

MIAX Pearl Equities Exchange Regulatory Circular 2021-01

DATE: January 8, 2021

TO: MIAX Pearl Equities Members

FROM: MIAX Pearl Equities Regulatory Department

RE: Net Notional Trade Value Settings and Adjustments by Members and Clearing Members on MIAX Pearl Equities

Equity Members are provided certain optional risk settings under Rule 2618 when trading equity securities on MIAX Pearl Equities. The Exchange currently allows an Equity Member that does not self-clear to allocate and revoke the responsibility of establishing and adjusting their Gross Notional Trade Value risk settings to a Clearing Member that clears transactions on behalf of the Equity Member on MIAX Pearl Equities. Effective January 19, 2021, the Exchange will introduce a new risk protection, Net Notional Trade Value, for Pearl Equity Members. Additionally, the Exchange will expand the ability of such Equity Members to allocate and revoke the responsibility of establishing and adjusting their risk settings to include the Net Notional Trade Value risk settings.

“Net Notional Trade Value” refers to a pre-established maximum daily dollar amount for purchases and sales across all symbols, where purchases are counted as positive values and sales are counted as negative values. For purposes of calculating the Net Notional Trade Value, only executed orders are included. The limit may be set at the Market Participant Identifier (“MPID”), session, and firm level.

Rule 2618(a)(4) provides that an Equity Member that does not self-clear may allocate and revoke the responsibility of establishing and adjusting the Net Notional Trade Value risk setting to a Clearing Member that clears transactions on behalf of the Equity Member. Rule 2620(a) outlines the process by which a Clearing Member shall affirm its responsibility for clearing any or all trades executed by the Equity Member designating it as its Clearing Firm. Specifically, Rule 2620(a) provides that if an Equity Member clears transactions through another Equity Member that is a Clearing Member, such Clearing Member shall affirm to the Exchange in writing, through letter of authorization, letter of guarantee or other agreement acceptable to the Exchange, its agreement to assume responsibility for clearing and settling any and all trades executed by the Member designating it as its clearing firm.

Rule 2618(a)(3) provides that either an Equity Member or its Clearing Member, if allocated such responsibility pursuant to Rule 2618(a)(4), may establish and adjust limits for the Net Notional Trade Value risk setting.

By allocating such responsibilities to its Clearing Member, the Equity Member consents to the Exchange taking action with respect to the Equity Member’s trading activity. Specifically, Rule 2618(a)(6) provides that if the risk setting(s) established by the Clearing Member are breached, the Equity Member consents that the Exchange will automatically block new orders submitted and cancel open orders until such time that the applicable risk setting is adjusted to a higher limit by the Clearing Member.

Rule 2618(a)(5) provides for optional alerts to signal when an Equity Member is approaching its designated limit. If enabled, alerts are generated when the Equity Member breaches certain percentage thresholds of its designated risk limit, as determined by the Exchange. Based on current industry standards, the Exchange anticipates initially setting these thresholds at seventy-five and ninety percent of the designated risk limit.

Use by an Equity Member of the risk settings offered by the Exchange is optional. By using these optional risk settings, an Equity Member opts-in to the Exchange sharing its designated risk settings with its Clearing Member.

The Exchange does not guarantee that the risk settings it offers are sufficiently comprehensive to meet all of an Equity Member's risk management needs. Pursuant to Rule 15c3-5 under the Act, a broker-dealer with market access must perform appropriate due diligence to assure that controls are reasonably designed to be effective, and otherwise consistent with the rule.¹ Use of the Exchange's risk settings will not automatically constitute compliance with Exchange or federal rules and responsibility for compliance with all Exchange and SEC rules remains with the Equity Member.

For questions regarding risk settings, please contact Trading Operations at TradingOperations@MIAXEquities.com or (609) 897-7302.

Regulatory inquiries should be directed to Regulatory@MIAXEquities.com or (609) 897-7309.

¹ See Division of Trading and Markets, Responses to Frequently Asked Questions Concerning Risk Management Controls for Brokers or Dealers with Market Access, available at <https://www.sec.gov/divisions/marketreg/faq-15c-5-risk-management-controls-bd.htm>.