OMB APPROVAL
OMB Number: 3235-0045 Estimated average burden hours per response............38

Required fields are shown with yellow backgrounds and asterisks.

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

File No.* SR - 2018 - * 55
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) *
☑	☐	☐	☐	☑	☐

Pilot ☐

Extension of Time Period for Commission Action * ☐

Date Expires *

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)

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 adopt new order type protections, Butterfly and Box Spread protections, for Complex Order strategy trades.

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 06/07/2018
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.

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 * 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 adopt new order type protections, Butterfly and Box Spread protections, for Complex Order[3] strategy trades.

A notice of the proposed rule change for publication in the Federal Register is at Exhibit 1 and the text of the amended Exchange Rule is at 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.

---

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

2 17 CFR 240.19b-4.

3 A complex order is any order involving the simultaneous purchase and/or sale of two or more different options series in the same underlying security, for the same account, in a ratio that is equal to or greater than one-to-three (.333) and less than or equal to three-to-one (3.00) and for the purpose of executing a particular investment strategy. See ISE Rule 722(a)(1).

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

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

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

a. Purpose

The Exchange proposes to: (i) adopt Complex Order protections for Butterfly and Box Spread protections for Complex Order strategies; and (ii) reorganize and amend the existing Complex Order protections currently contained within .07 of Supplementary Material to Rule 722 and Rule 714**.** These amendments will be described in greater detail below. This rule change is similar to protections, which exist today on Nasdaq Phlx LLC ("Phlx").[4]

Adopt Butterfly and Box Spread protections

Today, ISE members may submit Butterfly and Box spreads into the System. ISE proposes to define a Butterfly spread as a three legged Complex Order with certain characteristics.[5] The Exchange is proposing to reject Butterfly spreads which are outside of certain parameters to avoid potential executions at prices that exceed the minimum and maximum possible intrinsic value of the spread by a specified amount. Additionally, ISE proposes to define a Box spread as a four legged Complex Order with certain

---

[4] This rule change is similar to Phlx Rule 1098(i) and (j).

[5] This strategy utilizes a combination of either all calls or all puts of the same expiration date in the same underlying to limit risk.

characteristics.[6] The Exchange is proposing to reject Box spreads which are outside of certain parameters to avoid potential executions at prices that exceed the minimum and maximum possible intrinsic value of the spread by a specified amount. Today, the Exchange offers similar order protection features for Complex Orders such as Vertical and Calendar Spread Protections[7] to avoid erroneous trades.

Butterfly Spread Protection

As noted above, the Exchange proposes to adopt a Butterfly Spread Protection. A Butterfly Spread is a three legged Complex Order with the following: (1) two legs to buy (sell) the same number of calls (puts); (2) one leg to sell (buy) twice the number of calls (puts) with a strike price at mid-point of the two legs to buy (sell); (3) all legs have the same expiration; and (4) each leg strike price is equidistant from the next sequential strike price. With this protection, a Butterfly Spread Limit Order that is priced higher than the Maximum Value (defined below) or lower than the Minimum Value (defined below) will be rejected. A Butterfly Spread Market Order (or Butterfly Spread Limit Order entered with a net price inside the Butterfly Spread Protection Range) to Buy (Sell) will be restricted from executing by legging into the single leg market with a net price higher (lower) than the Maximum (Minimum) Value. The Butterfly Spread Protection Range is the absolute difference between the Minimum Value and the Maximum Value.

ISE's proposal continues to protect Butterfly Spreads from legging into the single leg market(s), similar to Phlx Rule 1098(i), at a price higher than the Maximum Value for buy orders and lower than the Minimum Value for sell orders. ISE's proposal differs

6 This strategy utilizes a combination of put/call pairs of options with the same expiration date in the same underlying to limit risk.

7 See Supplementary Material .07(c) to ISE Rule 722.

from Phlx in that ISE allows legging below the Minimum Value for buys and above the Maximum Value for sells at a price made available by the synthetic (cIBBO) market outside of the Butterfly Spread Protection Range [8]

The Exchange believes that these limitations, which exist today for ISE Vertical and Calendar Spreads,[9] are consistent with the Act because the limits permit buying below the minimum and selling above the maximum thereby allowing buyers and sellers to achieve better prices without taking on additional risk. The intrinsic value for the Butterfly Spread that could be achieved when closing the position would not be negatively impacted in this case because the limitation permits price improvement. The Exchange notes, however, that in certain situations, market participants willingly want to execute certain trading strategies even if such trades occur outside their intrinsic value or at seemingly erroneous prices (e.g. negative price).[10] The Exchange believes it is appropriate to provide market participants flexibility to allow them to execute these trading strategies and therefore to adopt a buffer to permit the execution of such trading strategies. The Exchange believes it is reasonable to adopt a buffer to give the Exchange

---

[8] Allowing sell orders to trade by legging into the simple market at prices above the Maximum Value (buy orders below the Minimum Value) offers an opportunity for sellers/buyers to receive a premium beyond the potential intrinsic value of the spread without creating risk for the Complex Order Book.

[9] Id.

[10] A small incremental allowance outside of the Minimum/Maximum Value allows for a small premium to offset commissions associated with trading and may incentivize participants to take the other side of spreads trading at or slightly outside of the intrinsic value. For the participant looking to close out their position, it may be financially beneficial to pay a small premium and close out the position rather than carry such position to expiration and take delivery. The purpose of this rule change is not to impede current order handling but to ensure execution prices are within a reasonable range of minimum and maximum values.

the ability to adjust the pre-set value uniformly across all options classes in the event the Exchange believes a different pre-set value is more appropriate. Finally, the Exchange notes that it provides these protections for the benefit of, and in consultation with, its Members. The Exchange believes the proposed rule change will help the Exchange to maintain a fair and orderly market, and provide a valuable service to investors.

The Initial Maximum Value shall be the distance between the strike price of the leg with the mid-point strike price and either of the outer leg strike prices. The Maximum Value Buffer is the lesser of a configurable absolute dollar value or percentage of the Initial Maximum Value set by the Exchange and announced via a notice to members. The Exchange intends to set the Maximum Value Buffer at zero initially. The Maximum Value is calculated by adding the Initial Maximum Value and Maximum Value Buffer.

The Initial Minimum Value shall be zero. The Minimum Value Buffer is a configurable absolute dollar value set by the Exchange and announced via a notice to members. The Exchange intends to set the Minimum Value Buffer at zero initially. The Exchange would monitor the zero value, including feedback from market participants, in determining whether the value is set at the appropriate level. The decision to change the buffer could stem from participant concern for their ability to close out positions. The Minimum Value is calculated by subtracting the Minimum Value Buffer from the Initial Minimum Value of zero. There are circumstances where the Minimum Value may be less than zero.[11]

---

[11] For example, market participants who desire to trade out of positions at intrinsic value may not find a contra-side willing to trade without a premium. A small incremental allowance outside of the minimum/maximum value allows for a small

The Butterfly Spread Protection would apply throughout the trading day, including pre-market, during the Opening Process and during a trading halt. Unlike Phlx, but similar to ISE Vertical and Calendar spreads,[12] these protections will not apply to Complex Orders being auctioned in the Facilitation, Solicitation, Price Improvement mechanism and associated auction responses. Also, today, the Vertical and Calendar spreads do not apply to Customer Cross Orders.[13] The Exchange is adding Customer Cross Orders to the list of excluded order types that are not protected by the Vertical, Calendar, Box or Butterfly spread protections. Complex orders executed in these mechanisms are two-sided orders where the contra-side order is willing to trade with the agency order at an agreed upon price thus removing the risk that the order was executed erroneously outside its intrinsic value. Similarly, a Customer Cross Order is a two-sided order where the contra-side order is willing to trade with the agency order at an agreed upon price. The Exchange believes that because paired orders are negotiated in advance by both parties it is unlikely that the parties would agree to transact at prices that would necessitate the protections proposed within the Butterfly Spread Protection.

Below is an example of the application of this protection.

---

premium to offset commissions associated with trading and may incentivize participants to take the other side of spreads trading at intrinsic value. For the participant looking to close out their position, it may be financially beneficial to pay a small premium and close out the position rather than carry such position to expiration and take delivery.

[12] See ISE Rule 722 at Supplementary Material .07(c).

[13] A Customer Cross Order is comprised of a Priority Customer Order to buy and a Priority Customer Order to sell at the same price and for the same quantity. See ISE Rule 715(i).

