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

File No.* SR - 2017 - * 42
Amendment No. (req. for Amendments *)

Filing by Nasdaq ISE, 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

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

Pilot ☐

Extension of Time Period for Commission Action * ☐

Date Expires *

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 *).

Proposal to amend Rule 804, entitled Market Maker Quotations.

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 * Angela Last Name * Dunn
Title * Principal Associate General Counsel
E-mail * Angela.Dunn@nasdaq.com
Telephone * (215) 496-5692 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.

Date 06/12/2017

By Edward S. Knight

(Name *)

(Title *)

Executive Vice President and General Counsel

edward.knight@nasdaq.com

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.

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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 * 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, 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 Add Remove View 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 Add Remove View 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 Add Remove View	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 Add Remove View	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 Add Remove View	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 ISE, LLC ("ISE" 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 proposal to amend Rule 804, entitled "Market Maker Quotations."

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 (the "Board") on August 15, 2016. 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:

Angela Saccomandi Dunn
Principal Associate General Counsel
Nasdaq, Inc.
215-496-5692

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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 Exchange proposes to amend ISE Rule 804, entitled "Market Maker Quotations" to amend the current rule text at ISE Rule 804(g)(1) and (2) to adopt a revised description of the manner in which ISE removes market maker quotes when certain risk parameters have been triggered. The Exchange believes that the proposed new rule text will provide more detailed information to participants concerning the manner in which these risk features will remove quotes from the Order Book.

Today, ISE Rule 804(g)(1) provides that a market maker must provide parameters by which the Exchange will automatically remove a market maker's quotations in all series of an options class. If a market maker does not provide parameters then the Exchange will apply default parameters announced to members. The Exchange will automatically remove a market maker's quotation when, during a time period established by the market maker, the market maker exceeds: (i) the specified number of total contracts in the class, (ii) the specified percentage of the total size of the market maker's quotes in the class, (iii) the specified absolute value of the net between contracts bought and contracts sold in the class, or (iv) the specified absolute value of the net between (a) calls purchased plus puts sold in the class, and (b) calls sold plus puts purchased in the class.

The Exchange proposes to adopt new rule text, which continues to require a market maker to provide parameters by which the Exchange will automatically remove a market maker's quotations in all series of an options class. If a market maker does not provide parameters then the Exchange will apply default parameters announced to members. This is not being amended, rather it is being expanded.

The proposed rule text in 804(g)(1) makes clear that market makers are required to utilize the Percentage, Volume, Delta and Vega Thresholds, each a Threshold, described in subsections (A) - (D) in the new rule text. These are the same risk parameters that are offered today by ISE. The Exchange is seeking to identify each risk parameter specifically and describe the function of each parameter in Rule 804(g)(1)(A)-(D). For each feature, the Exchange's system ("System") will continue to automatically remove quotes in all series in an options class when a certain threshold for any of the parameters has been exceeded.

The Exchange elaborates in the proposed rule that a market maker is required to specify a period of time not to exceed 30 seconds ("Specified Time Period") during which the system will automatically remove a Market Maker's quotes in all series of an options class. The limitation of not to exceed 30 seconds is new for ISE Members. In order to establish a reasonable limit to the allowable Specified Time Period, an ISE Member will be limited to the setting their Specified Time period to no more than 30 seconds for these Thresholds. A Specified Time Period will commence for an options class every time an execution occurs in any series in such options class and will continue until the System removes quotes as described in proposed ISE Rule 804(g)(2) or (3) or the Specified Time Period expires. This is the case today, and is not changing. The Specified Time Periods will be the same value described in subsections (A) – (D). Also, as is the case today, a Specified Time Period operates on a rolling basis among all series in an options class in that there may be Specified Time Periods occurring simultaneously for each Threshold and such Specified Time Periods may overlap. If a Market Maker does not provide parameters, the Exchange will apply default parameters, which default settings will be announced to Members via an Options Trader Alert.

Proposed Rule 804(g)(1)(A) describes in greater detail the operation of the Percentage Threshold. As is the case today, a Market Maker must provide a specified percentage of quote size ("Percentage Threshold"), of not less than 1%, by which the System will automatically remove a Market Maker's quotes in all series of an options class. The Exchange is adding more detail about the manner in which the System will calculate percentages and amending the current rule to change its operation. For each series in an options class, the System will determine (i) during a Specified Time Period and for each side in a given series, a percentage calculated by dividing the size of a Market Maker's quote size executed in a particular series (the numerator) by the Marker Maker's quote size available at the time of execution plus the total number of the Market Marker's quote size previously executed during the unexpired Specified Time Period (the denominator) ("Series Percentage"); and (ii) the sum of the Series Percentages in the options class ("Issue Percentage") during a Specified Time Period. The System will track and calculate the net impact of positions in the same option issue; long call percentages are offset by short call percentages, and long put percentages are offset by short put percentages in the Issue Percentage. The Exchange also notes that in calculating the Percentage the System will compare the number of contracts executed in that series relative to the size of the quote at the time of the execution plus the number of executed contracts that have occurred in the current time period. The current system calculates the Percentage risk parameter by comparing the number of contracts executed in that series relative to the size of the original quote only at the time of the execution. This difference is captured within the proposed rule text. The Exchange notes that with the upcoming migration from ISE's current system to the INET system the manner in which the System offsets will change. The current ISE system does not offset, in that long call percentages are not offset by short call percentages, and long put percentages are not offset by short put percentages. The proposed System however will track and calculate the net impact.[3] The Exchange notes this difference in the calculation and seeks to memorialize the change in the process upon the migration to INET. The proposed rule will provide participants with greater clarity as to the operation of the Percentage risk feature on INET. The proposed text indicates that if the Issue Percentage exceeds the Percentage Threshold the System will automatically remove a market maker's quotes in all series of the options class.

