ARM-E protects MIAx PEARL EEMs and assists them in managing risk by maintaining a counting program (“EEM Counting Program”) for each participating EEM who has submitted an order in an EEM Specified Option Class <sup>7</sup> using a specified market participant identifier (“MPID”) <sup>8</sup> of the EEM and delivered via the MEO Interface <sup>9</sup> as described herein (an “EEM ARM Eligible Order”). The EEM Counting Program counts the number of contracts executed by an EEM from an EEM ARM Eligible Order (the “EEM ARM Contracts”) within a specified

time period that has been established by the EEM (the “EEM Specified Time Period”). The EEM Specified Time Period cannot exceed 15 seconds.

The EEM may also establish for each EEM Specified Option Class an EEM Allowable Engagement Percentage (the “Allowable Engagement Percentage”), which is a number of contracts, divided by the size of the orders, executed within the Specified Time Period, equal to or over which the ARM-E will be triggered. When an execution of an EEM ARM Contract from an EEM ARM Eligible Order occurs, the System will look back over the EEM Specified Time Period to determine whether the sum of contract executions from such EEM ARM Eligible Order during such EEM Specified Time Period triggers the ARM-E.

The System will engage ARM-E in a particular EEM Specified Option Class when the EEM Counting Program has determined that an EEM has executed during the EEM Specified Time Period a number of EEM ARM Contracts from an EEM ARM Eligible Order equal to or above their EEM Allowable Engagement Percentage. ARM-E will then, until the EEM sends a notification to the System of the intent to reengage and submits a new order in the EEM Specified Option Class: (i) Automatically cancel the EEM ARM Eligible Orders in all series of that particular EEM Specified Option Class and (ii) reject new orders by the EEM in all series of that particular EEM Specified Option Class submitted using the MEO Interface

##### ARM-M

ARM-M protects MIAx PEARL Market Makers and assists them in managing risk by maintaining a counting program (“MM Counting Program”) for each Market Maker who has submitted an order in an option class (an “MM Option Class”) delivered via the MEO Interface (an “MM ARM Eligible Order”). The MM Counting Program counts the number of contracts executed by a Market Maker from an MM ARM Eligible Order (the “MM ARM Contracts”) within a specified time period that has been established by the Market Maker or as a default setting, as defined below (the “MM Specified Time Period”). The MM Specified Time Period cannot exceed 15 seconds whether established by the Market Maker or as a default setting as described below.

The Market Maker may also establish for each MM Option Class an MM Allowable Engagement Percentage. Unlike ARM-E, under which there is no default setting, the Exchange will establish a default MM Specified Time

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

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

<sup>3</sup> The term “System” means the automated trading system used by the Exchange for the trading of securities. See Exchange Rule 100.

<sup>4</sup> The term “Electronic Exchange Member” or “EEM” means the holder of a Trading Permit who is a Member representing as agent Public Customer Orders or Non-Customer Orders on the Exchange and those non-Market Maker Members conducting proprietary trading. Electronic Exchange Members are deemed “members” under the Exchange Act. See Exchange Rule 100.

<sup>5</sup> An IOC order is an order that is to be executed in whole or in part upon receipt. Any portion not so executed is cancelled. An IOC order is not valid during the Opening Process described in Rule 503. See Exchange Rule 516(e).

<sup>6</sup> The term “Market Maker” or “MM” means a Member registered with the Exchange for the purpose of making markets in options contracts traded on the Exchange and that is vested with the rights and responsibilities specified in Chapter VI of these Rules. See Exchange Rule 100.

<sup>7</sup> An “EEM Specified Option Class” is a class which the EEM has designated as a class to be protected via ARM-E. See Exchange Rule 517A(a).

<sup>8</sup> The term “MPID” means unique market participant identifier. See Exchange Rule 100.

<sup>9</sup> The term “MEO Interface” means a binary order interface for certain order types as set forth in Rule 516 into the MIAx PEARL System. See Exchange Rule 100.

Period and a default Allowable Engagement Percentage (“default settings”) on behalf of a Market Maker that has not established an MM Specified Time Period and/or an MM Allowable Engagement Percentage. The default MM Allowable Engagement Percentage shall not be less than 100%. The default settings will be determined by the Exchange on an Exchange-wide basis and announced to Members via Regulatory Circular. When an execution of an MM ARM Contract from an MM ARM Eligible Order occurs, the System will look back over the MM Specified Time Period to determine whether the sum of contract executions from such MM ARM Eligible Order during such MM Specified Time Period triggers the ARM-M.