Example 1

Assume the following Complex Order legs for a Butterfly Spread:

1. Buy 1 NDX 6960 Jan 26 Call (33.70 x 34.60)
2. Sell 2 NDX 6970 Jan 26 Calls (27.00 x 27.90)
3. Buy 1 NDX 6980 Jan 26 Call (28.40 x 29.50)

The derived net ISE Complex Order market ("cIBBO") is 6.30 x 10.10[14]

Assume both the Maximum Value Buffer and Minimum Value Buffer are 0.00

Minimum Value = 0.00
- Initial Minimum Value: 0.00
- Minimum Value Buffer: 0.00
- Minimum Value: 0.00 – 0.00 = 0.00

Maximum Value = 10
- Initial Maximum Value: 6970 (middle leg strike price) – 6960 (outer leg strike price) = 10.00
- Maximum Value Buffer: 0.00
- Maximum Value: 10.00 (Initial Maximum Value) + 0.00 (Maximum Value Buffer) = 10.00

An incoming order to buy the spread defined above for 10.10 will be rejected because the purchase price of 10.10 is greater than the Maximum Value of 10.00.

Example 2

Assume the following Complex Order legs for a Butterfly Spread:

1. Buy 1 NDX 6960 Jan 26 Call (33.70 x 34.60)
2. Sell 2 NDX 6970 Jan 26 Calls (27.00 x 27.90)
3. Buy 1 NDX 6980 Jan 26 Call (28.40 x 29.45)

The derived net ISE Complex Order market ("cIBBO") is 6.30 x 10.05[15]

---

14 The cIBBO is calculated by deriving the synthetic bid and offer available in the simple market with the ratio of each option leg of the spread considered. The 6.30 number is arrived at by multiplying (1*33.70) then subtracting (2*27.90) and adding (1*28.40). The 10.10 number is derived by multiplying (1*34.60) then subtracting (2*27.00) and adding (1*29.50).

15 The cIBBO is calculated by deriving the synthetic bid and offer available in the simple market with the ratio of each option leg of the spread considered.

Assume both the Maximum Value Buffer and Minimum Value Buffer are 0.05

Minimum Value = -0.05
- Initial Minimum Value: 0.00
- Minimum Value Buffer: 0.05
- Minimum Value: 0.00 – 0.05 = -0.05

Maximum Value = 10.05
- Initial Maximum Value: 6970 (middle leg strike price) – 6960 (outer leg strike price) = 10.00
- Maximum Value Buffer: 0.05
- Maximum Value: 10.00 (Initial Maximum Value) + 0.05 (Maximum Value Buffer) = 10.05

An incoming order to buy the spread defined above for 10.05 will be accepted and executed against the simple market because the purchase price of 10.05 is equal to the Maximum Value 10.05. Phlx has a similar protection in place today.[16]

Box Spread Protection

As noted above, the Exchange proposes to adopt a Box Spread Protection. A Box Spread is a four legged Complex Order with the following: (1) one pair of legs with the same strike price with one leg to buy a call (put) and one leg to sell a put (call); (2) a second pair of legs with a different strike price from the pair described in (1) with one leg to sell a call (put) and one leg to buy a put (call); (3) all legs have the same expiration; and (4) all legs have equal volume. With this protection, a Box Spread Limit Order that is priced higher than the Maximum Value or lower than the Minimum Value will be rejected. A Box Spread Market Order (or Box Spread Limit Order entered with a net price inside the Box Spread Protection Range) to Buy (Sell) will be restricted from executing by legging into the single leg market with a net price higher (lower) than the

---

16 See Securities and Exchange Act Release No. 83033 (April 11, 2018), 83 FR 16907 (April 17, 2018) (SR-Phlx-2018-14).

Maximum (Minimum) Value. The Box Spread Protection Range is the absolute difference between the Minimum Value and the Maximum Value.

ISE's proposal continues to protect Box Spreads from legging into the single leg market(s), similar to Phlx Rule 1098(j), at a price higher than the Maximum Value for buy orders and lower than the Minimum Value for sell orders. ISE's proposal differs from Phlx in that ISE allows legging below the Minimum Value for buys and above the Maximum Value for sells at a price made available by the synthetic (cIBBO) market outside of the Box Spread Protection Range.[17]

The Exchange believes that these limitations, which exist today for ISE Vertical and Calendar Spreads,[18] are consistent with the Act because the limits permit buying below the minimum and selling above the maximum thereby allowing buyers and sellers to achieve better prices without taking on additional risk. The intrinsic value for the Box Spread that could be achieved when closing the position would not be negatively impacted in this case because the limitation permits price improvement as noted above for Butterfly Spreads.

The Initial Maximum Value shall be the distance between the strike prices of each pair of leg strike prices. The Maximum Value Buffer is the lesser of a configurable absolute dollar value or percentage of the Initial Maximum Value set by the Exchange and announced via a notice to members. The Exchange intends to set the Maximum

---

17 Allowing sell orders to trade by legging into the simple market at prices above the Maximum Value (buy orders below the Minimum Value) offers an opportunity for sellers/buyers to receive a premium beyond the potential intrinsic value of the spread without creating risk for the Complex Order Book.

18 See Supplementary Material .07(c) to ISE Rule 722.

Value Buffer at zero initially. The Maximum Value is calculated by adding the Initial Maximum Value and Maximum Value Buffer.

The Initial Minimum Value shall be zero. The Minimum Value Buffer is a configurable absolute dollar value set by the Exchange and announced via a notice to members. The Exchange intends to set the Minimum Value Buffer at zero initially. The Minimum Value is calculated by subtracting the Minimum Value Buffer from the Initial Minimum Value of zero.

The Box Spread Protection would apply throughout the trading day, including pre-market, during the Opening Process and during a trading halt. The protections will not apply to Complex Orders in the Facilitation, Solicitation, Price Improvement mechanism and associated auction responses. The Box Spread Protection will also not apply to Customer Cross Orders. Unlike Phlx, but similar to ISE Vertical and Calendar spreads,[19] these protections will not apply to Complex Orders being auctioned in the Facilitation, Solicitation, Price Improvement mechanism and associated auction responses. Also, today, the Vertical and Calendar spreads do not apply to Customer Cross Orders. The Exchange is adding Customer Cross Orders to the list of excluded order types that are not protected by the Vertical, Calendar, Box or Butterfly spread protections. Complex orders executed in these mechanisms are two-sided orders where the contra-side order is willing to trade with the agency order at an agreed upon price thus removing the risk that the order was executed erroneously outside its intrinsic value. Similarly, a Customer Cross Order is a two-sided order where the contra-side order is willing to trade with the agency order at an agreed upon price. The Exchange believes

---

19 Id.

that because paired orders are negotiated in advance by both parties it is unlikely that the parties would agree to transact at prices that would necessitate the protections proposed within the Box Spread Protections.

Example 1

Assume the following Complex Order pairs for a Box Spread:

1. Pair A:
    a. Buy 1 NDX 6960 Jan 26 Call (30.80 x 34.05)
    b. Sell 1 NDX 6960 Jan 26 Put (33.50 x 36.00)
2. Pair B
    a. Sell 1 NDX 6970 Jan 26 Call (27.50 x 29.00)
    b. Buy 1 NDX 6970 Jan 26 Put (36.40 x 37.05)

The derived net ISE Complex Order market ("cIBBO") is 2.20 x 10.10[20]

Assume both Maximum Value Buffer and Minimum Value Buffer are 0.00

Minimum Value = 0.00
- Initial Minimum Value: 0.00
- Minimum Value Buffer: 0.00
- Minimum Value: 0.00 – 0.00 = 0.00

Maximum Value = 10.00
- Initial Maximum Value: 6970 (Pair A strike price) – 6960 (Pair B strike price) = 10.00
- Maximum Value Buffer: 0.00
- Maximum Value: 10.00 (Initial Maximum Value) + 0.00 (Maximum Value Buffer) = 10.00

An incoming order to buy the spread defined above for 10.10 will be rejected because the purchase price of 10.10 is greater than the Maximum Value of 10.00.

Example 2

Assume the following Complex Order pairs for a Box Spread:

---

[20] The cIBBO is calculated by deriving the synthetic bid and offer available in the simple market with the ratio of each option leg of the spread considered.

1. Pair A:
    a. Buy 1 NDX 6960 Jan 26 Call (30.80 x 34.05)
    b. Sell 1 NDX 6960 Jan 26 Put (33.50 x 36.50)
2. Pair B
    a. Sell 1 NDX 6970 Jan 26 Call (27.50 x 30.75)
    b. Buy 1 NDX 6970 Jan 26 Put (36.40 x 37.05)

The derived net ISE Complex Order market ("cIBBO") is -0.05 x 10.10[21]

Assume both Maximum Value Buffer and Minimum Value Buffer are 0.05

Minimum Value = -0.05
- Initial Minimum Value: 0.00
- Minimum Value Buffer: 0.05
- Minimum Value: 0.00 – 0.05 = -0.05

Maximum Value = 10.05
- Initial Maximum Value: 6970 (Pair A strike price) – 6960 (Pair B strike price) = 10.00
- Maximum Value Buffer: 0.05
- Maximum Value: 10.00 (Initial Maximum Value) + 0.05 (Maximum Value Buffer) = 10.05

An incoming order to sell the spread defined above for -0.05 will be accepted and executed against the simple market because the purchase price of -0.05 is equal than the Minimum Value of -0.05. Phlx has a similar protection in place today.[22]

Reorganize and Amend Supplementary Material .07 to Rule 722

The Exchange proposes to reorganize and amend Supplementary Material .07 to Rule 722 which is entitled "Price limits for complex order and quotes." The Exchange proposes to rename .07 as "Complex Order Protections." The Exchange proposes to list all available Complex Order protections on ISE within Supplementary Material .07 to Rule 722.