Proposed Rule 804(g)(1)(B) describes in greater detail the operation of the Volume Threshold. As is the case today on ISE's current system, a market maker must provide a Volume Threshold by which the System will automatically remove a market maker's quotes in all series of an underlying security when the market maker executes a number of contracts which exceeds the designated number of contracts in all options series in an options class.

Proposed Rule 804(g)(1)(C) describes in greater detail the operation of the Delta Threshold. As is the case today on ISE's current system, a market maker must provide a Delta Threshold by which the System will automatically remove a market maker's quotes in all series of an underlying security. For each class of options, the System will maintain

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[3] The net impact of positions takes into account the offsets noted herein.

a Delta counter, which tracks the absolute value of the difference between (i) purchased call contracts plus sold put contracts and (ii) sold call contracts plus purchased put contracts. If the Delta counter exceeds the Delta Threshold established by the Member, the System will automatically remove a market maker's quotes in all series of the options class.

Proposed Rule 804(g)(1)(D) describes in greater detail the operation of the Vega Threshold. As is the case today on ISE's system, a market maker must provide a Vega Threshold by which the System will automatically remove a Market Maker's quotes in all series of an options class. For each class of options, the System will maintain a Vega counter, which tracks the absolute value of purchased contracts minus sold contracts. If the Vega counter exceeds the Vega Threshold established by the Member, the System will automatically remove a Market Maker's quotes in all series of the options class.

Proposed Rule 804(g)(2) provides more detail about the System's current operation with respect to quote removal. The System will automatically remove quotes in all options in an underlying security when the Percentage Threshold, Volume Threshold, Delta Threshold or Vega Threshold has been exceeded. The System will send a Purge Notification Message to the Market Maker for all affected series when any of the above thresholds have been exceeded. The Percentage Threshold, Volume Threshold, Delta Threshold and Vega Threshold are considered independently of each other. Quotes will be automatically executed up to the Market Maker's size regardless of whether the execution of such quotes would cause the Market Maker to exceed the Percentage Threshold, Volume Threshold, Delta Threshold or Vega Threshold.

Proposed Rule 804(g)(3) provides more detail about the manner in which the System resets the counting of the various risk parameters. Notwithstanding the automatic removal of quotes described in the rule, if a market maker requests the System to remove quotes in all options series in an options class, the System will automatically reset all Thresholds.

Proposed Rule 804(g)(4) provides more detail about the process to re-initiate quoting. When the System removes quotes because the Percentage Threshold, Volume Threshold, Delta Threshold or Vega Threshold were exceeded, the market maker must send a re-entry indicator to re-enter the System.

Proposed Rule 804(g)(5) provides more detail about default parameters as mentioned above. If a market maker does not provide a parameter for each of the automated quotation removal Thresholds described in Rule 804(g)(1)(A-D) above, the Exchange will apply default parameters, which are announced to Members. This language exists today in the current text and is being memorialized herein.

Finally, proposed Rule 804(g)(6) describes the interaction between the four Thresholds and the market wide parameter. In addition to the Thresholds described in Rule 804(g)(1)(A) - (D) above, a market maker must provide a market wide parameter by which the Exchange will automatically remove a market maker's quotes in all classes when, during a time period established by the market maker, the total number of quote removal events specified in Rule 804(g)(1)(A) – (D) exceeds the market wide parameter provided to the Exchange by the market maker. As is the case today, Market Makers may request the Exchange to set the market wide parameter to apply to just Nasdaq ISE or across Nasdaq ISE and GEMX.

Below are some illustrative examples of the Percentage and Volume risk parameters.

Example #1: describes the Percentage risk parameter. Presume the following Order Book:

Series of Underlying XYZ	**Size on bid x offer for MM1**
100 Strike Call	300x300
100 Strike Put	50x50
110 Strike Call	200x200
110 Strike Put	150x150

In this example, assume the Specified Time Period designated by the Market Maker # 1 is 10 seconds and the Percentage Threshold is set to 100%. Assume at 12:00:00, Market Maker # 1 executes 100 contracts of his offer size, 200 contracts, in the 110 Strike Calls. This represents an execution equaling 50% (100 contracts of the 200 contract quote size) of the 100% Percentage Threshold. Assume at 12:00:01, Market Maker #1 executes 50 additional contracts in the same 110 Strike Calls. This execution equates to an additional 25% ((50 contracts/(100 remaining quote size +100 contracts already executed within the Specified Time Period)) for a net 75% Series Percentage count toward the 100% Percentage Threshold. If at 12:00:03, Market Maker #1 executes the full size of his bid (50 contracts) in the 100 Strike Put, the System will automatically remove all of Market Maker #1's quotes in Underlying XYZ since the execution caused his 100% Percentage Threshold to be exceeded; the execution in the 100 Strike Put added 100% Series Percentage to his previously calculated Series Percentage of 75% totaling 175% Issue Percentage. No further quotes for Market Maker #1 in Underlying XYZ will be available until re-entry. The Specified Time Period will be reset for Market Maker #1 in options class XYZ and Market Maker #1 will need to send a re-entry indicator in order to re-enter quotes in options series for options class XYZ into the System.

Example #2 is another example of the Percentage Threshold. Presume the following Order Book:

In this example, assume Market Maker #1 has Percentage Threshold set at 100% with a Specified Time Period over 5 seconds. Assume at 12:00:00, Market Maker #1 is quoting the XYZ 20 strike calls at 1.00 (10) – 1.20 (10). An incoming Order to buy 5 contracts for 1.20 trades against Market Maker #1's quote. Based on this trade, the Series Percentage Threshold calculation is 5/[(10)+(0)] = 5/10 = 50%. Since this is the only execution during the Time Period, 50% also represents the Issue Percentage, therefore Market Maker #1's quote is now 1.00 (10) – 1.20 (5).

