

Rule 520(b)<sup>19</sup> and (c)<sup>20</sup> would not be satisfied just because the member utilized the PRIME.<sup>21</sup> A similar provision currently exists for interest in the Book that is subject to the Managed Interest Process pursuant to Exchange Rule 515(c), and the proposed rule change extends this functionality to interest that is subject to the POP Process.

#### D. cPRIME Auction

Currently, a cPRIME Agency Order will be rejected at the time of receipt if any component of the strategy involves an option that is subject to the Managed Interest Process described in Rule 515(c)(1)(ii).<sup>22</sup> The Exchange now proposes to also reject a cPRIME Agency Order at the time of receipt if any component of the strategy involves an option that is subject to Exchange Rule 515(d) (which describes the management process for Market Maker order and quotes) or the POP Process.

### III. Discussion and Commission Findings

After careful review, the Commission finds that the proposed rule change is consistent with the requirements of the Act,<sup>23</sup> and the rules and regulations thereunder applicable to a national securities exchange.<sup>24</sup> In particular, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act,<sup>25</sup> which requires, among other things, that the rules of a national securities exchange be designed 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 and that the rules are not designed to permit

unfair discrimination between customers, issuers, brokers, or dealers.

Regarding PRIME Auction eligibility and the stop price when considering existing interest resting on the Book, the proposal provides that Post-Only Quotes will now also be considered (in addition to considering resting limit orders) in determining the Auction's Agency Order stop price, which must be at least \$0.01 better than the Book price if the EBBO represents a limit order on the Book or a Post-Only Quote subject to the POP Process on the same side as the Agency Order. The Commission finds that, as revised, these PRIME eligibility requirements are consistent with the Act in that they protect the priority of resting limit orders on the Book when members seek to initiate a PRIME Auction and thus they are consistent with the protection of investors and the public interest.

The Commission finds that the proposal to permit participation in a PRIME Auction by incoming Post-Only OQs received during a PRIME Auction may increase the potential liquidity available to trade with an Agency Order during a PRIME Auction and thus provide additional opportunities for price improvement to the Agency Order, thereby removing impediments to and perfecting the mechanism of a free and open market in a manner consistent with the protection of investors. The Commission notes that the participation of Post-Only interest in the PRIME Auction is limited. Specifically, Post-Only OQs may participate in a PRIME Auction if they are received during the RFR period, though they may not be submitted as responses to an RFR.<sup>26</sup> Further, Post-Only OQ may not participate in PRIME as an Agency Order, principal interest, or solicited interest.<sup>27</sup> The proposal to permit resting trading interest on the Book subject to the POP Process on the opposite side as the Agency Order to execute automatically against the Agency Order (before the System initiates a PRIME Auction) at a price \$0.01 inside the EBBO is designed to accommodate within the PRIME process the presence of a preexisting, resting Post-Only OQ on the opposite side of the Agency Order, while allowing members to submit customer interest to the PRIME mechanism for potential price improvement.<sup>28</sup> As such, this provision is designed to provide a further opportunity for a liquidity-

taking Agency Order to receive both a timely execution and meaningful price improvement. As such, it is designed in a manner that is consistent with the protection of investors.

Finally, the Commission finds that the proposal to reject a cPRIME Agency Order, and thus not commence a PRIME Auction, if any component of the complex order on the Book is subject to the POP Process is substantially similar to the current rule that provides that a cPRIME Agency Order will be rejected at the time of receipt if any component is subject to the Managed Interest Process. The Exchange intends for this provision to protect the integrity of the Book. The Commission finds that extending this protection to include interest subject to the POP Process is designed to support efficient trading in both the simple market and the complex market and remove impediments to and perfect the mechanism of a free and open market.

### IV. Conclusion

*It is therefore ordered*, pursuant to Section 19(b)(2) of the Act,<sup>29</sup> that the proposed rule change (SR-EMERALD-2019-19) be, and hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>30</sup>

J. Lynn Taylor,

Assistant Secretary.

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### SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-86182; File No. SR-OCC-2019-803]

#### Self-Regulatory Organizations; The Options Clearing Corporation; Notice of No Objection To Advance Notice Concerning The Options Clearing Corporation's Proposal To Enter Into a New Credit Facility Agreement

June 24, 2019.