---

21 The cIBBO is calculated by deriving the synthetic bid and offer available in the simple market with the ratio of each option leg of the spread considered.

22 See note 4 above.

Universal Changes

The Exchange proposes to reorder the rule and title subsection "a" as "Price limits for Complex Orders and quotes." The Exchange is proposing to capitalize defined terms throughout this section for consistency. The Exchange removed cross-references that are no longer necessary with the reorganization. The Exchange proposes to re-letter and renumber this section to accommodate all the price protections. The Exchange also proposes adding titles throughout .07 to add more context to the rules. Proposed Supplementary Material to Rule 722 at .07(b) shall be titled, "Strategy Protections." Proposed Supplementary Material to Rule 722 at .07(c) shall be titled, "Other Price Protections which apply to Complex Orders."

Price Limits

With respect to the price limits specified in proposed Rule 722 at Supplementary Material .07(a)(1) the Exchange proposes a substantive amendment to revise the second sentence which currently provides, "Notwithstanding, the System will not permit any leg of a complex order to trade through the NBBO for the series by a configurable amount calculated as the lesser of (i) an absolute amount not to exceed $0.10, and (ii) a percentage of the NBBO not to exceed 500%, as determined by the Exchange on a class or series basis." The Exchange originally filed this rule to permit ISE to configure settings for this protection on a class or series basis. The Exchange proposes to amend the ability to configure settings. Similar to the proposed Butterfly and Box Spread protections, the Exchange proposes to apply the settings uniformly across all classes.

Strategy Protections

The Exchange proposes introducing ISE Rule 722 at Supplementary Material .07(b) with the following text, "The following protections will apply throughout the trading day, including pre-market, during the Opening Process and during a trading halt." Today, the Vertical and Calendar Spread Protections apply throughout the trading day, including pre-market, during the Opening Process and during a trading halt. The Exchange provides for no limitations in the Vertical and Calendar Spread Protections with respect to any limitations during specific trading sessions. The Exchange also does not intend for such limitations to apply for Box and Butterfly Spread Protections. The Exchange believes that adding this affirmative language will simply serve to remove any confusion on whether the protections do not apply during a specific trading session.

The Exchange also proposes to add another sentence to the introduction of new section (b) which provides "The protections will not apply to Complex Orders being auctioned and auction responses in the Facilitation Mechanism, Solicited Order Mechanism, and Price Improvement Mechanism and will not apply to Customer Cross Orders." Today, the protections for Vertical Spread Protection and Calendar Spread Protections do not apply to Complex Orders being auctioned and auction responses in the Facilitation Mechanism, Solicited Order Mechanism, and Price Improvement Mechanism and Customer Cross Orders.[23] The Exchange is proposing these same limitations for Box and Butterfly Spreads. Complex orders executed in these mechanisms are two-sided orders where the contra-side order is willing to trade with the agency order at an agreed upon price thus removing the risk that the order was executed erroneously outside its intrinsic value.

Vertical Spread Protections

The Exchange proposes amending ISE Rule 722 at Supplementary Material

---

23 The current rule text does not include Customer Cross Orders, however, today, the Vertical and Calendar spread protections do not apply to Customer Cross Orders.

.07(b)(1), similar to the Box and Butterfly Spread protections, to begin the section with the same conforming language indicating which strategy the Vertical Spread Protection applies to and also relocating the definition of a Vertical Spread to the initial paragraph. The Exchange is amending proposed ISE Rule 722 at Supplementary Material .07(b)(1)(A) to relocate the language in current Rule 722 at Supplementary Material .07(c)(4)(i)[24] and .07(c)(5)[25] into the actual paragraph rather than referring back to the paragraph.[26] The Exchange proposes the following rule text, "The Exchange will set a common pre-set value not to exceed $1.00 to be applied uniformly across all classes. The Exchange may amend the pre-set value uniformly across all classes" at proposed ISE Rule 722 at Supplementary Material .07(b)(1)(A).

The Exchange notes that proposed ISE Rule 722 at Supplementary Material .07(b)(1)(B) already has a sentence which states, "The pre-set value is the lesser of an absolute amount and a percentage of the difference between the strike prices." Instead of also relocating ISE Rule 722 at Supplementary Material .07(c)(4)(ii) and (c)(5) into the actual paragraph, the Exchange proposes to remove the current sentence, "The pre-set value is the lesser of an absolute amount and a percentage of the difference between the

24 Rule 722 at Supplementary Material .07(c)(4)(i) provides, "For purposes of the price protections set forth in paragraphs (c)(1) and (c)(3), the Exchange will set a common pre-set value not to exceed $1.00 to be applied uniformly across all classes."

25 Rule 722 at Supplementary Material .07(c)(5) provides "The Exchange may change the pre-set values established in paragraph (c)(4) in accordance with the parameters set forth therein from time to time uniformly across all classes."

26 The words, "For purposes of the price protections set forth in paragraphs (c)(1) and (c)(3)" and "established in paragraph (c)(4) in accordance with the parameters set forth therein from time to time" are not being carried into the rule text as they are no longer necessary.

strike prices" and instead combine ISE Rule 722 at Supplementary Material .07(c)(4)(ii)[27] and (c)(5).[28] The Exchange proposes to state "The pre-set value used by the vertical spread check will be the lesser of (1) an absolute amount not to exceed $1.00 and (2) a percentage of the difference between the strike prices not to exceed 10% to be applied uniformly across all classes. The Exchange may amend the pre-set value uniformly across all classes." The Exchange believes that this proposed rule text more efficiently explains the relevant provisions and removes unnecessary text.

<u>Calendar Spread Protections</u>

The Exchange proposes amending ISE Rule 722 at Supplementary Material .07(b)(2), similar to the Box and Butterfly Spread protections, to begin the section with the same conforming language indicating which strategy the Calendar Spread Protection applies to and also relocating the definition of a Calendar Spread to the initial paragraph. The Exchange is also relocating language in current Rule 722 at Supplementary Material .07(c)(4)(i) into the actual paragraph rather than referring back to the paragraph.[29] The Exchange also proposes to relocate current Rule 722 at Supplementary Material .07(c)(5) into proposed ISE Rule 722 at Supplementary Material .07(b)(2) and amending the

---

27 ISE Rule 722 at Supplementary Material .07(c)(4)(ii) provides "For purposes of the price protections set forth in paragraph (c)(2), the Exchange will set common pre-set values of (1) an amount not to exceed $1.00 and (2) a percentage of the difference between strike prices not to exceed 10% to be applied uniformly across all classes."

28 ISE Rule 722 at Supplementary Material .07(c)(5) provides, "The Exchange may change the pre-set values established in paragraph (c)(4) in accordance with the parameters set forth therein from time to time uniformly across all classes."

29 The words, "For purposes of the price protections set forth in paragraphs (c)(1) and (c)(3)" are not being carried into the rule text as they are no longer necessary.

language to conform to the text in the remainder of the rule.[30] The Exchange proposes to eliminate the remainder of the rule text currently in Supplementary Material to Rule 722 at .07(c)(4)(i) and (ii) and .07(c)(5) because the language has been relocated within the proposed text as described herein.

<u>Other Price Protections</u>

The Exchange proposes to add to ISE Rule 722 new Supplementary Material .07(c) entitled "Other Price Protections which apply to Complex Orders" and relocate Limit Order Price Protection to .07(c)(1).[31] The Exchange proposes to relocate Size Limitation to ISE Rule 722 at Supplementary Material .07(c)(2).[32] Finally, the Exchange proposes to relocate Price Level Protection from Rule 714(b)(4) to Rule 722 at Supplementary Material .07(c)(3). The Exchange proposes to remove the first sentence which provides, "This protection shall apply to Complex Orders" because this rule is not within a Complex Order rule currently and will not need that indication once the rule text is relocated to Rule 722. The Exchange also proposes to amend the last sentence of that rule which currently provides, "The number of price levels for the component leg, which may be between one (1) and ten (10), is determined by the Exchange from time-to-time on a class-by-class basis." The Exchange believes indicating between one and ten could be misleading because the setting could be numbers 1 and 10 so "from one (1) to ten

---

[30] Currently, the rule text provides "The Exchange may change the pre-set values established in paragraph (c)(4) in accordance with the parameters set forth therein from time to time uniformly across all classes." The Exchange proposes to state "The Exchange may amend the pre-set value uniformly across all classes."

[31] Limit Order Price Protection is currently at ISE Rule 722 at Supplementary Material .07(d).

[32] Size Limitation is currently at ISE Rule 722 at Supplementary Material .07(e).