Next, assume at 12:00:01 an Incoming Order to buy 2 contracts for 1.20 trades against Market Maker #1's quote. Based on this trade, the Series Percentage Threshold calculation is 2/[(5)+(5)] = 2/10 = 20%. The Issue Percentage calculation is the sum of Series Percentages during the time period, or 50% +20% = 70%.

Finally, presume Market Maker #1's quote is now 1.00 (10) – 1.20 (3). At 12:00:02, Market Maker #1 updates his quote in the XYZ 20 strike calls to increase his offer size back to 10 contracts, 1.00 (10) – 1.20 (10). An incoming Order to buy 6 contracts for 1.20 trades against Market Maker #1's quote. Based on this trade, the Series Percentage Threshold calculation: 6/[(10)+(7)] = 6/17 = 35.29%. The Issue Percentage calculation is the sum of Series Percentages during the time period, or 50% + 20% + 35.29% = 105.29%. In this scenario, Market Maler #1's quotes are removed in all series of XYZ since his setting of 100% over 5 seconds has been exceeded.

Example #3 describes the Volume Threshold. Presume the following Order Book:

Series of Underlying XYZ	Size on bid x offer for MM1
100 Strike Call	300x300
100 Strike Put	50x50
110 Strike Call	200x200
110 Strike Put	150x150

In this example, assume the Specified Time Period designated by the Market Maker # 1 is 10 seconds and the designated number of contracts permitted for the Volume-Based Threshold is 250 contracts. Assume at 12:00:00, the Market Maker # 1 executes all of his offer size, 200 contracts, in the 110 Strike Calls. The System will initiate the Specified Time Period and for 10 seconds the System will count all volume executed in series of options class XYZ. If at any point during that 10 second period, the Market Maker # 1 executes additional contracts in any series of the options class XYZ, those contracts will be added to the initial execution of 200 contracts. To illustrate, assume at 12:00:05 the Market Maker # 1 executes 60 contracts of his offer in the 100 Strike Calls. The total volume executed is now 260 contracts. Since that volume exceeds the Market Maker #1's designated number of contracts for the Volume Threshold (250 contracts), all of his quotes in all series of the options class XYZ over the Specialized Quote Feed[4] will be removed from the System; no further quotes will be executed until

4 The Specialized Quote Feed interface that allows market makers to connect and send quotes, sweeps and auction responses into GEMX. Data includes the following: (1) Options Auction Notifications (e.g., opening imbalance, Flash, PIM, Solicitation and Facilitation or other information); (2) Options Symbol Directory Messages; (3) System Event Messages (e.g., start of messages, start of

re-entry. The Volume Specified Time Period will be reset for Market Maker #1 in options class XYZ and Market Maker #1 will need to send a re-entry indicator in order to re-enter quotes in options series for options class XYZ into the System.

Implementation

The Exchange will begin a system migration to Nasdaq INET in Q2 of 2017.[5] The migration will be on a symbol by symbol basis as specified by the Exchange in a notice to Members. The Exchange is proposing to implement this rule change on the INET platform as the symbols migrate to that platform.

b. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act[6] in general, and furthers the objectives of Section 6(b)(5) of the Act[7] in particular, in that it is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general to protect investors and the public interest, by memorializing, with greater detail, the risk protections available to market makers. The described Thresholds serve to decrease risk and increase stability. Additionally, because the Exchange offers these risk tools to market makers, in order to encourage them to provide as much liquidity as

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system hours, start of quoting, start of opening); (4) Option Trading Action Messages (e.g., halts, resumes); (5) Execution Messages; and (6) Quote Messages (quote/sweep messages, risk protection triggers or purge notifications).

5 See Securities Exchange Act Release No. 80432 (April 11, 2017), 82 FR 18191 (April 17, 2017) (SR-ISE-2017-03) (Order Approving Proposed Rule Change, as Modified by Amendment No. 1, to Amend Various Rules in Connection with a System Migration to Nasdaq INET Technology).

6 15 U.S.C. 78f(b).

7 15 U.S.C. 78f(b)(5).

possible and encourage market making generally, the proposal removes impediments to and perfects the mechanism of a free and open market and a national market system and protects investors and the public interest. The Exchange believes that amending Rule 804(g) to add more clarifying text, which explains in greater detail the manner in which the four Thresholds operate, will bring more transparency to the rule which serves to protect investors and the public interest, because market makers will be more informed about the manner in which the functionality operates.

In addition, the Exchange's proposal to amend the current Percentage Threshold to: (i) calculate offsets; and (ii) calculate the Percentage Threshold during a Specified Time Period and for each side in a given series, a percentage, by dividing the size of a Market Maker's quote size executed in a particular series (the numerator) by the Marker Maker's quote size available at the time of execution plus the total number of the Market Marker's quote size previously executed during the unexpired Specified Time Period, will provide Market Makers with greater precision in calculating quoting risks. The Exchange believes that providing Market Makers with tools to calculate risk serves to perfect the mechanism of a free and open market and a national market system, and, in general to protect investors and the public interest because Market Makers are better able to manage risks with this risk tool.

The Exchange further represents that its proposal will continue to operate consistently with the firm quote obligations of a broker-dealer pursuant to Rule 602 of Regulation NMS and that the functionality is mandatory. Specifically, any interest that is executable against a market maker's quotes that are received[8] by the Exchange prior to

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8 The time of receipt is the time such message is processed by the Order Book.

the time any of these functionalities are engaged will be automatically executed at the price up to the market maker's size, regardless of whether such execution results in executions in excess of the market maker's pre-set parameters.

