Required fields are shown with yellow backgrounds and asterisks.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
Form 19b-4

File No.* SR - 2018 - * 16

Amendment No. (req. for Amendments *)

Filing by   Nasdaq GEMX, LLC

Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial * ☑	Amendment * ☐	Withdrawal ☐

Section 19(b)(2) * ☐	Section 19(b)(3)(A) * ☑	Section 19(b)(3)(B) * ☐

Rule

Pilot ☐

Extension of Time Period for Commission Action * ☐

Date Expires *

- ☐ 19b-4(f)(1)
- ☐ 19b-4(f)(2)
- ☐ 19b-4(f)(3)
- ☐ 19b-4(f)(4)
- ☐ 19b-4(f)(5)
- ☑ 19b-4(f)(6)

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010

Section 806(e)(1) * ☐

Section 806(e)(2) * ☐

Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934

Section 3C(b)(2) * ☐

Exhibit 2 Sent As Paper Document ▣

Exhibit 3 Sent As Paper Document ▣

Description

Provide a brief description of the action (limit 250 characters, required when Initial is checked *).

Proposed rule change to amend Supplementary Material .03 to Rule 804 to enhance anti internalization functionality.

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 * Adrian   Last Name * Griffiths

Title * Senior Associate General Counsel

E-mail * Adrian.Griffiths@nasdaq.com

Telephone * (212) 231-5176   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 05/02/2018

By Edward S. Knight

Executive Vice President and General Counsel

(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.

edward.knight@nasdaq.com

Required fields are shown with yellow backgrounds and asterisks.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

Form 19b-4 Information *

Add   Remove   View

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 *

Add   Remove   View

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 the Proposed Rule Change

(a)   Nasdaq GEMX, LLC ("GEMX" or "Exchange"), pursuant to Section

19(b)(1) of the Securities Exchange Act of 1934 ("Act")[1] and Rule 19b-4 thereunder,[2] is

filing with the Securities and Exchange Commission ("SEC" or "Commission") a

proposed rule change to amend Supplementary Material .03 to Rule 804 to enhance anti-

internalization functionality.

A notice of the proposed rule change for publication in the Federal Register is

attached as Exhibit 1. The text of the proposed rule change is attached as Exhibit 5.

(b)   Not applicable.

(c)   Not applicable.

2.   Procedures of the Self-Regulatory Organization

The proposed rule change was approved by senior management of the Exchange

pursuant to authority delegated by the Board of Directors of the Exchange (the "Board")

on September 19, 2017. Exchange staff will advise the Board of any action taken

pursuant to delegated authority. No other action is necessary for the filing of the rule

change. Questions and comments on the proposed rule change may be directed to:

<div align="center">

Adrian Griffiths
Senior Associate General Counsel
Nasdaq, Inc.
212-231-5176

</div>

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[1]   15 U.S.C. 78s(b)(1).

[2]   17 CFR 240.19b-4.

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

      a.   Purpose

The purpose of the proposed rule change is to enhance the anti-internalization

("AIQ") functionality provided to Market Makers on the Exchange by giving members

the flexibility to choose to have this protection apply at the market participant identifier

level (i.e., existing functionality),[3] at the Exchange account level, or at the member firm

level. The Exchange believes that this enhancement will provide helpful flexibility for

Market Makers that wish to prevent trading against all quotes and orders entered by their

firm, or Exchange account, instead of just quotes and orders that are entered under the

same market participant identifier. Similar functionality was also recently introduced on

the Exchange's affiliated exchanges, Nasdaq PHLX LLC ("Phlx") and NOM.[4] The

Exchange believes that introducing this functionality now on GEMX will ensure that

GEMX Market Makers on will benefit from similar flexibility in applying this protection.

Currently, the Exchange provides mandatory AIQ functionality whereby quotes

and orders entered by Market Makers using the same market participant identifier will

not be executed against quotes and orders entered on the opposite side of the market by

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3   Currently, the rule uses the term "member identifier" for this concept. The
      Exchange proposes to rename "member identifier" to "market participant
      identifier" to be consistent with terminology used on the Nasdaq Options Market
      ("NOM") and to avoid member confusion that could result in using the similar
      terms "member identifier" and "member firm identifier" in this rule.