#### I. Introduction

On April 26, 2019, The Options Clearing Corporation ("OCC") filed with the Securities and Exchange Commission ("Commission") advance notice SR-OCC-2019-803 ("Advance Notice") pursuant to Section 806(e)(1) of Title VIII of the Dodd-Frank Wall Street Reform and Consumer Protection Act, entitled Payment, Clearing and Settlement Supervision Act of 2010

<sup>19</sup> Exchange Rule 520(b) provides that members may not execute as principal orders they represent as agent unless (i) agency orders are first exposed on the Exchange for at least one second, (ii) the member has been bidding or offering on the Exchange for at least one second prior to receiving an agency order that is executable against such bid or offer, or (iii) the member utilizes the PRIME.

<sup>20</sup> Exchange Rule 520(c) provides that members may not execute orders they represent as agent on the Exchange against order solicited from members and non-member broker-dealers to transact with such orders unless the unsolicited Order is first exposed on the Exchange for at least one second, or the member utilizes the PRIME or PRIME Solicitation Mechanism.

<sup>21</sup> See Notice, *supra* note 3, at 20666 (for examples illustrating how Post-Only interest resting on the Book is handled).

<sup>22</sup> See Exchange Rule 515A Interpretation and Policy .12(b)(iii).

<sup>23</sup> 15 U.S.C. 78f.

<sup>24</sup> In approving this proposed rule change, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

<sup>25</sup> 15 U.S.C. 78f(b)(5).

<sup>26</sup> See Exchange Rule 515A(a)(2)(i)(D) (stating RFR responses shall be an Auction-or-Cancel ("AOC") order or an AOC eQuote).

<sup>27</sup> See Exchange Rule 515A(a)(1)(iv).

<sup>28</sup> See also *supra* notes 19 and 20 (concerning the applicability of exposure requirements).

<sup>29</sup> 15 U.S.C. 78s(b)(2).

<sup>30</sup> 17 CFR 200.30-3(a)(12).

(“Clearing Supervision Act”)<sup>1</sup> and Rule 19b-4(n)(1)(i)<sup>2</sup> under the Securities Exchange Act of 1934 (“Exchange Act”)<sup>3</sup> to propose to replace the 364-day term revolving credit facility that OCC currently maintains, which is due to expire on June 27, 2019.<sup>4</sup> The Advance Notice was published for public comment in the **Federal Register** on May 30, 2019,<sup>5</sup> and the Commission received no comments regarding the proposal contained in the Advance Notice. This publication serves as notice of no objection to the Advance Notice.

## II. Background

OCC maintains a \$2 billion revolving credit facility to provide access to liquid resources in certain circumstances, including the default of a Clearing Member.<sup>6</sup> The current revolving credit facility (“Existing Facility”) was implemented on June 28, 2018 for a 364-day term, and will terminate on June 27, 2019. To maintain access to the liquid resources provided by the Existing Facility, OCC proposes to implement a replacement credit facility (“New Facility”) on substantially similar terms as the Existing Facility with one exception: OCC proposes to expand the types of collateral that OCC would be permitted to pledge under the New Facility.

OCC currently has conditional authority to borrow from the Existing Facility, using Clearing Member margin deposits or Clearing Fund contributions as collateral, (i) in anticipation of a potential default by or suspension of a Clearing Member; (ii) to meet obligations arising out of the default or suspension of a Clearing Member; (iii) to meet reasonably anticipated liquidity needs for same-day settlement as a result of the failure of any bank or securities or commodities clearing organization to achieve daily settlement; or (iv) to meet obligations arising out of the failure of a bank or securities or commodities clearing organization to perform its obligations due to its bankruptcy, insolvency, receivership or suspension of operations (“Permitted Use Circumstances”). The exact same Permitted Use Circumstances will be present in the New Facility as are present in the Existing Facility.

To obtain a loan under the Existing Facility, OCC must pledge collateral. The collateral permitted under the Existing Facility includes U.S. dollars, securities issued or guaranteed by the U.S. Government or the Government of Canada,<sup>7</sup> S&P 500 Market Index equities, Exchange-Traded Funds, American Depositary Receipts, or certain government-sponsored enterprise debt securities. As noted above, the New Facility would permit OCC to pledge a wider range of collateral than what is contemplated by the Existing Facility. Under the New Facility, OCC would be permitted to pledge the same collateral permissible under the Existing Facility as well as debt securities issued by the Federal Republic of Germany, the Republic of France, Japan, or the United Kingdom (“Additional G7 Governments”), but only to the extent that Clearing Members are permitted to pledge such collateral as margin deposits or Clearing Fund contributions at the time that OCC obtains a loan under the New Facility.<sup>8</sup> In that event, under the proposed terms of the New Facility, debt securities of Additional G7 Governments would be subject to haircuts and would be permissible collateral for a loan from the New Facility only if they have minimum credit ratings of A (by Standard & Poor’s) and A2 (by Moody’s).