(10)" is being proposed to make that more clear.

Rule 714

Finally, the Exchange proposes to amend Rule 714(b) to make clear that the protections in that rule apply to single leg orders. The Exchange is placing protections for Complex Orders into Rule 722 and relocating the Price Level Protection rule[33] related to Complex Orders. The additional clarifying language to single leg and cross-reference to Supplementary Material .07 to ISE Rule 722 should make clear to Members where the various price protections are located.

b. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,[34] in general, and furthers the objectives of Section 6(b)(5) of the Act,[35] 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 offering protections for certain Complex Orders which restrict executions that exceed the intrinsic value of the spread by a specified (or configurable) amount. Further, the Exchange believes that its proposal will mitigate risks to market participants. Specifically, ISE believes that the change, which is responsive to member input, will facilitate transactions in securities and perfect the mechanism of a free and open market by providing its Members with additional functionality that will assist them with managing their risk by

---

33 As noted above the Price Level Protection rule is being relocated to ISE Rule 722 at Supplementary Material .07(c)(3).

34 15 U.S.C. 78f(b).

35 15 U.S.C. 78f(b)(5).

checking each Complex Order that is either a Butterfly or Box spread against certain parameters described within the filing before accepting the Complex Orders into the order book.

The Exchange believes that the parameters described herein, including parameters which will be configured by the Exchange, will protect members from executing orders too far outside the Minimum Value and Maximum Value which considers the intrinsic value of the strategy, thereby promoting fair and orderly markets and the protection of investors. The Exchange intends to offer a buffer allowance from the minimum/maximum values permitted for the execution of these strategy orders to allow market participants flexibility to manage their business and accommodate executions outside of this range. The Exchange would monitor the zero value, including feedback from market participants, in determining whether the value is set at the appropriate level. The decision to change the buffer could stem from participants' concern for their ability to close out positions. There are circumstances where the Minimum Value may be less than zero. For example, market participants who desire to trade out of positions at intrinsic value may not find a contra-side willing to trade without a premium. A small incremental allowance outside of the minimum/maximum value allows for a small premium to offset commissions associated with trading and may incentivize participants to take the other side of spreads trading at intrinsic value. For the participant looking to close out their position, it may be financially beneficial to pay a small premium and close out the position rather than carry such position to expiration and take delivery. The purpose of this rule change is not to impede current order handling but to ensure execution prices are within a reasonable range of minimum and maximum values.

These protections are very similar to protections on Phlx.[36] ISE's proposal continues to protect Butterfly and Box Spreads from legging into the single leg market(s), similar to Phlx Rule 1098(i) and (j), at a price higher than the Maximum Value for buy orders and lower than the Minimum Value for sell orders. Further, ISE's proposal differs from Phlx in that ISE allows legging below the Minimum Value for buys and above the Maximum Value for sells at a price made available by the synthetic (cIBBO) market outside of the Butterfly and Box Spread Ranges, The Exchange believes that these limitations, which exist today for ISE Vertical and Calendar Spreads,[37] are consistent with the Act because the limits permit buying below the minimum and selling above the maximum thereby allowing buyers and sellers to achieve better prices without taking on additional risk.[38] The intrinsic value for the Box Spread and the Butterfly Spread that could be achieved when closing the position would not be negatively impacted in this case because the limitation permits price improvement as noted above for Box Spreads and Butterfly Spreads.

The Exchange's proposal to exclude the Butterfly and Box Spread Protections from Complex Orders being auctioned and auction responses in the Facilitation Mechanism, Solicited Order Mechanism, and Price Improvement Mechanism is consistent with the Act because it conforms to the behavior of other protections on ISE protection including the protections for Vertical Spread and Calendar Spreads. Complex

36 See Phlx Rule 1098(i) and (j).

37 See Supplementary Material .07(c) to ISE Rule 722.

38 Allowing sell orders to trade by legging into the simple market at prices above the Maximum Value (buy orders below the Minimum Value) offers an opportunity for sellers/buyers to receive a premium beyond the potential intrinsic value of the spread without creating risk for the Complex Order Book.

Orders executed in these mechanisms are two-sided orders where the contra-side order is willing to trade with the agency order at an agreed upon price thus removing the risk that the order was executed erroneously outside its intrinsic value. The Box and Butterfly Spread Protection will also not apply to Customer Cross Orders. Unlike Phlx, but similar to ISE Vertical and Calendar spreads,[39] these protections will not apply to Complex Orders being auctioned in the Facilitation, Solicitation, Price Improvement mechanism and associated auction responses. Also, today, the Vertical and Calendar spreads do not apply to Customer Cross Orders. The Exchange is adding Customer Cross Orders to the list of excluded order types that are not protected by the Vertical, Calendar, Box or Butterfly Spread Protections. Complex orders executed in these mechanisms are two-sided orders where the contra-side order is willing to trade with the agency order at an agreed upon price thus removing the risk that the order was executed erroneously outside its intrinsic value. Similarly, a Customer Cross Order is a two-sided order where the contra-side order is willing to trade with the agency order at an agreed upon price. The Exchange believes that because paired orders are negotiated in advance by both parties it is unlikely that the parties would agree to transact at prices that would necessitate the protections proposed within the Box and Butterfly Spread Protections.

The Exchange believes that the proposed amendments to Supplementary Material .07 to ISE Rule 722 further clarify the existing rules and conform the structure of the rules to the proposed Butterfly and Box Spread protections. The Exchange believes that reorganizing Supplementary Material .07 to ISE Rule 722 by adding titles, capitalizing defined terms, reorganizing the letters and numbers and consolidating text will protect

---

39 Id.

investors and the public interest by adding greater transparency to the rules. The Exchange also notes that it is adding clarifying language to the rule text and relocating the Price Level Protection from Rule 714, which concerns single leg protections to Rule 722 at Supplementary Material .07, which concerns Complex Order protections. The Exchange believes that amending proposed Supplementary Material .07(a)(1) to ISE Rule 722 to apply the setting[40] uniformly across all markets rather than on a class or series basis will align this protection to the manner in which all other protections are applied for Complex Orders. The Exchange believes that uniformly applying the setting is consistent with the Act because it will apply the protection in the same manner regardless of class.

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 does not impose an intra-market burden on competition, because it will apply to all Complex Orders, which are either Butterfly or Box spreads entered by any ISE Member. Further, the proposal will not impose an undue burden on inter-market competition, rather the proposal will assist the Exchange in remaining competitive in light of protections offered by other options exchanges.[41] The Exchange competes with many other options exchanges, which offer Complex Orders. In this highly competitive market, market participants can easily and readily direct order

---

[40] Proposed Supplementary Material .07(a)(1) to ISE Rule 722 provides that the System will not permit any leg of a complex order to trade through the NBBO for the series by a configurable amount calculated as the lesser of (i) an absolute amount not to exceed $0.10, and (ii) a percentage of the NBBO not to exceed 500%, as determined by the Exchange.

[41] See Phlx Rule 1098(i) and (j).

flow to competing venues. The Exchange believes that not applying the Box and Butterfly Spread Protections to Customer Cross Orders, in addition to Complex Orders being auctioned in the Facilitation, Solicitation, Price Improvement mechanism and associated auction responses, does not impose any significant burden on competition because it will not be applied to any of these orders for any market participant.

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

The Exchange does not consent to an extension of the time period for Commission action.

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)[42] of the Act and Rule 19b-4(f)(6) thereunder[43] 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 Exchange believes that this proposal does not significantly affect the protection of investors or the public interest because the proposed Butterfly and Box

---

[42] 15 U.S.C. 78s(b)(3)(A)(iii).

[43] 17 CFR 240.19b-4(f)(6).

Spread Protections will mitigate risks to market participants and provide Members with additional functionality to assist them with managing their risk. Amending Supplementary Material .07 to ISE Rule 722 will bring greater transparency to the other Complex Order protections available on ISE. The Exchange believes that not applying the Box and Butterfly Spread Protections to Customer Cross Orders, in addition to Complex Orders being auctioned in the Facilitation, Solicitation, Price Improvement mechanism and associated auction responses, does not significantly affect the protection of investors or the public interest because complex orders and Customer Cross Orders executed in these mechanisms are pre-arranged two-sided orders where it is unlikely that the parties would agree to transact at prices that would necessitate the protections proposed within the Box and Butterfly Spread Protections. The proposed rule change does not impose any significant burden on competition because the proposed Butterfly and Box Spread protections will apply to all Complex Orders, which are either Butterfly or Box Spreads entered by any ISE Member. Amending Supplementary Material .07 to ISE Rule 722 will bring greater clarity to the existing rules. The Exchange believes that not applying the Box and Butterfly Spread Protections to Customer Cross Orders, in addition to Complex Orders being auctioned in the Facilitation, Solicitation, Price Improvement mechanism and associated auction responses, does not impose any significant burden on competition because it will not be applied to any of these orders for any market participant.