4. 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 not necessary or appropriate in furtherance of the purposes of the Act. Specifically, the proposal will not impose a burden on intra-market or inter-market competition, rather it provides market makers with the continued opportunity to avail themselves of risk tools, The proposal does not impose a burden on inter-market competition, because participants may choose to become market makers on a number of other options exchanges, which may have similar but not identical features.[9] The proposed rule change is meant to continue to protect market makers from inadvertent exposure to excessive risk. Accordingly, the proposed rule change will have no impact on competition. The Exchange's proposal to amend the current Percentage Based risk feature to: (i) calculate offsets; and (ii) calculate the Percentage Threshold during a Specified Time Period and for each side in a given series, a percentage, by dividing the size of a Market Maker's quote size executed in a particular series (the numerator) by the Marker Maker's quote size available at the time of execution plus the total number of the Market Marker's quote size previously executed during the unexpired Specified Time Period,, does not impose an undue burden on competition and is non-controversial because the Exchange offers a Percentage Threshold today. The proposed changes to the

[9] See BATS Rule 21.16, BOX Rules 8100 and 8110, C2 Rule 8.12, CBOE Rule 8.18, MIAX Rule 612, NYSE MKT Rule 928NY and NYSE Arca Rule 6.40.

Percentage risk tool simply add more precision to the existing calculation to permit Marker Makers to better control their risk with respect to quoting.

Further, the Exchange is memorializing more detail concerning the function of the Thresholds with this rule proposal and making clear the method in which the Percentage risk tool is calculated. The risk tools will continue to reduce risk for market makers in the event of a systems issue or due to the occurrence of unusual or unexpected market activity.

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)[10] of the Act and Rule 19b-4(f)(6) thereunder[11] 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.

The proposed rule change does not significantly affect the protection of investors or the public interest because the proposal will continue to permit market makers to

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[10] 15 U.S.C. 78s(b)(3)(A).

[11] 17 CFR 240.19b-4(f)(6).

utilize these risk parameters and encourage them to provide as much liquidity as possible and encourage market making generally. The proposal does not impose any significant burden on competition; rather, it fosters competition by providing market makers with the ability to enhance and customize their percentage in order to compete for executions and order flow. The Exchange's proposal to amend the current Percentage Based risk feature to: (i) calculate offsets; and (ii) calculate the Percentage Threshold <u>during a Specified Time Period and for each side in a given series, a percentage, by dividing the size of a Market Maker's quote size executed in a particular series (the numerator) by the Marker Maker's quote size available at the time of execution plus the total number of the Market Marker's quote size previously executed during the unexpired Specified Time Period</u>,, does not impose an undue burden on competition and is non-controversial because the Exchange offers a Percentage Threshold today. The proposed changes to the Percentage risk tool simply add more precision to the existing calculation to permit Marker Makers to better control their risk with respect to quoting.

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.

A proposed rule change filed under Rule 19b-4(f)(6) normally does not become operative prior to 30 days after the date of filing. Rule 19b-4(f)(6)(iii), however, permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange requests that the Commission waive the 30-day operative delay contained in Rule 19b-4(f)(6)(iii) so that it may amend the proposed rules in coordination with the migration to the INET platform. INET is the proprietary core technology utilized across Nasdaq's global markets and utilized on The NASDAQ Options Market LLC ("NOM"), NASDAQ PHLX LLC ("Phlx") and NASDAQ BX, Inc. ("BX"). The migration of ISE to the Nasdaq INET architecture would result in higher performance, scalability, and more robust architecture. With this system migration, the Exchange received approval to adopt certain trading functionality.[12] The approved functionality will become operative as symbols migrate to INET, as specified in those approvals.[13] The Exchange is proposing to offer the various risk tools proposed herein on the INET functionality, which will be available as symbols migrate to INET. The Exchange requests a waiver of the operative delay to coordinate the timing of the proposed changes to the INET system migration, which will commence

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12 See Securities Exchange Act Release No. 80225; (March 13, 2017), 82 FR 14243 (March 17, 2017) (SR-ISE-2017-02) (Order Approving Proposed Rule Change, as Modified by Amendment No. 1, To Amend the Exchange Opening Process). See also Securities Exchange Act Release No. 80432 (April 11, 2017), 82 FR 18191 (April 17, 2017) (SR-ISE-2017-03) (Order Approving Proposed Rule Change, as Modified by Amendment No. 1, to Amend Various Rules in Connection with a System Migration to Nasdaq INET Technology).

13 Id.

in Q2 as announced to members in an Options Trader Alert.

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

Not applicable.

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.

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION
(Release No. ; File No. SR-ISE-2017-42)

June __, 2017

Self-Regulatory Organizations; Nasdaq ISE, LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Regarding Market Maker Quotations

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 June 12, 2017, Nasdaq ISE, LLC ("ISE" 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 Rule 804, entitled "Market Maker Quotations."

The text of the proposed rule change is available on the Exchange's Website at www.ise.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 received on the proposed rule change. The text of these statements may be examined at

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

2 17 CFR 240.19b-4.

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 ISE Rule 804, entitled "Market Maker Quotations" to amend the current rule text at ISE Rule 804(g)(1) and (2) to adopt a revised description of the manner in which ISE removes market maker quotes when certain risk parameters have been triggered. The Exchange believes that the proposed new rule text will provide more detailed information to participants concerning the manner in which these risk features will remove quotes from the Order Book.

Today, ISE Rule 804(g)(1) provides that a market maker must provide parameters by which the Exchange will automatically remove a market maker's quotations in all series of an options class. If a market maker does not provide parameters then the Exchange will apply default parameters announced to members. The Exchange will automatically remove a market maker's quotation when, during a time period established by the market maker, the market maker exceeds: (i) the specified number of total contracts in the class, (ii) the specified percentage of the total size of the market maker's quotes in the class, (iii) the specified absolute value of the net between contracts bought and contracts sold in the class, or (iv) the specified absolute value of the net between (a) calls purchased plus puts sold in the class, and (b) calls sold plus puts purchased in the class.