## III. Discussion and Commission Findings

Although the Clearing Supervision Act does not specify a standard of review for an advance notice, the stated purpose of the Clearing Supervision Act is instructive: To mitigate systemic risk in the financial system and promote financial stability by, among other things, promoting uniform risk management standards for systemically important financial market utilities

(“SIFMUs”) and strengthening the liquidity of SIFMUs.<sup>9</sup>

Section 805(a)(2) of the Clearing Supervision Act<sup>10</sup> authorizes the Commission to prescribe regulations containing risk-management standards for the payment, clearing, and settlement activities of designated clearing entities engaged in designated activities for which the Commission is the supervisory agency. Section 805(b) of the Clearing Supervision Act<sup>11</sup> provides the following objectives and principles for the Commission’s risk-management standards prescribed under Section 805(a):

- To promote robust risk management;
- to promote safety and soundness;
- to reduce systemic risks; and
- to support the stability of the broader financial system.

Section 805(c) provides, in addition, that the Commission’s risk-management standards may address such areas as risk-management and default policies and procedures, among other areas.<sup>12</sup>

The Commission has adopted risk-management standards under Section 805(a)(2) of the Clearing Supervision Act and Section 17A of the Exchange Act (the “Clearing Agency Rules”).<sup>13</sup> The Clearing Agency Rules require, among other things, each covered clearing agency to establish, implement, maintain, and enforce written policies and procedures that are reasonably designed to meet certain minimum requirements for its operations and risk management practices on an ongoing basis.<sup>14</sup> As such, it is appropriate for the Commission to review advance notices against the Clearing Agency Rules and the objectives and principles of the risk management standards as described in Section 805(b) of the Clearing Supervision Act. As discussed below, the Commission believes the proposal in the Advance Notice is consistent with the objectives and principles described in Section 805(b) of the Clearing Supervision Act,<sup>15</sup> and in the Clearing

<sup>9</sup> See 12 U.S.C. 5461(b).

<sup>10</sup> 12 U.S.C. 5464(a)(2).

<sup>11</sup> 12 U.S.C. 5464(b).

<sup>12</sup> 12 U.S.C. 5464(c).

<sup>13</sup> 17 CFR 240.17Ad-22. See Securities Exchange Act Release No. 68080 (October 22, 2012), 77 FR 66220 (November 2, 2012) (S7-08-11). See also Securities Exchange Act Release No. 78961 (September 28, 2016), 81 FR 70786 (October 13, 2016) (S7-03-14) (“Covered Clearing Agency Standards”). The Commission established an effective date of December 12, 2016 and a compliance date of April 11, 2017 for the Covered Clearing Agency Standards. OCC is a “covered clearing agency” as defined in Rule 17Ad-22(a)(5).

<sup>14</sup> 17 CFR 240.17Ad-22.

<sup>15</sup> 12 U.S.C. 5464(b).

<sup>1</sup> 12 U.S.C. 5465(e)(1).

<sup>2</sup> 17 CFR 240.19b-4(n)(1)(i).

<sup>3</sup> 15 U.S.C. 78a *et seq.*

<sup>4</sup> See Notice of Filing *infra* note 5, at 83 FR 25089.

<sup>5</sup> Securities Exchange Act Release No. 85924 (May 23, 2019), 83 FR 25089 (May 30, 2019) (SR-OCC-2019-803) (“Notice of Filing”).

<sup>6</sup> See Securities Exchange Act Release No. 83529 (Jun. 27, 2018), 83 FR 31237 (Jul. 3, 2018) (Notice of Filing of Advance Notice of and No Objection to OCC’s Proposal To Enter Into a New Credit Facility Agreement) (SR-OCC-2018-802).

<sup>7</sup> In 2013, OCC expanded the permissible collateral in an earlier iteration of the current revolving credit facility (“2013 Facility”). See Securities Exchange Release No. 70596 (Oct. 2, 2013), 78 FR 62719 (Oct. 22, 2013). In assessing the anticipated effects on and management of risk related to the 2013 Facility, OCC noted that the inclusion of Canadian Government securities as eligible collateral would increase the amount of OCC collateral that can be pledged to support borrowings under the 2013 Facility, resulting in increased availability of loans. *Id.* at 62721.