The System will engage ARM-M in a particular MM Option Class when the MM Counting Program has determined that a Market Maker has executed during the MM Specified Time Period a number of MM ARM Contracts from an MM ARM Eligible Order equal to or above their MM Allowable Engagement Percentage. ARM-M will then, until the Market Maker sends a notification to the System of the intent to reengage and submits a new order in the MM Option Class: (i) Automatically cancel the MM ARM Eligible Orders in all series of that particular MM Option Class and (ii) reject new orders by the Market Maker in all series of that particular MM Option Class submitted using the MEO Interface.

#### The Proposal

The Exchange is proposing to adopt and add Interpretations and Policies .01 to Rule 517A, to state that the System will not include in a specific EEM’s EEM Counting Program contracts executed as a result of an IOC order submitted by such EEM.

In a parallel proposal, the Exchange is also proposing to adopt and add Interpretations and Policies .02 to Rule 517B, to state that the System will not include in a specific Market Maker’s MM Counting Program contracts executed as a result of an IOC submitted by such Market Maker.

ARM-E and ARM-M are designed to assist MIAx PEARL EEMs and Market Makers in managing their risk associated with liquidity they send to the Exchange. Thus, the EEM and MM Counting Programs will include all contracts executed from orders, other than those orders designated as IOC, whether the EEM or MM is acting as maker or taker, in the calculation of the Allowable Engagement Percentage applicable to the affected EEM Specified

Option Class or Market Maker in the MM Option Class.

If, however, the same EEM or Market Maker submits an IOC order in the EEM Specified Option Class or MM Option Class that is executed against another order resting on the MIAx PEARL Book, the number of contracts executed from such IOC order would not be included in the calculation of the submitting EEM or Market Maker’s Allowable Engagement Percentage in the EEM Specified Option Class or MM Option Class, as applicable. In such a situation, the affected EEM or Market Maker is not at any undue or unintended risk caused by the EEM or Market Maker’s submission of the IOC order.

The number of contracts executed from an order resting on the Book, is, however, included in the calculation of the Allowable Engagement Percentage applicable to the EEM or Market Maker that submitted that order. A resting order is subject to the risk of exposure that ARM-E and ARM-M are designed to mitigate. Therefore the Exchange believes that it is reasonable to include contracts executed from a resting order, which has a longer time-in-force than an IOC order and is thus a greater risk than an IOC order submitted for execution against it. Additionally, in the case of a partial execution, the remaining contracts in a resting order are still at market risk, while remaining contracts from the partial execution of an IOC order are cancelled if not executed, thus obviating the need for ARM-E or ARM-M protection. Conversely, in the Exchange’s experience, an IOC order is an order that is designed to target specific, identifiable liquidity resting on the Book that the entering Member desires to trade with (remove), and thus the Member entering the IOC order does not require the risk management protection of the ARM, as the Member entering the IOC order made an affirmative decision to attempt to execute that transaction.

The Exchange therefore believes that the inclusion of the number of contracts executed by way of an IOC order submitted by an EEM or Market Maker would unnecessarily and artificially inflate the calculation of the Allowable Engagement Percentage, and thus ARM-E or ARM-M could serve to preclude or prevent the further execution of contracts from orders resting on the MIAx PEARL Book (for which ARM-E or ARM-M has been triggered unnecessarily by an IOC order they submitted) that were submitted by the affected EEM or Market Maker and otherwise remain intended for execution.

The purpose of the proposed rule change is to enable individual EEMs and Market Makers to enhance their risk management for an individual option class or for multiple classes as market conditions warrant, based on their own risk tolerance level and order submission or quoting behavior. EEMs and Market Makers will be able to more precisely customize their risk management within the MIAx PEARL System through the use of IOC orders without triggering ARM-E or ARM-M before their actual risk tolerance levels relating to the number of contracts executed within a specified time period have been reached. The proposed rule change will provide greater ability for EEMs and Market Makers to adapt more exact and precise risk controls based on the EEM or Market Maker’s risk tolerance levels.

The Exchange notes that the proposed rule is similar to a rule that is currently operative on MIAx Options (“MIAx Options”). Specifically, Interpretations and Policies .01 to MIAx Options Rule 612, Aggregate Risk Manager, states that the System does not include contracts traded through the use of an eQuote<sup>10</sup> that is not a Day eQuote<sup>11</sup> in the counting program for purposes of this Rule. eQuotes will remain in the System available for trading when the Aggregate Risk Manager is engaged.