With respect to the Exchange's proposal to exclude the Butterfly and Box Spread protections from Complex Orders being auctioned and auction responses in the Facilitation Mechanism, Solicited Order Mechanism, and Price Improvement

Mechanism, the proposal does not significantly affect the protection of investors or the public interest because it conforms to the behavior of other protections on ISE including the protections for Vertical Spread and Calendar Spreads in Rule 722 at Supplementary Material .07(c). Further, the proposal does not impose any significant burden on competition because Complex Orders executed in these mechanisms are two-sided orders where the contra-side order is willing to trade with the agency order at an agreed upon price thus removing the risk that the order was executed erroneously outside its intrinsic value. These protections are very similar to protections on Phlx.[44] ISE's proposal continues to protect Butterfly and Box Spreads from legging into the single leg market(s), similar to Phlx Rule 1098(i) and (j), at a price higher than the Maximum Value for buy orders and lower than the Minimum Value for sell orders. ISE's proposal differs from Phlx in that ISE allows legging below the Minimum Value for buys and above the Maximum Value for sells at a price made available by the synthetic (cIBBO) market outside of the Butterfly and Box Spread Ranges. The Exchange believes that these limitations, which exist today for ISE Vertical and Calendar Spreads do not significantly affect the protection of investors or the public interest because the limits permit buying below the Minimum Value and selling above the Maximum Value thereby allowing buyers and sellers to achieve better prices without taking on additional risk. The intrinsic value for the Butterfly or Box Spread that could be achieved when closing the position would not be negatively impacted in this case because the limitation permits price improvement.

---

[44] See Phlx Rule 1098(i) and (j).

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 allow ISE to immediately offer these Box and Butterfly Spread protections. Today, these protections are offered on Phlx.[45] The Exchange believes these protections should be offered immediately on ISE so that it may remain competitive with other markets.

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

This rule change is similar to Phlx Rule 1098(i) and (j) and will assist market participants in mitigating risk by preventing the acceptance and execution of Butterfly and Box Spreads at prices that are outside of specified Minimum and Maximum Values.

---

[45] Phlx Rule 1098(i) and (j).

The rule change differs slightly from Phlx Rule 1098(i) and (j) as it does not apply to Butterfly and Box Spreads legging in to the single leg market(s) at a price lower than the Minimum Value for buy orders and higher than the Maximum Value for sell orders.

Similar to ISE's Vertical and Calendar Spread Protections, the Exchange is permitting the seller/buyer to capture premiums outside the intrinsic value of the spread because the Complex Order may leg into the simple market. The Exchange's proposal permits the seller to get a higher price and the buyer to get a lower price than the Maximum and Minimum Value for both the Butterfly and Box Spread Protections.

The proposal continues to protect Butterfly and Box Spreads from legging into the single leg market(s), similar to Phlx Rule 1098(i) and (j), at a price higher than the Maximum Value for buy orders and lower than the Minimum Value for sell orders. The Exchange does not believe this difference negatively impacts the protection of investors as it allows resting Butterfly and Box Spread orders to buy to continue to trade against the single leg market(s) at levels which would be considered beneficial to the buyer and sell orders to continue to trade at levels which would be considered to be beneficial to the seller.

Another difference in that ISE's proposal excludes the Butterfly and Box Spread protections from Complex Orders being auctioned and auction responses in the Facilitation Mechanism, Solicited Order Mechanism, and Price Improvement Mechanism as well as Customer Cross Orders. Phlx's proposal does not exclude the Butterfly and Box Spread protections from being applied to auctions, auction responses or Customer Cross Orders. The Exchange notes that ISE's proposal to exclude the Butterfly and Box Spread protections from Complex Orders being auctioned and auction responses in the

Facilitation Mechanism, Solicited Order Mechanism, and Price Improvement Mechanism is consistent with the treatment of other Complex Order Protections on ISE such as the Vertical and Calendar Spread Protections within ISE Rule 722 at Supplementary Material .07(c).

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-2018-55)

June __, 2018

Self-Regulatory Organizations; Nasdaq ISE, LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to Box and Butterfly Spread Protections

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 7, 2018, 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 adopt new order type protections, Butterfly and Box Spread protections, for Complex Order[3] strategy trades.

The text of the proposed rule change is available on the Exchange's Website at http://ise.cchwallstreet.com/, at the principal office of the Exchange, and at the Commission's Public Reference Room.

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

2 17 CFR 240.19b-4.

3 A complex order is any order involving the simultaneous purchase and/or sale of two or more different options series in the same underlying security, for the same account, in a ratio that is equal to or greater than one-to-three (.333) and less than or equal to three-to-one (3.00) and for the purpose of executing a particular investment strategy. See ISE Rule 722(a)(1).

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

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

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

1. Purpose

The Exchange proposes to: (i) adopt Complex Order protections for Butterfly and Box Spread protections for Complex Order strategies; and (ii) reorganize and amend the existing Complex Order protections currently contained within .07 of Supplementary Material to Rule 722 and Rule 714**.** These amendments will be described in greater detail below. This rule change is similar to protections, which exist today on Nasdaq Phlx LLC ("Phlx").[4]

Adopt Butterfly and Box Spread protections

Today, ISE members may submit Butterfly and Box spreads into the System. ISE proposes to define a Butterfly spread as a three legged Complex Order with certain characteristics.[5] The Exchange is proposing to reject Butterfly spreads which are outside of certain parameters to avoid potential executions at prices that exceed the minimum and maximum possible intrinsic value of the spread by a specified amount. Additionally, ISE

4 This rule change is similar to Phlx Rule 1098(i) and (j).

5 This strategy utilizes a combination of either all calls or all puts of the same expiration date in the same underlying to limit risk.

proposes to define a Box spread as a four legged Complex Order with certain characteristics.[6] The Exchange is proposing to reject Box spreads which are outside of certain parameters to avoid potential executions at prices that exceed the minimum and maximum possible intrinsic value of the spread by a specified amount. Today, the Exchange offers similar order protection features for Complex Orders such as Vertical and Calendar Spread Protections[7] to avoid erroneous trades.

Butterfly Spread Protection

As noted above, the Exchange proposes to adopt a Butterfly Spread Protection. A Butterfly Spread is a three legged Complex Order with the following: (1) two legs to buy (sell) the same number of calls (puts); (2) one leg to sell (buy) twice the number of calls (puts) with a strike price at mid-point of the two legs to buy (sell); (3) all legs have the same expiration; and (4) each leg strike price is equidistant from the next sequential strike price. With this protection, a Butterfly Spread Limit Order that is priced higher than the Maximum Value (defined below) or lower than the Minimum Value (defined below) will be rejected. A Butterfly Spread Market Order (or Butterfly Spread Limit Order entered with a net price inside the Butterfly Spread Protection Range) to Buy (Sell) will be restricted from executing by legging into the single leg market with a net price higher (lower) than the Maximum (Minimum) Value. The Butterfly Spread Protection Range is the absolute difference between the Minimum Value and the Maximum Value.

ISE's proposal continues to protect Butterfly Spreads from legging into the single leg market(s), similar to Phlx Rule 1098(i), at a price higher than the Maximum Value for

---

6 This strategy utilizes a combination of put/call pairs of options with the same expiration date in the same underlying to limit risk.

7 See Supplementary Material .07(c) to ISE Rule 722.

buy orders and lower than the Minimum Value for sell orders. ISE's proposal differs from Phlx in that ISE allows legging below the Minimum Value for buys and above the Maximum Value for sells at a price made available by the synthetic (cIBBO) market outside of the Butterfly Spread Protection Range [8]

The Exchange believes that these limitations, which exist today for ISE Vertical and Calendar Spreads,[9] are consistent with the Act because the limits permit buying below the minimum and selling above the maximum thereby allowing buyers and sellers to achieve better prices without taking on additional risk. The intrinsic value for the Butterfly Spread that could be achieved when closing the position would not be negatively impacted in this case because the limitation permits price improvement. The Exchange notes, however, that in certain situations, market participants willingly want to execute certain trading strategies even if such trades occur outside their intrinsic value or at seemingly erroneous prices (e.g. negative price).[10] The Exchange believes it is appropriate to provide market participants flexibility to allow them to execute these trading strategies and therefore to adopt a buffer to permit the execution of such trading

---

8 Allowing sell orders to trade by legging into the simple market at prices above the Maximum Value (buy orders below the Minimum Value) offers an opportunity for sellers/buyers to receive a premium beyond the potential intrinsic value of the spread without creating risk for the Complex Order Book.

9 Id.

10 A small incremental allowance outside of the Minimum/Maximum Value allows for a small premium to offset commissions associated with trading and may incentivize participants to take the other side of spreads trading at or slightly outside of the intrinsic value. For the participant looking to close out their position, it may be financially beneficial to pay a small premium and close out the position rather than carry such position to expiration and take delivery. The purpose of this rule change is not to impede current order handling but to ensure execution prices are within a reasonable range of minimum and maximum values.

strategies. The Exchange believes it is reasonable to adopt a buffer to give the Exchange the ability to adjust the pre-set value uniformly across all options classes in the event the Exchange believes a different pre-set value is more appropriate. Finally, the Exchange notes that it provides these protections for the benefit of, and in consultation with, its Members. The Exchange believes the proposed rule change will help the Exchange to maintain a fair and orderly market, and provide a valuable service to investors.