<sup>8</sup> OCC currently does not permit Clearing Members to pledge as margin deposits or clearing fund contributions debt securities issued by the Additional G7 Governments. As OCC clarified in its proposal, permitting Clearing Members to pledge such securities to OCC would require OCC to address certain governance requirements, including making any necessary filings with the Commission. See Notice of Filing, 84 FR at 25090.

Agency Rules, in particular Rule 17Ad-22(e)(7)(ii).<sup>16</sup>

*A. Consistency With Section 805(b) of the Clearing Supervision Act*

The Commission believes that the Advance Notice is consistent with the stated objectives and principles of Section 805(b) of the Clearing Supervision Act. The Commission believes that the changes proposed in the Advance Notice are consistent with promoting robust risk management, in particular management of liquidity risk presented to OCC. Renewing and maintaining a credit facility for this purpose and in the manner proposed by OCC would diversify the liquidity resources that OCC may use to resolve a Member default.<sup>17</sup> Additionally, the Commission believes that the terms of the New Facility providing for an expanded range of eligible collateral would promote robust risk management by giving OCC more flexibility to use assets it may already hold as a means of accessing liquidity under the New Facility. At the same time, the expansion of collateral would be limited to only those assets that Clearing Members are permitted to pledge as collateral to OCC (as margin or clearing fund contributions) at the time of the loan, which the Commission believes would further promote robust risk management by aligning the collateral necessary to access the New Facility with the actual collateral that OCC has available at that time.<sup>18</sup> As such, the Commission believes that the proposal would promote robust risk management practices at OCC, consistent with

Section 805(b) of the Clearing Supervision Act.<sup>19</sup>

The Commission also believes that the changes proposed in the Advance Notice are consistent with promoting safety and soundness. As described above, the New Facility would provide OCC with an additional liquidity resource in the event of a Clearing Member default. This would promote safety and soundness for Clearing Members because it would provide OCC with a readily available liquidity resource that could enable OCC to continue to meet its obligations in a timely fashion in the event of a Clearing Member default, thereby helping to contain losses and liquidity pressures from that default. As discussed above, the expansion of the range of eligible collateral under the New Facility would further promote safety and soundness because it increases OCC's ability to access such a liquidity resource. As such, the Commission believes it is consistent with promoting safety and soundness as contemplated in Section 805(b) of the Act.<sup>20</sup>

In addition, the Commission believes that the proposed changes set forth in the Advance Notice are consistent with reducing systemic risks and promoting the stability of the broader financial system. As mentioned above, allowing OCC to enter into the New Facility would enable OCC to maintain an additional liquidity resource that OCC may access to help manage a Clearing Member default. Further, aligning the collateral that OCC would be permitted to pledge under the New Facility with the collateral that Clearing Members are permitted to pledge to OCC at the time that OCC accesses credit under the New Facility would give OCC flexibility to access credit under the New Facility, thereby reducing the risk that OCC would lack sufficient collateral to access the New Facility. his flexibility would, in turn, enable OCC to access additional liquidity to help manage a Clearing Member default.

Accordingly, and for the reasons stated, the Commission believes the changes proposed in the Advance Notice are consistent with Section 805(b) of the Clearing Supervision Act.<sup>21</sup>

**B. Consistency With Rule 17Ad-22(e)(7)(ii) of the Exchange Act**

Rule 17Ad-22(e)(7)(ii) requires, in part, OCC to establish, implement, maintain and enforce written policies and procedures reasonably designed to

effectively measure, monitor, and manage liquidity risk that arises in or is borne by OCC, including measuring, monitoring, and managing its settlement and funding flows on an ongoing and timely basis, and its use of intraday liquidity by, at a minimum, holding qualifying liquid resources sufficient to meet the minimum liquidity resource requirement under Rule 17Ad-22(e)(7)(i)<sup>22</sup> in each relevant currency for which the covered clearing agency has payment obligations owed to Clearing Members.<sup>23</sup> Rule 17Ad-22(a)(14) of the Exchange Act defines "qualifying liquid resources" to include, among other things, lines of credit without material adverse change provisions, that are readily available and convertible into cash.<sup>24</sup>