The inclusion of the number of contracts executed by way of an IOC order, which is substantially similar to an IOC eQuote with respect to its time-in-force, would unnecessarily and artificially inflate the calculation of the Allowable Engagement Percentage in ARM-E and ARM-M in the same manner in which an IOC eQuote affects the ARM calculation on MIAx Options. This is a similar rationale for the instant proposal to exclude IOC orders on MIAx PEARL from the calculation of the Allowable Engagement Percentage in ARM-E and ARM-M.

<sup>10</sup> An eQuote is a quote with a specific time in force that does not automatically cancel and replace a previous Standard quote or eQuote. An eQuote can be cancelled by the Market Maker at any time, or can be replaced by another eQuote that contains specific instructions to cancel an existing eQuote. See MIAx Options Rule 517(a)(2).

<sup>11</sup> A Day eQuote is a quote submitted by a Market Maker that does not automatically cancel or replace the Market Maker’s previous Standard quote or eQuote. Day eQuotes will expire at the close of trading each trading day. The Exchange reserves the right to limit the number of Day eQuotes that a single Market Maker may place on the same side of an individual option. The same limit will apply to all types of Market Makers. If the Exchange determines to establish a limit, it will be no more than ten Day eQuotes on the same side of an individual option. The Exchange will publish the limit through the issuance of a Regulatory Circular. See MIAx Options Rule 517(a)(2)(i).

The Exchange will announce the implementation date of the proposed rule change by Regulatory Circular to be published no later than 60 days following the operative date of the proposed rule. The implementation date will be no later than 60 days following the issuance of the Regulatory Circular.

## 2. Statutory Basis

MIAX PEARL believes that its proposed rule change is consistent with Section 6(b) of the Act<sup>12</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act<sup>13</sup> in particular, in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in, securities, to 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.

Significantly, the proposed rule change removes impediments to and perfects the mechanisms of a free and open market and a national market system and, in general, protects investors and the public interest because it enhances a risk management tool that is currently available to MIAX PEARL EEMs and Market Makers. The exclusion of contracts executed from IOC orders submitted by an EEM or Market Maker from the calculation of their Allowable Engagement Percentage will enable MIAX PEARL EEMs and Market Makers to more efficiently tailor the risk management tools provided by the Exchange by ensuring them that contracts executed from orders that are not part of their risk management strategy will not artificially inflate their Allowable Engagement Percentage. This tailored approach further protects investors and the public interest by enabling the maximum number of contracts in an EEM Specified Option Class or an MM Option Class to be executed without unnecessary interruption, all within the EEM or Market Maker's risk tolerance level based upon the actual Allowable Engagement Percentage.

As stated above, the proposed exclusion of IOC orders from the calculation of the Allowable Engagement Percentage is substantially similar to the exclusion of IOC eQuotes

from that calculation in the MIAX Options ARM protection feature.<sup>14</sup>

The exclusion of the number of contracts executed by way of IOC orders from the calculation of the Allowable Engagement Percentage also serves to remove impediments to and perfect the mechanisms of a free and open market and a national market system by enhancing EEMs' and Market Makers' confidence in the Exchange's ability to assist them in the accurate measuring of their management of risk, which may result in deeper liquidity on the Exchange's Book, serving to benefit and protect investors and the public interest.

### *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.

On the contrary, the Exchange believes that the proposed rule change will foster competition by providing Exchange EEMs and Market Makers with the ability to enhance and specifically customize their use of the Exchange's risk management tools in order to compete for executions and order flow.

As to inter-market competition, the Exchange believes that the proposed rule change should promote competition because it is designed to provide Exchange EEMs and Market Makers with accuracy and flexibility to modify their risk exposure in order to protect them from unusual market conditions or events that may increase their exposure in the market.

For all the reasons stated, the Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act, and believes the proposed change will in fact enhance 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 after the date of the filing, or such shorter time as the Commission may designate, it has become effective pursuant to 19(b)(3)(A) of the Act<sup>15</sup> and Rule 19b-4(f)(6)<sup>16</sup> thereunder.

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

## IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

### *Electronic Comments*

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an email to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-PEARL-2017-12 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-PEARL-2017-12. 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

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

<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.

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

<sup>13</sup> 15 U.S.C. 78f(b)(5).

<sup>14</sup> See MIAX Options Rule 612.01.

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 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-PEARL-2017-12 and should be submitted on or before April 13, 2017.