4   See Phlx Rule 1080(p)(2); NOM Chapter VI, Sec. 10. See also Securities
      Exchange Act Release Nos. 82012 (November 3, 3017), 82 FR 52082 (November
      9, 2017) (SR-Phlx-2017-93); 81171 (July 19, 2017), 82 FR 34557 (July 25, 2017)
      (SR-Nasdaq-2017-069).

the same Market Maker using the same market participant identifier.[5] When a quote or

order entered by a Market Maker would trade with other quotes or orders from the same

market participant identifier, the trading system cancels the resting quote or order back to

the entering party prior to execution.[6] This functionality shall not apply in any auction or

with respect to complex order transactions. AIQ assists Market Makers in reducing

trading costs from unwanted executions potentially resulting from the interaction of

executable buy and sell trading interest from the same firm when performing the same

market making function.

Today, this protection prevents Market Makers from trading against their own

quotes and orders at the market participant identifier level. The proposed enhancement to

this functionality would allow members to choose to have this protection applied at the

market participant identifier level as implemented today, at the Exchange account level,

or at the member firm level. If members choose to have this protection applied at the

Exchange account level, AIQ would prohibit quotes and orders from different market

participant identifiers associated with the same Exchange account from trading against

one another. Similarly, if the members choose to have this protection applied at the

member firm level, AIQ would prohibit quotes and orders from different market

participant identifiers within the member firm from trading against one another. Members

that do not select to have this protection applied at the Exchange account level or member

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[5]   See Supplementary Material .03 to Rule 804. This functionality shall not apply in
        any auction.

[6]   Id. A quote or order entered by a Market Maker only triggers AIQ when it would
        trade with other quotes or orders from the same Market Maker. Thus, an incoming
        quote or order entered by a Market Maker may interact with other interest with
        priority on the book prior to triggering AIQ. After AIQ is triggered, the incoming
        quote or order may continue to trade with resting interest from other participants.

firm level will have their AIQ protection defaulted to the market participant identifier

level protection applied today. The Exchange believes that the proposed AIQ

enhancement will provide members with more tailored self-trade functionality that allows

them to manage their trading as appropriate based on the members' business needs.

While the Exchange believes that some firms will want to restrict AIQ to trading against

interest from the same market participant identifier – i.e., as implemented today – the

Exchange believes that other firms will find it helpful to be able to configure AIQ to

apply at the Exchange account level or at the member firm level so that they are protected

regardless of which market participant identifier the order or quote originated from.

Similar flexibility is offered on the Exchange's affiliates, Phlx and NOM, and also on the

CBOE BZX Exchange, Inc. ("BZX"), which provides members the ability to apply

Match Trade Prevention ("MTP") modifiers – i.e., BZX's version of self-trade protection

– based on market participant, Exchange Member, trading group, or Exchange Sponsored

Participant identifiers.[7]

     The examples below illustrate how AIQ would operate based on the market

participant identifier level protection, the Exchange account level, or for members that

choose to apply AIQ at the member firm level:

Example 1

1. Member ABC (market participant identifier 123A & 555B) with AIQ configured
   at the market participant identifier level

2. 123A Quote: $1.00 (5) x $1.10 (20)

3. 555B Buy Order entered for 10 contracts at $1.10

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[7]   See BZX Rule 21.1(g).

4. 555B Buy Order executes 10 contracts against 123A Quote. 123A and 555B are not prevented by the system from trading against one another because Member ABC has configured AIQ to apply at the market participant identifier level. This is the same as existing functionality.

Example 2

1. Member ABC (Account 999 with market participant identifiers 123A and 555B, and Account 888 with market participant identifier 789A) with AIQ configured at the Exchange account level

2. 123A Quote: $1.00 (5) x $1.10 (20)

3. 789A Quote: $1.05(10) x $1.10 (20)

4. 555B Buy Order entered for 30 contracts at $1.10

5. 555B Buy Order executes against 789A Quote but 555B Buy Order does not execute against 123A Quote. AIQ purges the 123A Quote and the remaining contracts of the 555B Buy Order rests on the book at $1.10. 123A and 555B are not permitted trade against one another because Member ABC has configured AIQ to apply at the Exchange account level. This is new functionality as the member has opted to have AIQ operate at the Exchange account level.

Example 3

1. Same as Example 2 above but Member ABC has AIQ configured at the member level.

2. AIQ purges the 123A Quote and the 789A Quote and the 555B Buy Order rests on the book at $1.10. This is new functionality as the member has opted to have AIQ operate at the member level.