The Initial Maximum Value shall be the distance between the strike price of the leg with the mid-point strike price and either of the outer leg strike prices. The Maximum Value Buffer is the lesser of a configurable absolute dollar value or percentage of the Initial Maximum Value set by the Exchange and announced via a notice to members. The Exchange intends to set the Maximum Value Buffer at zero initially. The Maximum Value is calculated by adding the Initial Maximum Value and Maximum Value Buffer.

The Initial Minimum Value shall be zero. The Minimum Value Buffer is a configurable absolute dollar value set by the Exchange and announced via a notice to members. The Exchange intends to set the Minimum Value Buffer at zero initially. The Exchange would monitor the zero value, including feedback from market participants, in determining whether the value is set at the appropriate level. The decision to change the buffer could stem from participant concern for their ability to close out positions. The Minimum Value is calculated by subtracting the Minimum Value Buffer from the Initial

Minimum Value of zero. There are circumstances where the Minimum Value may be less than zero.[11]

The Butterfly Spread Protection would apply throughout the trading day, including pre-market, during the Opening Process and during a trading halt. Unlike Phlx, but similar to ISE Vertical and Calendar spreads,[12] these protections will not apply to Complex Orders being auctioned in the Facilitation, Solicitation, Price Improvement mechanism and associated auction responses. Also, today, the Vertical and Calendar spreads do not apply to Customer Cross Orders.[13] The Exchange is adding Customer Cross Orders to the list of excluded order types that are not protected by the Vertical, Calendar, Box or Butterfly spread protections. Complex orders executed in these mechanisms are two-sided orders where the contra-side order is willing to trade with the agency order at an agreed upon price thus removing the risk that the order was executed erroneously outside its intrinsic value. Similarly, a Customer Cross Order is a two-sided order where the contra-side order is willing to trade with the agency order at an agreed upon price. The Exchange believes that because paired orders are negotiated in advance

---

[11] For example, market participants who desire to trade out of positions at intrinsic value may not find a contra-side willing to trade without a premium. A small incremental allowance outside of the minimum/maximum value allows for a small premium to offset commissions associated with trading and may incentivize participants to take the other side of spreads trading at intrinsic value. For the participant looking to close out their position, it may be financially beneficial to pay a small premium and close out the position rather than carry such position to expiration and take delivery.

[12] See ISE Rule 722 at Supplementary Material .07(c).

[13] A Customer Cross Order is comprised of a Priority Customer Order to buy and a Priority Customer Order to sell at the same price and for the same quantity. See ISE Rule 715(i).

by both parties it is unlikely that the parties would agree to transact at prices that would necessitate the protections proposed within the Butterfly Spread Protection.

Below is an example of the application of this protection.

Example 1

Assume the following Complex Order legs for a Butterfly Spread:

1. Buy 1 NDX 6960 Jan 26 Call (33.70 x 34.60)
2. Sell 2 NDX 6970 Jan 26 Calls (27.00 x 27.90)
3. Buy 1 NDX 6980 Jan 26 Call (28.40 x 29.50)

The derived net ISE Complex Order market ("cIBBO") is 6.30 x 10.10[14]

Assume both the Maximum Value Buffer and Minimum Value Buffer are 0.00

Minimum Value = 0.00

- Initial Minimum Value: 0.00
- Minimum Value Buffer: 0.00
- Minimum Value: 0.00 – 0.00 = 0.00

Maximum Value = 10

- Initial Maximum Value: 6970 (middle leg strike price) – 6960 (outer leg strike price) = 10.00
- Maximum Value Buffer: 0.00
- Maximum Value: 10.00 (Initial Maximum Value) + 0.00 (Maximum Value Buffer) = 10.00

14 The cIBBO is calculated by deriving the synthetic bid and offer available in the simple market with the ratio of each option leg of the spread considered. The 6.30 number is arrived at by multiplying (1*33.70) then subtracting (2*27.90) and adding (1*28.40). The 10.10 number is derived by multiplying (1*34.60) then subtracting (2*27.00) and adding (1*29.50).

An incoming order to buy the spread defined above for 10.10 will be rejected because the purchase price of 10.10 is greater than the Maximum Value of 10.00.

<u>Example 2</u>

Assume the following Complex Order legs for a Butterfly Spread:

1. Buy 1 NDX 6960 Jan 26 Call (33.70 x 34.60)
2. Sell 2 NDX 6970 Jan 26 Calls (27.00 x 27.90)
3. Buy 1 NDX 6980 Jan 26 Call (28.40 x 29.45)

The derived net ISE Complex Order market ("cIBBO") is 6.30 x 10.05[15]

Assume both the Maximum Value Buffer and Minimum Value Buffer are 0.05

Minimum Value = -0.05

- Initial Minimum Value: 0.00
- Minimum Value Buffer: 0.05
- Minimum Value: 0.00 – 0.05 = -0.05

Maximum Value = 10.05

- Initial Maximum Value: 6970 (middle leg strike price) – 6960 (outer leg strike price) = 10.00
- Maximum Value Buffer: 0.05
- Maximum Value: 10.00 (Initial Maximum Value) + 0.05 (Maximum Value Buffer) = 10.05

---

15 The cIBBO is calculated by deriving the synthetic bid and offer available in the simple market with the ratio of each option leg of the spread considered.

An incoming order to buy the spread defined above for 10.05 will be accepted and executed against the simple market because the purchase price of 10.05 is equal to the Maximum Value 10.05. Phlx has a similar protection in place today.[16]

Box Spread Protection

As noted above, the Exchange proposes to adopt a Box Spread Protection. A Box Spread is a four legged Complex Order with the following: (1) one pair of legs with the same strike price with one leg to buy a call (put) and one leg to sell a put (call); (2) a second pair of legs with a different strike price from the pair described in (1) with one leg to sell a call (put) and one leg to buy a put (call); (3) all legs have the same expiration; and (4) all legs have equal volume. With this protection, a Box Spread Limit Order that is priced higher than the Maximum Value or lower than the Minimum Value will be rejected. A Box Spread Market Order (or Box Spread Limit Order entered with a net price inside the Box Spread Protection Range) to Buy (Sell) will be restricted from executing by legging into the single leg market with a net price higher (lower) than the Maximum (Minimum) Value. The Box Spread Protection Range is the absolute difference between the Minimum Value and the Maximum Value.

ISE's proposal continues to protect Box Spreads from legging into the single leg market(s), similar to Phlx Rule 1098(j), at a price higher than the Maximum Value for buy orders and lower than the Minimum Value for sell orders. ISE's proposal differs from Phlx in that ISE allows legging below the Minimum Value for buys and above the

---

[16] See Securities and Exchange Act Release No. 83033 (April 11, 2018), 83 FR 16907 (April 17, 2018) (SR-Phlx-2018-14).

Maximum Value for sells at a price made available by the synthetic (cIBBO) market outside of the Box Spread Protection Range.[17]

The Exchange believes that these limitations, which exist today for ISE Vertical and Calendar Spreads,[18] are consistent with the Act because the limits permit buying below the minimum and selling above the maximum thereby allowing buyers and sellers to achieve better prices without taking on additional risk. The intrinsic value for the Box Spread that could be achieved when closing the position would not be negatively impacted in this case because the limitation permits price improvement as noted above for Butterfly Spreads.

The Initial Maximum Value shall be the distance between the strike prices of each pair of leg strike prices. The Maximum Value Buffer is the lesser of a configurable absolute dollar value or percentage of the Initial Maximum Value set by the Exchange and announced via a notice to members. The Exchange intends to set the Maximum Value Buffer at zero initially. The Maximum Value is calculated by adding the Initial Maximum Value and Maximum Value Buffer.

The Initial Minimum Value shall be zero. The Minimum Value Buffer is a configurable absolute dollar value set by the Exchange and announced via a notice to members. The Exchange intends to set the Minimum Value Buffer at zero initially. The Minimum Value is calculated by subtracting the Minimum Value Buffer from the Initial Minimum Value of zero.

---

17 Allowing sell orders to trade by legging into the simple market at prices above the Maximum Value (buy orders below the Minimum Value) offers an opportunity for sellers/buyers to receive a premium beyond the potential intrinsic value of the spread without creating risk for the Complex Order Book.