The Exchange proposes to adopt new rule text, which continues to require a market maker to provide parameters by which the Exchange will automatically remove a market maker's quotations in all series of an options class. If a market maker does not provide parameters then the Exchange will apply default parameters announced to members. This is not being amended, rather it is being expanded.

The proposed rule text in 804(g)(1) makes clear that market makers are required to utilize the Percentage, Volume, Delta and Vega Thresholds, each a Threshold, described in subsections (A) - (D) in the new rule text. These are the same risk parameters that are offered today by ISE. The Exchange is seeking to identify each risk parameter specifically and describe the function of each parameter in Rule 804(g)(1)(A)-(D). For each feature, the Exchange's system ("System") will continue to automatically remove quotes in all series in an options class when a certain threshold for any of the parameters has been exceeded.

The Exchange elaborates in the proposed rule that a market maker is required to specify a period of time not to exceed 30 seconds ("Specified Time Period") during which the system will automatically remove a Market Maker's quotes in all series of an options class. The limitation of not to exceed 30 seconds is new for ISE Members. In order to establish a reasonable limit to the allowable Specified Time Period, an ISE Member will be limited to the setting their Specified Time period to no more than 30 seconds for these Thresholds. A Specified Time Period will commence for an options class every time an execution occurs in any series in such options class and will continue until the System removes quotes as described in proposed ISE Rule 804(g)(2) or (3) or the Specified Time Period expires. This is the case today, and is not changing. The Specified Time Periods will be the same value described in subsections (A) – (D). Also, as is the case today, a Specified Time Period operates on a rolling basis among all series in an options class in that there may be Specified Time Periods occurring simultaneously for each Threshold and such Specified Time Periods may overlap. If a Market Maker does not provide parameters, the Exchange will apply default parameters, which default settings will be announced to Members via an Options Trader Alert.

Proposed Rule 804(g)(1)(A) describes in greater detail the operation of the Percentage Threshold. As is the case today, a Market Maker must provide a specified percentage of quote size ("Percentage Threshold"), of not less than 1%, by which the System will automatically remove a Market Maker's quotes in all series of an options class. The Exchange is adding more detail about the manner in which the System will calculate percentages and amending the current rule to change its operation. For each series in an options class, the System will determine (i) during a Specified Time Period and for each side in a given series, a percentage calculated by dividing the size of a Market Maker's quote size executed in a particular series (the numerator) by the Marker Maker's quote size available at the time of execution plus the total number of the Market Marker's quote size previously executed during the unexpired Specified Time Period (the denominator) ("Series Percentage"); and (ii) the sum of the Series Percentages in the options class ("Issue Percentage") during a Specified Time Period. The System will track and calculate the net impact of positions in the same option issue; long call percentages are offset by short call percentages, and long put percentages are offset by short put percentages in the Issue Percentage. The Exchange also notes that in calculating the Percentage the System will compare the number of contracts executed in that series relative to the size of the quote at the time of the execution plus the number of executed contracts that have occurred in the current time period. The current system calculates the

Percentage risk parameter by comparing the number of contracts executed in that series relative to the size of the original quote only at the time of the execution. This difference is captured within the proposed rule text. The Exchange notes that with the upcoming migration from ISE's current system to the INET system the manner in which the System offsets will change. The current ISE system does not offset, in that long call percentages are not offset by short call percentages, and long put percentages are not offset by short put percentages. The proposed System however will track and calculate the net impact.[3] The Exchange notes this difference in the calculation and seeks to memorialize the change in the process upon the migration to INET. The proposed rule will provide participants with greater clarity as to the operation of the Percentage risk feature on INET. The proposed text indicates that if the Issue Percentage exceeds the Percentage Threshold the System will automatically remove a market maker's quotes in all series of the options class.

Proposed Rule 804(g)(1)(B) describes in greater detail the operation of the Volume Threshold. As is the case today on ISE's current system, a market maker must provide a Volume Threshold by which the System will automatically remove a market maker's quotes in all series of an underlying security when the market maker executes a number of contracts which exceeds the designated number of contracts in all options series in an options class.

Proposed Rule 804(g)(1)(C) describes in greater detail the operation of the Delta Threshold. As is the case today on ISE's current system, a market maker must provide a Delta Threshold by which the System will automatically remove a market maker's quotes

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[3] The net impact of positions takes into account the offsets noted herein.

in all series of an underlying security. For each class of options, the System will maintain a Delta counter, which tracks the absolute value of the difference between (i) purchased call contracts plus sold put contracts and (ii) sold call contracts plus purchased put contracts. If the Delta counter exceeds the Delta Threshold established by the Member, the System will automatically remove a market maker's quotes in all series of the options class.

Proposed Rule 804(g)(1)(D) describes in greater detail the operation of the Vega Threshold. As is the case today on ISE's system, a market maker must provide a Vega Threshold by which the System will automatically remove a Market Maker's quotes in all series of an options class. For each class of options, the System will maintain a Vega counter, which tracks the absolute value of purchased contracts minus sold contracts. If the Vega counter exceeds the Vega Threshold established by the Member, the System will automatically remove a Market Maker's quotes in all series of the options class.

Proposed Rule 804(g)(2) provides more detail about the System's current operation with respect to quote removal. The System will automatically remove quotes in all options in an underlying security when the Percentage Threshold, Volume Threshold, Delta Threshold or Vega Threshold has been exceeded. The System will send a Purge Notification Message to the Market Maker for all affected series when any of the above thresholds have been exceeded. The Percentage Threshold, Volume Threshold, Delta Threshold and Vega Threshold are considered independently of each other. Quotes will be automatically executed up to the Market Maker's size regardless of whether the execution of such quotes would cause the Market Maker to exceed the Percentage Threshold, Volume Threshold, Delta Threshold or Vega Threshold.