Implementation

The Exchange proposes to launch the AIQ functionality described in this proposed rule change in either Q2 or Q4 2018. The Exchange will announce the implementation date of this functionality in an Options Trader Alert issued to members prior to the launch date.

b.   Statutory Basis

The Exchange believes that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder that are applicable to a national securities exchange, and, in particular, with the requirements of Section 6(b) of the Act.[8] In particular, the proposal is consistent with Section 6(b)(5) of the Act,[9] because it is designed to promote just and equitable principles of trade, 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.

The Exchange believes that the proposed rule change is consistent with the protection of investors and the public interest as it is designed to provide Market Makers with additional flexibility with respect to how to implement self-trade protections provided by AIQ. Currently, all Market Makers are provided functionality that prevents quotes and orders from one market participant identifier from trading with quotes and orders from the same market participant identifier. This allows Market Makers to better manage their order flow and prevent undesirable executions where the Market Maker, using the same market participant identifier, would be on both sides of the trade. While

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[8]   15 U.S.C. 78f(b).

[9]   15 U.S.C. 78f(b)(5).

this functionality is helpful to our members, some members would prefer not to trade

with quotes and orders entered by different market participant identifiers within the same

Exchange account or member. Thus, the Exchange is proposing to provide members with

flexibility with respect to how AIQ is implemented. While members that like the current

functionality can continue to use it, members who would prefer to prevent self-trades

across different market participant identifiers within the same Exchange account or at the

member level will now be provided with functionality that lets them do this. Similar

flexibility is offered on Phlx and NOM, as well as BZX.[10] The Exchange believes that

flexibility to apply AIQ at the Exchange account or member firm level would be useful

for the Exchange's members too. The Exchange believes that the proposed rule change is

designed to promote just and equitable principles of trade and will remove impediments

to and perfect the mechanisms of a free and open market as it will further enhance self-

trade protections provided to Market Makers similar to those protections provided on

other markets. This functionality does not relieve or otherwise modify the duty of best

execution owed to orders received from public customers.

4.   Self-Regulatory Organization's Statement on Burden on Competition

        In accordance with Section 6(b)(8) of the Act,[11] the Exchange does not believe

that the proposed rule change will impose any burden on intermarket or intramarket

competition that is not necessary or appropriate in furtherance of the purposes of the Act.

The proposed rule change is designed to enhance AIQ functionality provided to

Exchange Market Makers, and will benefit members that wish to protect their quotes and

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[10]   See supra notes 4 and 7.

[11]   15 U.S.C. 78f(b)(8).

orders against trading with other quotes and orders within the same Exchange account or

member, rather than the more limited market participant identifier standard applied today.

The new functionality, which provides similar flexibility to that offered on Phlx, NOM,

and BZX, is also completely voluntary, and members that wish to use the current

functionality can also continue to do so. The Exchange does not believe that providing

more flexibility to members will have any significant impact on competition. In fact, the

Exchange believes that the proposed rule change is evidence of the competitive

environment in the options industry where exchanges must continually improve their

offerings to maintain competitive standing.

5.   Self-Regulatory Organization's Statement on Comments on the Proposed Rule
        Change Received from Members, Participants, or Others

        No written comments were either solicited or 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 foregoing rule change has become effective pursuant to Section

19(b)(3)(A)(iii)[12] of the Act and Rule 19b-4(f)(6) thereunder[13] in that it effects a change

that: (i) does not significantly affect the protection of investors or the public interest; (ii)

does not impose any significant burden on competition; and (iii) by its terms, does not

become operative for 30 days after the date of the filing, or such shorter time as the

Commission may designate if consistent with the protection of investors and the public

interest.

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[12]   15 U.S.C. 78s(b)(3)(A)(iii).

[13]   17 CFR 240.19b-4(f)(6).

The Exchange believes that the proposed rule change does not significantly affect the protection of investors or the public interest as it is designed to provide additional AIQ functionality for members that would like their quotes and orders protected regardless of whether they are from the same or different market participant identifiers. Similar flexibility is offered on Phlx, NOM, and BZX.[14] Members that do not wish to utilize the new functionality will be able to continue to use AIQ as implemented today, and will only be protected from trading with quotes and orders from the same market participant identifier. The Exchange therefore believes that the proposed rule change qualifies for immediate effectiveness as a "non-controversial" rule change.