As described above, the implementation of the New Facility would provide OCC with continued access to a \$2 billion revolving credit facility on substantially similar terms to the Existing Facility. As the Commission noted previously, the Existing Facility provides OCC with access to a single credit facility designed to help ensure that OCC has sufficient, readily-available qualifying liquid resources to meet the cash settlement obligations of its largest family of affiliated members.<sup>25</sup> Implementation of the New Facility on substantially similar terms to the Existing Facility would ensure that OCC maintains continued access to such a credit facility. Further, as noted above, by aligning the collateral that OCC would be permitted to pledge under the New Facility with the collateral that Clearing Members are permitted to pledge to OCC at the time that OCC needs to access the New Facility, the proposed expansion of permissible collateral that OCC could pledge under the New Facility would give OCC increased flexibility to access credit under the New Facility.

<sup>22</sup> Rule 17Ad-22(e)(7)(i) requires OCC to establish, implement, maintain and enforce written policies and procedures reasonably designed to effectively measure, monitor, and manage liquidity risk that arises in or is borne by OCC, including measuring, monitoring, and managing its settlement and funding flows on an ongoing and timely basis, and its use of intraday liquidity by, at a minimum, maintaining sufficient liquid resources at the minimum in all relevant currencies to effect same-day settlement of payment obligations with a high degree of confidence under a wide range of foreseeable stress scenarios that includes, but is not limited to, the default of the participant family that would generate the largest aggregate payment of obligation for the covered clearing agency in extreme but plausible conditions. 17 CFR 240.17Ad-22(e)(7)(i).

<sup>23</sup> 17 CFR 240.17Ad-22(e)(7)(ii).

<sup>24</sup> 17 CFR 240.17Ad-22(a)(14).

<sup>25</sup> Securities Exchange Act Release No. 83529 (Jun. 27, 2018), 83 FR 31237, 31241 (Jul. 3, 2018) (SR-OCC-2018-802).

<sup>16</sup> 17 CFR 240.17Ad-22(e)(7)(ii).

<sup>17</sup> OCC also maintains a minimum amount of cash in its Clearing Fund as well as a non-bank liquidity facility. See Securities Exchange Act Release No. 82501 (Jan. 12, 2018), 83 FR 2843 (Jan. 19, 2018) (Notice of No Objection to Advance Notice, as Modified by Amendment No. 1, Concerning the Adoption of a New Minimum Cash Requirement for the Clearing Fund) (SR-OCC-2017-808) and Securities Exchange Act Release No. 76821 (Jan. 4, 2016), 81 FR 3208 (Jan. 20, 2016) (Notice of No Objection to Advance Notice Filing, as Modified by Amendment Nos. 1, 2 and 3, Concerning The Options Clearing Corporation's Non-Bank Liquidity Facility) (SR-OCC-2015-805), respectively.

<sup>18</sup> The Commission is not, at this time, expressing a view regarding the specific collateral or the haircuts applicable under the New Facility as they would apply to Clearing Member margin deposits or Clearing Fund contributions. As noted, OCC currently does not permit Clearing Members to pledge as margin deposits or clearing fund contributions debt securities of Additional G7 Governments, and OCC would not be able to do so without first making any necessary filings with the Commission. See *supra* note 8. The Commission believes that an analysis of the specific collateral or haircuts that would apply to clearing member margin deposits or clearing fund contributions would be more appropriate at the time and in the context of any such future filings.

<sup>19</sup> 12 U.S.C. 5464(b).

<sup>20</sup> *Id.*

<sup>21</sup> 12 U.S.C. 5464(b).

Therefore, the Commission believes that the proposal is consistent with Rule 17Ad-22(e)(7)(ii).

#### IV. Conclusion

*It is therefore noticed*, pursuant to Section 806(e)(1)(I) of the Clearing Supervision Act, that the Commission *does not object* to Advance Notice (SR-OCC-2019-803) and that OCC is *authorized* to implement the proposed change as of the date of this notice.

By the Commission.

Jill M. Peterson,

Assistant Secretary.

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### SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-86191; File No. SR-Phlx-2019-20]

#### Self-Regulatory Organizations; Nasdaq PHLX LLC; Order Granting Approval of Proposed Rule Change Relating to the Allocation and Prioritization of Automatically Executed Trades

June 24, 2019.