18 See Supplementary Material .07(c) to ISE Rule 722.

The Box Spread Protection would apply throughout the trading day, including pre-market, during the Opening Process and during a trading halt. The protections will not apply to Complex Orders in the Facilitation, Solicitation, Price Improvement mechanism and associated auction responses. The Box Spread Protection will also not apply to Customer Cross Orders. Unlike Phlx, but similar to ISE Vertical and Calendar spreads,[19] these protections will not apply to Complex Orders being auctioned in the Facilitation, Solicitation, Price Improvement mechanism and associated auction responses. Also, today, the Vertical and Calendar spreads do not apply to Customer Cross Orders. The Exchange is adding Customer Cross Orders to the list of excluded order types that are not protected by the Vertical, Calendar, Box or Butterfly spread protections. Complex orders executed in these mechanisms are two-sided orders where the contra-side order is willing to trade with the agency order at an agreed upon price thus removing the risk that the order was executed erroneously outside its intrinsic value. Similarly, a Customer Cross Order is a two-sided order where the contra-side order is willing to trade with the agency order at an agreed upon price. The Exchange believes that because paired orders are negotiated in advance by both parties it is unlikely that the parties would agree to transact at prices that would necessitate the protections proposed within the Box Spread Protections.

Example 1

Assume the following Complex Order pairs for a Box Spread:

1. Pair A:
    a. Buy 1 NDX 6960 Jan 26 Call (30.80 x 34.05)
    b. Sell 1 NDX 6960 Jan 26 Put (33.50 x 36.00)

---

[19] Id.

2. Pair B

    a. Sell 1 NDX 6970 Jan 26 Call (27.50 x 29.00)
    b. Buy 1 NDX 6970 Jan 26 Put (36.40 x 37.05)

The derived net ISE Complex Order market ("cIBBO") is 2.20 x 10.10[20]

Assume both Maximum Value Buffer and Minimum Value Buffer are 0.00

Minimum Value = 0.00

- Initial Minimum Value: 0.00
- Minimum Value Buffer: 0.00
- Minimum Value: 0.00 – 0.00 = 0.00

Maximum Value = 10.00

- Initial Maximum Value: 6970 (Pair A strike price) – 6960 (Pair B strike price) = 10.00
- Maximum Value Buffer: 0.00
- Maximum Value: 10.00 (Initial Maximum Value) + 0.00 (Maximum Value Buffer) = 10.00

An incoming order to buy the spread defined above for 10.10 will be rejected because the purchase price of 10.10 is greater than the Maximum Value of 10.00.

Example 2

Assume the following Complex Order pairs for a Box Spread:

1. Pair A:

    a. Buy 1 NDX 6960 Jan 26 Call (30.80 x 34.05)

---

[20] The cIBBO is calculated by deriving the synthetic bid and offer available in the simple market with the ratio of each option leg of the spread considered.

b. Sell 1 NDX 6960 Jan 26 Put (33.50 x 36.50)

2. Pair B

a. Sell 1 NDX 6970 Jan 26 Call (27.50 x 30.75)

b. Buy 1 NDX 6970 Jan 26 Put (36.40 x 37.05)

The derived net ISE Complex Order market ("cIBBO") is -0.05 x 10.10[21]

Assume both Maximum Value Buffer and Minimum Value Buffer are 0.05

Minimum Value = -0.05

- Initial Minimum Value: 0.00
- Minimum Value Buffer: 0.05
- Minimum Value: 0.00 – 0.05 = -0.05

Maximum Value = 10.05

- Initial Maximum Value: 6970 (Pair A strike price) – 6960 (Pair B strike price) = 10.00
- Maximum Value Buffer: 0.05
- Maximum Value: 10.00 (Initial Maximum Value) + 0.05 (Maximum Value Buffer) = 10.05

An incoming order to sell the spread defined above for -0.05 will be accepted and executed against the simple market because the purchase price of -0.05 is equal than the Minimum Value of -0.05. Phlx has a similar protection in place today.[22]

---

[21] The cIBBO is calculated by deriving the synthetic bid and offer available in the simple market with the ratio of each option leg of the spread considered.

[22] <u>See</u> note 4 above.

Reorganize and Amend Supplementary Material .07 to Rule 722

The Exchange proposes to reorganize and amend Supplementary Material .07 to Rule 722 which is entitled "Price limits for complex order and quotes." The Exchange proposes to rename .07 as "Complex Order Protections." The Exchange proposes to list all available Complex Order protections on ISE within Supplementary Material .07 to Rule 722.

Universal Changes

The Exchange proposes to reorder the rule and title subsection "a" as "Price limits for Complex Orders and quotes." The Exchange is proposing to capitalize defined terms throughout this section for consistency. The Exchange removed cross-references that are no longer necessary with the reorganization. The Exchange proposes to re-letter and renumber this section to accommodate all the price protections. The Exchange also proposes adding titles throughout .07 to add more context to the rules. Proposed Supplementary Material to Rule 722 at .07(b) shall be titled, "Strategy Protections." Proposed Supplementary Material to Rule 722 at .07(c) shall be titled, "Other Price Protections which apply to Complex Orders."

Price Limits

With respect to the price limits specified in proposed Rule 722 at Supplementary Material .07(a)(1) the Exchange proposes a substantive amendment to revise the second sentence which currently provides, "Notwithstanding, the System will not permit any leg of a complex order to trade through the NBBO for the series by a configurable amount calculated as the lesser of (i) an absolute amount not to exceed $0.10, and (ii) a percentage of the NBBO not to exceed 500%, as determined by the Exchange on a class or series basis." The Exchange originally filed this rule to permit ISE to configure settings for this protection on a class or series basis. The Exchange proposes to amend the ability to configure settings. Similar to the proposed Butterfly and Box Spread protections, the Exchange proposes to apply the settings uniformly across all classes.

Strategy Protections

The Exchange proposes introducing ISE Rule 722 at Supplementary Material .07(b) with the following text, "The following protections will apply throughout the trading day, including pre-market, during the Opening Process and during a trading halt." Today, the Vertical and Calendar Spread Protections apply throughout the trading day, including pre-market, during the Opening Process and during a trading halt. The Exchange provides for no limitations in the Vertical and Calendar Spread Protections with respect to any limitations during specific trading sessions. The Exchange also does not intend for such limitations to apply for Box and Butterfly Spread Protections. The Exchange believes that adding this affirmative language will simply serve to remove any confusion on whether the protections do not apply during a specific trading session.

The Exchange also proposes to add another sentence to the introduction of new section (b) which provides "The protections will not apply to Complex Orders being auctioned and auction responses in the Facilitation Mechanism, Solicited Order Mechanism, and Price Improvement Mechanism and will not apply to Customer Cross Orders." Today, the protections for Vertical Spread Protection and Calendar Spread Protections do not apply to Complex Orders being auctioned and auction responses in the Facilitation Mechanism, Solicited Order Mechanism, and Price Improvement Mechanism and Customer Cross Orders.[23] The Exchange is proposing these same limitations for Box and Butterfly Spreads. Complex orders executed in these mechanisms are two-sided orders where the contra-side order is willing to trade with the agency order at an agreed upon price thus removing the risk that the order was executed erroneously outside its intrinsic value.

Vertical Spread Protections

The Exchange proposes amending ISE Rule 722 at Supplementary Material .07(b)(1), similar to the Box and Butterfly Spread protections, to begin the section with the same conforming language indicating which strategy the Vertical Spread Protection applies to and also relocating the definition of a Vertical Spread to the initial paragraph. The Exchange is amending proposed ISE Rule 722 at Supplementary Material .07(b)(1)(A) to relocate the language in current Rule 722 at Supplementary Material .07(c)(4)(i)[24] and .07(c)(5)[25] into the actual paragraph rather than referring back to the paragraph.[26] The Exchange proposes the following rule text, "The Exchange will set a common pre-set value not to exceed $1.00 to be applied uniformly across all classes. The

[23] The current rule text does not include Customer Cross Orders, however, today, the Vertical and Calendar spread protections do not apply to Customer Cross Orders.

[24] Rule 722 at Supplementary Material .07(c)(4)(i) provides, "For purposes of the price protections set forth in paragraphs (c)(1) and (c)(3), the Exchange will set a common pre-set value not to exceed $1.00 to be applied uniformly across all classes."

[25] Rule 722 at Supplementary Material .07(c)(5) provides "The Exchange may change the pre-set values established in paragraph (c)(4) in accordance with the parameters set forth therein from time to time uniformly across all classes."

[26] The words, "For purposes of the price protections set forth in paragraphs (c)(1) and (c)(3)" and "established in paragraph (c)(4) in accordance with the parameters set forth therein from time to time" are not being carried into the rule text as they are no longer necessary.

Exchange may amend the pre-set value uniformly across all classes" at proposed ISE Rule 722 at Supplementary Material .07(b)(1)(A).