Furthermore, Rule 19b-4(f)(6)(iii) requires a self-regulatory organization to give the Commission written notice of its intent to file a proposed rule change under that subsection at least five business days prior to the date of filing, or such shorter time as designated by the Commission. The Exchange has provided such notice.

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: (i) necessary or appropriate in the public interest; (ii) for the protection of investors; or (iii) 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.

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[14]   See supra notes 4 and 7. The AIQ protections on Phlx and NOM provide the same flexibility as proposed here, and the proposed functionality is also similar to functionality offered on BZX with minor differences related to the levels at which members will be allowed to have the protection applied, and that the AIQ protection offered on the Exchange is not an optional feature.

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

The proposed rule change is based on the rules of Phlx, NOM and BZX.[15]

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

1.   Notice of Proposed Rule Change for publication in the Federal Register.

5.   Text of the proposed rule change.

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[15]   Id.

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION
(Release No.   ; File No. SR-GEMX-2018-16)

May __, 2018

Self-Regulatory Organizations; Nasdaq GEMX, LLC; Notice of Filing and Immediate
Effectiveness of Proposed Rule Change to amend Supplementary Material .03 to Rule
804 to Enhance Anti-Internalization Functionality.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),[1] and

Rule 19b-4 thereunder,[2] notice is hereby given that on May 2, 2018, Nasdaq GEMX,

LLC ("GEMX" or "Exchange") filed with the Securities and Exchange Commission

("SEC" or "Commission") the 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 proposes to amend Supplementary Material .03 to Rule 804 to

enhance anti-internalization functionality.

The text of the proposed rule change is available on the Exchange's Website at

http://nasdaqgemx.cchwallstreet.com/, at the principal office of the Exchange, and at the

Commission's Public Reference Room.

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

In its filing with the Commission, the Exchange included statements concerning

the purpose of and basis for the proposed rule change and discussed any comments it

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[1]   15 U.S.C. 78s(b)(1).

[2]   17 CFR 240.19b-4.

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.   <u>Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change</u>

     1.   <u>Purpose</u>

The purpose of the proposed rule change is to enhance the anti-internalization

("AIQ") functionality provided to Market Makers on the Exchange by giving members

the flexibility to choose to have this protection apply at the market participant identifier

level (i.e., existing functionality),[3] at the Exchange account level, or at the member firm

level. The Exchange believes that this enhancement will provide helpful flexibility for

Market Makers that wish to prevent trading against all quotes and orders entered by their

firm, or Exchange account, instead of just quotes and orders that are entered under the

same market participant identifier. Similar functionality was also recently introduced on

the Exchange's affiliated exchanges, Nasdaq PHLX LLC ("Phlx") and NOM.[4] The

Exchange believes that introducing this functionality now on GEMX will ensure that

GEMX Market Makers on will benefit from similar flexibility in applying this protection.

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[3]   Currently, the rule uses the term "member identifier" for this concept. The Exchange proposes to rename "member identifier" to "market participant identifier" to be consistent with terminology used on the Nasdaq Options Market ("NOM") and to avoid member confusion that could result in using the similar terms "member identifier" and "member firm identifier" in this rule.

[4]   <u>See</u> Phlx Rule 1080(p)(2); NOM Chapter VI, Sec. 10. <u>See also</u> Securities Exchange Act Release Nos. 82012 (November 3, 3017), 82 FR 52082 (November 9, 2017) (SR-Phlx-2017-93); 81171 (July 19, 2017), 82 FR 34557 (July 25, 2017) (SR-Nasdaq-2017-069).

Currently, the Exchange provides mandatory AIQ functionality whereby quotes and orders entered by Market Makers using the same market participant identifier will not be executed against quotes and orders entered on the opposite side of the market by the same Market Maker using the same market participant identifier.[5] When a quote or order entered by a Market Maker would trade with other quotes or orders from the same market participant identifier, the trading system cancels the resting quote or order back to the entering party prior to execution.[6] This functionality shall not apply in any auction or with respect to complex order transactions. AIQ assists Market Makers in reducing trading costs from unwanted executions potentially resulting from the interaction of executable buy and sell trading interest from the same firm when performing the same market making function.