Proposed Rule 804(g)(3) provides more detail about the manner in which the System resets the counting of the various risk parameters. Notwithstanding the automatic removal of quotes described in the rule, if a market maker requests the System to remove quotes in all options series in an options class, the System will automatically reset all Thresholds.

Proposed Rule 804(g)(4) provides more detail about the process to re-initiate quoting. When the System removes quotes because the Percentage Threshold, Volume Threshold, Delta Threshold or Vega Threshold were exceeded, the market maker must send a re-entry indicator to re-enter the System.

Proposed Rule 804(g)(5) provides more detail about default parameters as mentioned above. If a market maker does not provide a parameter for each of the automated quotation removal Thresholds described in Rule 804(g)(1)(A-D) above, the Exchange will apply default parameters, which are announced to Members. This language exists today in the current text and is being memorialized herein.

Finally, proposed Rule 804(g)(6) describes the interaction between the four Thresholds and the market wide parameter. In addition to the Thresholds described in Rule 804(g)(1)(A) - (D) above, a market maker must provide a market wide parameter by which the Exchange will automatically remove a market maker's quotes in all classes when, during a time period established by the market maker, the total number of quote removal events specified in Rule 804(g)(1)(A) – (D) exceeds the market wide parameter provided to the Exchange by the market maker. As is the case today, Market Makers may request the Exchange to set the market wide parameter to apply to just Nasdaq ISE or across Nasdaq ISE and GEMX.

Below are some illustrative examples of the Percentage and Volume risk parameters.

Example #1: describes the Percentage risk parameter. Presume the following Order Book:

Series of Underlying XYZ	**Size on bid x offer for MM1**
100 Strike Call	300x300
100 Strike Put	50x50
110 Strike Call	200x200
110 Strike Put	150x150

In this example, assume the Specified Time Period designated by the Market Maker # 1 is 10 seconds and the Percentage Threshold is set to 100%. Assume at 12:00:00, Market Maker # 1 executes 100 contracts of his offer size, 200 contracts, in the 110 Strike Calls. This represents an execution equaling 50% (100 contracts of the 200 contract quote size) of the 100% Percentage Threshold. Assume at 12:00:01, Market Maker #1 executes 50 additional contracts in the same 110 Strike Calls. This execution equates to an additional 25% ((50 contracts/(100 remaining quote size +100 contracts already executed within the Specified Time Period)) for a net 75% Series Percentage count toward the 100% Percentage Threshold. If at 12:00:03, Market Maker #1 executes the full size of his bid (50 contracts) in the 100 Strike Put, the System will automatically remove all of Market Maker #1's quotes in Underlying XYZ since the execution caused his 100% Percentage Threshold to be exceeded; the execution in the 100 Strike Put added 100% Series Percentage to his previously calculated Series Percentage of 75% totaling 175% Issue Percentage. No further quotes for Market Maker #1 in Underlying XYZ will be available until re-entry. The Specified Time Period will be reset for Market Maker #1 in options class XYZ and Market Maker #1 will need to send a re-entry indicator in order to re-enter quotes in options series for options class XYZ into the System.

Example #2 is another example of the Percentage Threshold. Presume the following Order Book:

In this example, assume Market Maker #1 has Percentage Threshold set at 100% with a Specified Time Period over 5 seconds. Assume at 12:00:00, Market Maker #1 is quoting the XYZ 20 strike calls at 1.00 (10) – 1.20 (10). An incoming Order to buy 5 contracts for 1.20 trades against Market Maker #1’s quote. Based on this trade, the Series Percentage Threshold calculation is 5/[(10)+(0)] = 5/10 = 50%. Since this is the only execution during the Time Period, 50% also represents the Issue Percentage, therefore Market Maker #1’s quote is now 1.00 (10) – 1.20 (5).

Next, assume at 12:00:01 an Incoming Order to buy 2 contracts for 1.20 trades against Market Maker #1’s quote. Based on this trade, the Series Percentage Threshold calculation is 2/[(5)+(5)] = 2/10 = 20%. The Issue Percentage calculation is the sum of Series Percentages during the time period, or 50% +20% = 70%.

Finally, presume Market Maker #1’s quote is now 1.00 (10) – 1.20 (3). At 12:00:02, Market Maker #1 updates his quote in the XYZ 20 strike calls to increase his offer size back to 10 contracts, 1.00 (10) – 1.20 (10). An incoming Order to buy 6 contracts for 1.20 trades against Market Maker #1’s quote. Based on this trade, the Series Percentage Threshold calculation: 6/[(10)+(7)] = 6/17 = 35.29%. The Issue Percentage calculation is the sum of Series Percentages during the time period, or 50% + 20% + 35.29% = 105.29%. In this scenario, Market Maler #1’s quotes are removed in all series of XYZ since his setting of 100% over 5 seconds has been exceeded.

Example #3 describes the Volume Threshold. Presume the following Order Book:

Series of Underlying XYZ	**Size on bid x offer for MM1**
100 Strike Call	300x300
100 Strike Put	50x50
110 Strike Call	200x200
110 Strike Put	150x150

In this example, assume the Specified Time Period designated by the Market Maker # 1 is 10 seconds and the designated number of contracts permitted for the Volume-Based Threshold is 250 contracts. Assume at 12:00:00, the Market Maker # 1 executes all of his offer size, 200 contracts, in the 110 Strike Calls. The System will initiate the Specified Time Period and for 10 seconds the System will count all volume executed in series of options class XYZ. If at any point during that 10 second period, the Market Maker # 1 executes additional contracts in any series of the options class XYZ, those contracts will be added to the initial execution of 200 contracts. To illustrate, assume at 12:00:05 the Market Maker # 1 executes 60 contracts of his offer in the 100 Strike Calls. The total volume executed is now 260 contracts. Since that volume exceeds the Market Maker #1's designated number of contracts for the Volume Threshold (250 contracts), all of his quotes in all series of the options class XYZ over the Specialized Quote Feed[4] will be removed from the System; no further quotes will be executed until

[4] The Specialized Quote Feed interface that allows market makers to connect and send quotes, sweeps and auction responses into GEMX. Data includes the following: (1) Options Auction Notifications (e.g., opening imbalance, Flash, PIM, Solicitation and Facilitation or other information); (2) Options Symbol Directory Messages; (3) System Event Messages (e.g., start of messages, start of

re-entry. The Volume Specified Time Period will be reset for Market Maker #1 in options class XYZ and Market Maker #1 will need to send a re-entry indicator in order to re-enter quotes in options series for options class XYZ into the System.