#### I. Introduction

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 May 15, 2019, Nasdaq PHLX LLC (“Phlx” or “Exchange”) filed with the Securities and Exchange Commission (“SEC” or “Commission”) the proposed rule change relating to the allocation and prioritization of automatically executed trades. The proposed rule change was published for comment in the **Federal Register** on May 22, 2019.<sup>3</sup> The Commission received no comments on the proposed rule change. This order approves the proposed rule change.

#### II. Description of the Proposal

The Exchange proposes to adopt new Rule 1089 to describe in greater detail the manner in which Phlx will process, prioritize and allocate transactions. The current Phlx rule, Rule 1014(g)(vii) and (viii), describes the allocation process generally and relies on a calculation to describe how different market participants may be allocated. The Exchange now proposes to sequentially describe the manner in which an order would be allocated, including the allocation method, rounding and all

potential allocation scenarios. The proposal generally codifies the Exchange’s current practices while adding more explicit language to the rule text. In addition, the Exchange proposes to codify its round robin allocation of odd lots that is not set forth in its current rules.

The Exchange proposes to retain its existing allocation methodology and priorities in the new rule. For example, Public Customer orders will continue to have priority over non-Public Customer interest at the same price, provided the Public Customer order is an executable order. Generally, the Specialist and/or Directed Registered Option Trader (“DROT”) priority is then applied, before the ROT priority<sup>4</sup> and remaining interest. The proposed rule also codifies the manner in which rounding will be handled and makes conforming changes to the Exchange’s rules.

In its proposal, the Exchange proposes one change to its existing allocation scheme. Specifically, the Exchange proposes to amend the current allocation a Specialist is entitled to receive when a Specialist is also the DROT, and the order is directed to a particular market maker (a “Directed Order”) for 5 contracts or fewer. Today, a Specialist is entitled to the allocation of orders of 5 contracts or fewer only when such order is either not a Directed Order or is a Directed order for 5 contracts or fewer, but the DROT is not quoting at the inside price. If the order for 5 contracts or fewer is a Directed Order and the DROT is also the Specialist, then the Specialist currently is entitled to receive only the DROT allocation of 40% of the order, rather than the full size of the allocation of the order for 5 contracts or fewer.

The Exchange proposes that, assuming there is no Public Customer interest present at the same price, the Specialist would be entitled to the entire allocation of the order of 5 contracts or fewer where the Specialist is also the DROT and the Specialist receives the Directed Order and has a quote at the best price when the Directed Order is received. This specialist entitlement for orders of 5 contracts or fewer would apply only after the Opening Process and would not apply to auctions.

#### III. Discussion and Commission Findings

After careful review of the proposed rule change, the Commission finds that

the proposal is consistent with the requirements of the Act and the rules and regulations thereunder that are applicable to a national securities exchange.<sup>5</sup> Specifically, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act,<sup>6</sup> which requires, among other things, that the rules of a national securities exchange be 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 mechanism of a free and open market and a national market system, and to protect investors and the public interest.

The Commission notes that the Exchange proposes to revise its rules governing how it processes, prioritizes, and allocates transactions, including by codifying practices that were not set forth in the Exchange’s rules, by deleting its existing rules and adopting a new rule. The Commission believes that the Exchange’s proposal protects investors and the public interest because it enhances the transparency of its transaction allocation process for market participants using its facilities. Therefore, the Commission finds that this enhanced transparency is consistent with the Act.

With respect to the Exchange’s proposal to modify the specialist allocation to provide the Directed Specialist with the entire allocation of a Directed Order where the order is for 5 contracts or fewer, the Commission notes that the Directed Specialist will not be entitled to this allocation when there is a Public Customer present at the same price or when the Specialist is not quoting at the inside when the order is received. The Commission further notes that the modified specialist entitlement is identical to the existing specialist allocation of orders of 5 contracts or fewer where the order is not a Directed Order, which is provided to specialists in recognition of the specialists’ affirmative market making obligations. The Commission finds that the proposed specialist allocation for Directed Orders of 5 contracts or fewer is consistent with the Act in that the proposal should promote just and equitable principles of trade.

<sup>5</sup> In approving this rule change, the Commission has considered the rule’s impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

<sup>6</sup> 15 U.S.C. 78f(b)(5).

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

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

<sup>3</sup> See Securities Exchange Act Release No. 85876 (May 16, 2019), 84 FR 23595 (“Notice”).

<sup>4</sup> After the DROT Priority is applied, the System excludes the Specialist/DROT from the total number of contracts that is utilized (denominator) in calculating the ROT Priority in proposed Rule 1089(a)(1)(E).