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

**Eduardo A. Aleman,**  
Assistant Secretary.

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-80269; File No. SR-ICEEU-2017-003]

### Self-Regulatory Organizations; ICE Clear Europe Limited; Notice of Filing of a Proposed Rule Change, Security-Based Swap Submission or Advance Notice Relating to the CDS End-of-Day Price Discovery Policy

March 17, 2017.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on March 10, 2017, ICE Clear Europe Limited ("ICE Clear Europe") filed with the Securities and Exchange Commission ("Commission") the proposed rule change described in Items I, II, and III below, which Items have been prepared primarily by ICE Clear Europe. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

#### I. Clearing Agency's Statement of the Terms of Substance of the Proposed Rule Change, Security-Based Swap Submission, or Advance Notice

The principal purpose of the changes is to modify certain aspects of ICE Clear Europe's CDS End-of-Day Price

Discovery Policy (the "EOD Price Discovery Policy").

#### II. Clearing Agency's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change, Security-Based Swap Submission or Advance Notice

In its filing with the Commission, ICE Clear Europe 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. ICE Clear Europe has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

##### A. Clearing Agency's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change, Security-Based Swap Submission or Advance Notice

###### 1. Purpose

The purpose of the rule change is to incorporate certain enhancements to the EOD Price Discovery Policy. These revisions do not require any changes to the ICE Clear Europe Clearing Rules.

ICE Clear Europe proposes revising its EOD Price Discovery Policy to implement a new direct price submission process for Clearing Members. Currently, ICE Clear Europe uses an intermediary agent to implement functions of its price discovery process. Under the current process, Clearing Members make required price submissions to the intermediary agent. These prices are then input into ICE Clear Europe's price settlement methodology to determine settlement prices. ICE Clear Europe is proposing to remove the intermediary agent from the price settlement process. In doing so, ICE Clear Europe will require Clearing Members to submit prices directly to the clearing house. The prices will continue to be input into ICE Clear Europe's price settlement methodology to determine settlement prices. ICE Clear Europe is not otherwise changing the price settlement methodology itself.

The proposed revisions to the EOD Price Discovery Policy are described in detail as follows: Under the revised policy, ICE Clear Europe requires Clearing Members to establish direct connectivity with the clearing house and use a FIX API to submit required prices. ICE Clear Europe is revising the EOD Price Discovery Policy to remove references to the intermediary agent and the Valuation Service API (and related message terminology), which will be decommissioned with the launch of the

new Clearing Member direct price submission process. The revisions also add references to the new FIX API message terminology which will be utilized under the new Clearing Member direct price submission process. Such changes are reflected throughout the EOD Price Discovery Policy. ICE Clear Europe has also updated the EOD Price Discovery Policy to specify that ICE Clear Europe will send the unsolicited FIX API messages directly to each Clearing Member.

Under the new Clearing Member direct price submission process, ICE Clear Europe will consolidate the price discovery process across index and single-name CDS. As such, new FIX API messages will include information for both index and single-name CDS. Previously, the price discovery process provided files separately for each product type. ICE Clear Europe has also updated the submission requirements for the CDX.NA.HY index to note that prices may be submitted in either price or upfront format; previously, only price format was accepted.

ICE Clear Europe has updated the EOD Price Discovery Policy to reflect the replacement of existing firm trade data files with new FIX API firm trade messages. ICE Clear Europe also made minor changes to the timings of certain steps in the price settlement process; no changes were made to the actual settlement submission windows.

ICE Clear Europe has also updated the process for distribution of end-of-day prices set forth in the EOD Price Discovery Policy. Under the new process, ICE Clear Europe will publish separate messages for Clearing Members, listing end-of-day prices for single-name and index CDS. The end-of-day prices provided will not change and will continue to be based on a Clearing Members' cleared positions. ICE Clear Europe will continue to publish end-of-day prices for every listed risk sub-factor's most actively traded instrument, and to distribute daily end-of-day prices for all cleared instruments through Markit.

###### 2. Statutory Basis

ICE Clear Europe believes that the changes described herein are consistent with the requirements of Section 17A of the Act<sup>3</sup> and the regulations thereunder applicable to it, including the standards under Rule 17Ad-22,<sup>4</sup> and are consistent with the prompt and accurate clearance of and settlement of securities transactions and, to the extent applicable, derivative agreements,

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

<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. 78q-1.

<sup>4</sup> 17 CFR 240.17Ad-22.