Implementation

The Exchange will begin a system migration to Nasdaq INET in Q2 of 2017.[5] The migration will be on a symbol by symbol basis as specified by the Exchange in a notice to Members. The Exchange is proposing to implement this rule change on the INET platform as the symbols migrate to that platform.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act[6] in general, and furthers the objectives of Section 6(b)(5) of the Act[7] in particular, in that it is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general to protect investors and the public interest, by memorializing, with greater detail, the risk protections available to market makers. The described Thresholds serve to decrease risk and increase stability. Additionally, because the Exchange offers these risk tools to market makers, in order to encourage them to provide as much liquidity as

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system hours, start of quoting, start of opening); (4) Option Trading Action Messages (e.g., halts, resumes); (5) Execution Messages; and (6) Quote Messages (quote/sweep messages, risk protection triggers or purge notifications).

[5] See Securities Exchange Act Release No. 80432 (April 11, 2017), 82 FR 18191 (April 17, 2017) (SR-ISE-2017-03) (Order Approving Proposed Rule Change, as Modified by Amendment No. 1, to Amend Various Rules in Connection with a System Migration to Nasdaq INET Technology).

[6] 15 U.S.C. 78f(b).

[7] 15 U.S.C. 78f(b)(5).

possible and encourage market making generally, the proposal removes impediments to and perfects the mechanism of a free and open market and a national market system and protects investors and the public interest. The Exchange believes that amending Rule 804(g) to add more clarifying text, which explains in greater detail the manner in which the four Thresholds operate, will bring more transparency to the rule which serves to protect investors and the public interest, because market makers will be more informed about the manner in which the functionality operates.

In addition, the Exchange's proposal to amend the current Percentage Threshold to: (i) calculate offsets; and (ii) calculate the Percentage Threshold during a Specified Time Period and for each side in a given series, a percentage, by dividing the size of a Market Maker's quote size executed in a particular series (the numerator) by the Marker Maker's quote size available at the time of execution plus the total number of the Market Marker's quote size previously executed during the unexpired Specified Time Period, will provide Market Makers with greater precision in calculating quoting risks. The Exchange believes that providing Market Makers with tools to calculate risk serves to perfect the mechanism of a free and open market and a national market system, and, in general to protect investors and the public interest because Market Makers are better able to manage risks with this risk tool.

The Exchange further represents that its proposal will continue to operate consistently with the firm quote obligations of a broker-dealer pursuant to Rule 602 of Regulation NMS and that the functionality is mandatory. Specifically, any interest that is executable against a market maker's quotes that are received[8] by the Exchange prior to

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[8] The time of receipt is the time such message is processed by the Order Book.

the time any of these functionalities are engaged will be automatically executed at the price up to the market maker's size, regardless of whether such execution results in executions in excess of the market maker's pre-set parameters.

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 not necessary or appropriate in furtherance of the purposes of the Act. Specifically, the proposal will not impose a burden on intra-market or inter-market competition, rather it provides market makers with the continued opportunity to avail themselves of risk tools, The proposal does not impose a burden on inter-market competition, because participants may choose to become market makers on a number of other options exchanges, which may have similar but not identical features.[9] The proposed rule change is meant to continue to protect market makers from inadvertent exposure to excessive risk. Accordingly, the proposed rule change will have no impact on competition. The Exchange's proposal to amend the current Percentage Based risk feature to: (i) calculate offsets; and (ii) calculate the Percentage Threshold during a Specified Time Period and for each side in a given series, a percentage, by dividing the size of a Market Maker's quote size executed in a particular series (the numerator) by the Marker Maker's quote size available at the time of execution plus the total number of the Market Marker's quote size previously executed during the unexpired Specified Time Period,, does not impose an undue burden on competition and is non-controversial because the Exchange offers a Percentage Threshold today. The proposed changes to the

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[9] See BATS Rule 21.16, BOX Rules 8100 and 8110, C2 Rule 8.12, CBOE Rule 8.18, MIAX Rule 612, NYSE MKT Rule 928NY and NYSE Arca Rule 6.40.

Percentage risk tool simply add more precision to the existing calculation to permit Marker Makers to better control their risk with respect to quoting.

Further, the Exchange is memorializing more detail concerning the function of the Thresholds with this rule proposal and making clear the method in which the Percentage risk tool is calculated. The risk tools will continue to reduce risk for market makers in the event of a systems issue or due to the occurrence of unusual or unexpected market activity.

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, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A)(iii) of the Act[10] and subparagraph (f)(6) of Rule 19b-4 thereunder.[11]

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

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10 15 U.S.C. 78s(b)(3)(A)(iii).

11 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.

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-ISE-2017-42 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-ISE-2017-42. 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-ISE-2017-42 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.[12]

Eduardo A. Aleman
Assistant Secretary

12 17 CFR 200.30-3(a)(12).

EXHIBIT 5

New text is underlined; deleted text is in brackets.

Nasdaq ISE Rulebook

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Rule 804. Market Maker Quotations

(a) – (f) No change.