Today, this protection prevents Market Makers from trading against their own quotes and orders at the market participant identifier level. The proposed enhancement to this functionality would allow members to choose to have this protection applied at the market participant identifier level as implemented today, at the Exchange account level, or at the member firm level. If members choose to have this protection applied at the Exchange account level, AIQ would prohibit quotes and orders from different market participant identifiers associated with the same Exchange account from trading against one another. Similarly, if the members choose to have this protection applied at the

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[5]   See Supplementary Material .03 to Rule 804. This functionality shall not apply in any auction.

[6]   Id. A quote or order entered by a Market Maker only triggers AIQ when it would trade with other quotes or orders from the same Market Maker. Thus, an incoming quote or order entered by a Market Maker may interact with other interest with priority on the book prior to triggering AIQ. After AIQ is triggered, the incoming quote or order may continue to trade with resting interest from other participants.

member firm level, AIQ would prohibit quotes and orders from different market

participant identifiers within the member firm from trading against one another. Members

that do not select to have this protection applied at the Exchange account level or member

firm level will have their AIQ protection defaulted to the market participant identifier

level protection applied today. The Exchange believes that the proposed AIQ

enhancement will provide members with more tailored self-trade functionality that allows

them to manage their trading as appropriate based on the members' business needs.

While the Exchange believes that some firms will want to restrict AIQ to trading against

interest from the same market participant identifier – i.e., as implemented today – the

Exchange believes that other firms will find it helpful to be able to configure AIQ to

apply at the Exchange account level or at the member firm level so that they are protected

regardless of which market participant identifier the order or quote originated from.

Similar flexibility is offered on the Exchange's affiliates, Phlx and NOM, and also on the

CBOE BZX Exchange, Inc. ("BZX"), which provides members the ability to apply

Match Trade Prevention ("MTP") modifiers – i.e., BZX's version of self-trade protection

– based on market participant, Exchange Member, trading group, or Exchange Sponsored

Participant identifiers.[7]

      The examples below illustrate how AIQ would operate based on the market

participant identifier level protection, the Exchange account level, or for members that

choose to apply AIQ at the member firm level:

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[7]   See BZX Rule 21.1(g).

Example 1

1. Member ABC (market participant identifier 123A & 555B) with AIQ configured at the market participant identifier level

2. 123A Quote: $1.00 (5) x $1.10 (20)

3. 555B Buy Order entered for 10 contracts at $1.10

4. 555B Buy Order executes 10 contracts against 123A Quote. 123A and 555B are not prevented by the system from trading against one another because Member ABC has configured AIQ to apply at the market participant identifier level. This is the same as existing functionality.

Example 2

1. Member ABC (Account 999 with market participant identifiers 123A and 555B, and Account 888 with market participant identifier 789A) with AIQ configured at the Exchange account level

2. 123A Quote: $1.00 (5) x $1.10 (20)

3. 789A Quote: $1.05(10) x $1.10 (20)

4. 555B Buy Order entered for 30 contracts at $1.10

5. 555B Buy Order executes against 789A Quote but 555B Buy Order does not execute against 123A Quote. AIQ purges the 123A Quote and the remaining contracts of the 555B Buy Order rests on the book at $1.10. 123A and 555B are not permitted trade against one another because Member ABC has configured AIQ to apply at the Exchange account level. This is new functionality as the member has opted to have AIQ operate at the Exchange account level.

Example 3

1. Same as Example 2 above but Member ABC has AIQ configured at the member
   level.

2. AIQ purges the 123A Quote and the 789A Quote and the 555B Buy Order rests
   on the book at $1.10. This is new functionality as the member has opted to have
   AIQ operate at the member level.

Implementation

The Exchange proposes to launch the AIQ functionality described in this

proposed rule change in either Q2 or Q4 2018. The Exchange will announce the

implementation date of this functionality in an Options Trader Alert issued to members

prior to the launch date.

2.   Statutory Basis

The Exchange believes that the proposed rule change is consistent with the

requirements of the Act and the rules and regulations thereunder that are applicable to a

national securities exchange, and, in particular, with the requirements of Section 6(b) of

the Act.[8] In particular, the proposal is consistent with Section 6(b)(5) of the Act,[9]

because it is designed to promote just and equitable principles of trade, 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.

The Exchange believes that the proposed rule change is consistent with the

protection of investors and the public interest as it is designed to provide Market Makers

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[8]   15 U.S.C. 78f(b).