(g) *Automated Quotation Adjustments*.

(1) Market Makers are required to utilize the Percentage, Volume, Delta and Vega Thresholds, each a Threshold, described in (A) - (D) below. For each of these features, the Exchange's system ("System") will automatically remove a Market Maker's quotes in all series in an options class when any of the Percentage Threshold, Volume Threshold, Delta Threshold or Vega Threshold, as described below, has been exceeded. A Market Maker is required to specify a period of time not to exceed 30 seconds ("Specified Time Period") during which the system will automatically remove a Market Maker's quotes in all series of an options class. The Specified Time Period will commence for an options class every time an execution occurs in any series in such option class and will continue until the System removes quotes as described in (2) or (3) or the Specified Time Period expires. The Specified Time Period operates on a rolling basis among all series in an options class in that there may be Specified Time Periods occurring simultaneously for each Threshold and such Specified Time Periods may overlap. The Specified Time Periods will be the same value for each protection described in (A) – (D) below.

(A) **Percentage Threshold.** A Market Maker must provide a specified percentage ("Percentage Threshold"), of not less than 1%, by which the System will automatically remove a Market Maker's quotes in all series of an options class. For each series in an options class, the System will determine (i) during a Specified Time Period and for each side in a given series, a percentage calculated by dividing the size of a Market Maker's quote size executed in a particular series (the numerator) by the Marker Maker's quote size available at the time of execution plus the total number of the Market Marker's quote size previously executed during the unexpired Specified Time Period (the denominator) ("Series Percentage"); and (ii) the sum of the Series Percentage in the options class ("Issue Percentage") during a Specified Time Period. The System tracks and calculates the net impact of positions in the same options class; long call percentages are offset by short call percentages, and long put percentages are offset by short put percentages in the Issue Percentage. If the Issue Percentage exceeds the Percentage Threshold the System will automatically remove a Market Maker's quotes in all series of the options class during the Specified Time Period.

(B)**Volume Threshold.** A Market Maker must provide a Volume Threshold by which the System will automatically remove a Market Maker's quotes in all series of an options class when the Market Maker executes a number of contracts which exceeds the designated number of contracts in all series in an options class.

(C) **Delta Threshold.** A Market Maker must provide a Delta Threshold by which the System will automatically remove a Market Maker's quotes in all series of an options class. For each class of options, the System will maintain a Delta counter, which tracks the absolute value of the difference between (i) purchased call contracts plus sold put contracts and (ii) sold call contracts plus purchased put contracts. If the Delta counter exceeds the Delta Threshold established by the Member, the System will automatically remove a Market Maker's quotes in all series of the options class.

(D) **Vega Threshold.** A Market Maker must provide a Vega Threshold by which the System will automatically remove a Market Maker's quotes in all series of an options class. For each class of options, the System will maintain a Vega counter, which tracks the absolute value of purchased contracts minus sold contracts. If the Vega counter exceeds the Vega Threshold established by the Member, the System will automatically remove a Market Maker's quotes in all series of the options class.

(2) The System will automatically remove quotes in all series of an options class when the Percentage Threshold, Volume Threshold, Delta Threshold or Vega Threshold has been exceeded. The System will send a Purge Notification Message to the Market Maker for all affected series when the above thresholds have been exceeded.

(A) The Percentage Threshold, Volume Threshold, Delta Threshold and Vega Threshold are considered independently of each other.

(B) Quotes will be automatically executed up to the Market Maker's size regardless of whether the execution would cause the Market Maker to exceed the Percentage Threshold, Volume Threshold, Delta Threshold or Vega Threshold.

(3) Notwithstanding Rule 804(g)(1) and (2) above, if a Market Maker requests the System to remove quotes in all series of an options class, the System will automatically reset all Thresholds.

(4) When the System removes quotes as a result of exceeding the Percentage Threshold, Volume Threshold, Delta Threshold or Vega Threshold, the Market Maker must send a re-entry indicator to re-enter the System.

(5) If a Market Maker does not provide a parameter for each of the automated quotation removal protections described in (1) (A-D) above, the Exchange will apply default parameters, which are announced to members.

(6) In addition to the automated quotation removal protections described in (1) (A-D) above, a Market Maker must provide a market wide parameter by which the Exchange will automatically remove a Market Maker's quotes in all classes when, during a time period established by the Market Maker, the total number of quote removal events specified in Rule 804(g)(1)(A) – (D) and in Supplementary Material .04 to Rule 722 exceeds the market wide parameter provided to the Exchange by the Market Maker. Market Makers may request the Exchange to set the market wide parameter to apply to just Nasdaq ISE or across Nasdaq ISE and Nasdaq GEMX.

[(1) A market maker must provide parameters by which the Exchange will automatically remove a market maker's quotations in all series of an options class. If a market maker does not provide parameters then the Exchange will apply default parameters announced to members. The Exchange will automatically remove a market maker's quotation when, during a time period established by the market maker, the market maker exceeds: (i) the specified number of total contracts in the class, (ii) the specified percentage of the total size of the market maker's quotes in the class, (iii) the specified absolute value of the net between contracts bought and contracts sold in the class, or (iv) the specified absolute value of the net between (a) calls purchased plus puts sold in the class, and (b) calls sold plus puts purchased in the class.

(2) A market maker must provide a market wide parameter by which the Exchange will automatically remove a market maker's quotes in all classes when, during a time period established by the market maker, the total number of quote removal events specified in Rule 804(g)(1) and in Supplementary Material .04 to Rule 722 exceeds the market wide parameter provided to the Exchange by the market maker. Market makers may request the Exchange to set the market wide parameter to apply to just ISE or across ISE and ISE Gemini. If a market maker does not provide parameters then the Exchange will apply default parameters announced to members.]

(h) No change.

Supplementary Material to Rule 804

.01 and .02 No change.

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