[9]   15 U.S.C. 78f(b)(5).

with additional flexibility with respect to how to implement self-trade protections provided by AIQ. Currently, all Market Makers are provided functionality that prevents quotes and orders from one market participant identifier from trading with quotes and orders from the same market participant identifier. This allows Market Makers to better manage their order flow and prevent undesirable executions where the Market Maker, using the same market participant identifier, would be on both sides of the trade. While this functionality is helpful to our members, some members would prefer not to trade with quotes and orders entered by different market participant identifiers within the same Exchange account or member. Thus, the Exchange is proposing to provide members with flexibility with respect to how AIQ is implemented. While members that like the current functionality can continue to use it, members who would prefer to prevent self-trades across different market participant identifiers within the same Exchange account or at the member level will now be provided with functionality that lets them do this. Similar flexibility is offered on Phlx and NOM, as well as BZX.[10] The Exchange believes that flexibility to apply AIQ at the Exchange account or member firm level would be useful for the Exchange's members too. The Exchange believes that the proposed rule change is designed to promote just and equitable principles of trade and will remove impediments to and perfect the mechanisms of a free and open market as it will further enhance self-trade protections provided to Market Makers similar to those protections provided on other markets. This functionality does not relieve or otherwise modify the duty of best execution owed to orders received from public customers.

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[10]   See supra notes 4 and 7.

B.   Self-Regulatory Organization's Statement on Burden on Competition

In accordance with Section 6(b)(8) of the Act,[11] the Exchange does not believe

that the proposed rule change will impose any burden on intermarket or intramarket

competition that is not necessary or appropriate in furtherance of the purposes of the Act.

The proposed rule change is designed to enhance AIQ functionality provided to

Exchange Market Makers, and will benefit members that wish to protect their quotes and

orders against trading with other quotes and orders within the same Exchange account or

member, rather than the more limited market participant identifier standard applied today.

The new functionality, which provides similar flexibility to that offered on Phlx, NOM,

and BZX, is also completely voluntary, and members that wish to use the current

functionality can also continue to do so. The Exchange does not believe that providing

more flexibility to members will have any significant impact on competition. In fact, the

Exchange believes that the proposed rule change is evidence of the competitive

environment in the options industry where exchanges must continually improve their

offerings to maintain competitive standing.

C.   Self-Regulatory Organization's Statement on Comments on the Proposed
        Rule Change Received from Members, Participants, or Others

No written comments were either solicited or 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 from the date on which it was filed,

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[11]   15 U.S.C. 78f(b)(8).

or such shorter time as the Commission may designate, it has become effective pursuant

to Section 19(b)(3)(A)(iii) of the Act[12] and subparagraph (f)(6) of Rule 19b-4

thereunder.[13]

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: (i) necessary or appropriate in the public interest; (ii) for

the protection of investors; or (iii) 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 e-mail to rule-comments@sec.gov. Please include File Number SR-

    GEMX-2018-16 on the subject line.

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[12]   15 U.S.C. 78s(b)(3)(A)(iii).

[13]   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.

       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-GEMX-2018-16. This file

number should be included on the subject line if e-mail is used. To help the Commission

process and review your comments more efficiently, please use only one method. The

Commission will post all comments on the Commission's Internet 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 those that may be withheld from the public in accordance with the

provisions of 5 U.S.C. 552, will be available for website viewing and printing in the

Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on

official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing

also will be available for inspection and copying at the principal office of the Exchange.

All comments received will be posted without change; the Commission does not edit

personal identifying information from submissions. You should submit only information

that you wish to make available publicly.

       All submissions should refer to File Number SR-GEMX-2018-16 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.[14]

Eduardo A. Aleman
Assistant Secretary

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[14]   17 CFR 200.30-3(a)(12).

EXHIBIT 5

Deleted text is [bracketed]. New text is <u>underlined</u>.

Nasdaq GEMX Rules

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Supplementary Material to Rule 804

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03. Anti-Internalization - Notwithstanding Rule 804(d)(1) above, quotes and orders entered by Market Makers [using the same member identifier]will not be executed against quotes and orders entered on the opposite side of the market by the same market maker using the same [member]<u>market participant</u> identifier<u>, or alternatively, if selected by the member, the same Exchange account identifier or member firm identifier</u>. In such a case, the system will cancel the resting quote or order back to the entering party prior to execution. This functionality shall not apply in any auction.

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