The Exchange notes that proposed ISE Rule 722 at Supplementary Material .07(b)(1)(B) already has a sentence which states, "The pre-set value is the lesser of an absolute amount and a percentage of the difference between the strike prices." Instead of also relocating ISE Rule 722 at Supplementary Material .07(c)(4)(ii) and (c)(5) into the actual paragraph, the Exchange proposes to remove the current sentence, "The pre-set value is the lesser of an absolute amount and a percentage of the difference between the strike prices" and instead combine ISE Rule 722 at Supplementary Material .07(c)(4)(ii)[27] and (c)(5).[28] The Exchange proposes to state "The pre-set value used by the vertical spread check will be the lesser of (1) an absolute amount not to exceed $1.00 and (2) a percentage of the difference between the strike prices not to exceed 10% to be applied uniformly across all classes. The Exchange may amend the pre-set value uniformly across all classes." The Exchange believes that this proposed rule text more efficiently explains the relevant provisions and removes unnecessary text.

Calendar Spread Protections

The Exchange proposes amending ISE Rule 722 at Supplementary Material .07(b)(2), similar to the Box and Butterfly Spread protections, to begin the section with

---

[27] ISE Rule 722 at Supplementary Material .07(c)(4)(ii) provides "For purposes of the price protections set forth in paragraph (c)(2), the Exchange will set common pre-set values of (1) an amount not to exceed $1.00 and (2) a percentage of the difference between strike prices not to exceed 10% to be applied uniformly across all classes."

[28] ISE Rule 722 at Supplementary Material .07(c)(5) provides, "The Exchange may change the pre-set values established in paragraph (c)(4) in accordance with the parameters set forth therein from time to time uniformly across all classes."

the same conforming language indicating which strategy the Calendar Spread Protection applies to and also relocating the definition of a Calendar Spread to the initial paragraph. The Exchange is also relocating language in current Rule 722 at Supplementary Material .07(c)(4)(i) into the actual paragraph rather than referring back to the paragraph.[29] The Exchange also proposes to relocate current Rule 722 at Supplementary Material .07(c)(5) into proposed ISE Rule 722 at Supplementary Material .07(b)(2) and amending the language to conform to the text in the remainder of the rule.[30] The Exchange proposes to eliminate the remainder of the rule text currently in Supplementary Material to Rule 722 at .07(c)(4)(i) and (ii) and .07(c)(5) because the language has been relocated within the proposed text as described herein.

Other Price Protections

The Exchange proposes to add to ISE Rule 722 new Supplementary Material .07(c) entitled "Other Price Protections which apply to Complex Orders" and relocate Limit Order Price Protection to .07(c)(1).[31] The Exchange proposes to relocate Size Limitation to ISE Rule 722 at Supplementary Material .07(c)(2).[32] Finally, the Exchange proposes to relocate Price Level Protection from Rule 714(b)(4) to Rule 722 at Supplementary Material .07(c)(3). The Exchange proposes to remove the first sentence

---

29 The words, "For purposes of the price protections set forth in paragraphs (c)(1) and (c)(3)" are not being carried into the rule text as they are no longer necessary.

30 Currently, the rule text provides "The Exchange may change the pre-set values established in paragraph (c)(4) in accordance with the parameters set forth therein from time to time uniformly across all classes." The Exchange proposes to state "The Exchange may amend the pre-set value uniformly across all classes."

31 Limit Order Price Protection is currently at ISE Rule 722 at Supplementary Material .07(d).

32 Size Limitation is currently at ISE Rule 722 at Supplementary Material .07(e).

which provides, "This protection shall apply to Complex Orders" because this rule is not within a Complex Order rule currently and will not need that indication once the rule text is relocated to Rule 722. The Exchange also proposes to amend the last sentence of that rule which currently provides, "The number of price levels for the component leg, which may be between one (1) and ten (10), is determined by the Exchange from time-to-time on a class-by-class basis." The Exchange believes indicating between one and ten could be misleading because the setting could be numbers 1 and 10 so "from one (1) to ten (10)" is being proposed to make that more clear.

Rule 714

Finally, the Exchange proposes to amend Rule 714(b) to make clear that the protections in that rule apply to single leg orders. The Exchange is placing protections for Complex Orders into Rule 722 and relocating the Price Level Protection rule[33] related to Complex Orders. The additional clarifying language to single leg and cross-reference to Supplementary Material .07 to ISE Rule 722 should make clear to Members where the various price protections are located.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,[34] in general, and furthers the objectives of Section 6(b)(5) of the Act,[35] 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

---

[33] As noted above the Price Level Protection rule is being relocated to ISE Rule 722 at Supplementary Material .07(c)(3).

[34] 15 U.S.C. 78f(b).

[35] 15 U.S.C. 78f(b)(5).

market system, and, in general to protect investors and the public interest, by offering protections for certain Complex Orders which restrict executions that exceed the intrinsic value of the spread by a specified (or configurable) amount. Further, the Exchange believes that its proposal will mitigate risks to market participants. Specifically, ISE believes that the change, which is responsive to member input, will facilitate transactions in securities and perfect the mechanism of a free and open market by providing its Members with additional functionality that will assist them with managing their risk by checking each Complex Order that is either a Butterfly or Box spread against certain parameters described within the filing before accepting the Complex Orders into the order book.

The Exchange believes that the parameters described herein, including parameters which will be configured by the Exchange, will protect members from executing orders too far outside the Minimum Value and Maximum Value which considers the intrinsic value of the strategy, thereby promoting fair and orderly markets and the protection of investors. The Exchange intends to offer a buffer allowance from the minimum/maximum values permitted for the execution of these strategy orders to allow market participants flexibility to manage their business and accommodate executions outside of this range. The Exchange would monitor the zero value, including feedback from market participants, in determining whether the value is set at the appropriate level. The decision to change the buffer could stem from participants' concern for their ability to close out positions. There are circumstances where the Minimum Value may be less than zero. For example, market participants who desire to trade out of positions at intrinsic value may not find a contra-side willing to trade without a premium. A small incremental allowance outside of the minimum/maximum value allows for a small premium to offset commissions associated with trading and may incentivize participants to take the other side of spreads trading at intrinsic value. For the participant looking to close out their position, it may be financially beneficial to pay a small premium and close out the position rather than carry such position to expiration and take delivery. The purpose of this rule change is not to impede current order handling but to ensure execution prices are within a reasonable range of minimum and maximum values.

These protections are very similar to protections on Phlx.[36] ISE's proposal continues to protect Butterfly and Box Spreads from legging into the single leg market(s), similar to Phlx Rule 1098(i) and (j), at a price higher than the Maximum Value for buy orders and lower than the Minimum Value for sell orders. Further, ISE's proposal differs from Phlx in that ISE allows legging below the Minimum Value for buys and above the Maximum Value for sells at a price made available by the synthetic (cIBBO) market outside of the Butterfly and Box Spread Ranges, The Exchange believes that these limitations, which exist today for ISE Vertical and Calendar Spreads,[37] are consistent with the Act because the limits permit buying below the minimum and selling above the maximum thereby allowing buyers and sellers to achieve better prices without taking on additional risk.[38] The intrinsic value for the Box Spread and the Butterfly Spread that could be achieved when closing the position would not be negatively impacted in this

---

36 See Phlx Rule 1098(i) and (j).

37 See Supplementary Material .07(c) to ISE Rule 722.

38 Allowing sell orders to trade by legging into the simple market at prices above the Maximum Value (buy orders below the Minimum Value) offers an opportunity for sellers/buyers to receive a premium beyond the potential intrinsic value of the spread without creating risk for the Complex Order Book.

case because the limitation permits price improvement as noted above for Box Spreads and Butterfly Spreads.

The Exchange's proposal to exclude the Butterfly and Box Spread Protections from Complex Orders being auctioned and auction responses in the Facilitation Mechanism, Solicited Order Mechanism, and Price Improvement Mechanism is consistent with the Act because it conforms to the behavior of other protections on ISE protection including the protections for Vertical Spread and Calendar Spreads. Complex Orders executed in these mechanisms are two-sided orders where the contra-side order is willing to trade with the agency order at an agreed upon price thus removing the risk that the order was executed erroneously outside its intrinsic value. The Box and Butterfly Spread Protection will also not apply to Customer Cross Orders. Unlike Phlx, but similar to ISE Vertical and Calendar spreads,[39] these protections will not apply to Complex Orders being auctioned in the Facilitation, Solicitation, Price Improvement mechanism and associated auction responses. Also, today, the Vertical and Calendar spreads do not apply to Customer Cross Orders. The Exchange is adding Customer Cross Orders to the list of excluded order types that are not protected by the Vertical, Calendar, Box or Butterfly Spread Protections. Complex orders executed in these mechanisms are two-sided orders where the contra-side order is willing to trade with the agency order at an agreed upon price thus removing the risk that the order was executed erroneously outside its intrinsic value. Similarly, a Customer Cross Order is a two-sided order where the contra-side order is willing to trade with the agency order at an agreed upon price. The Exchange believes that because paired orders are negotiated in advance by both parties it

---

[39] Id.

is unlikely that the parties would agree to transact at prices that would necessitate the protections proposed within the Box and Butterfly Spread Protections.

The Exchange believes that the proposed amendments to Supplementary Material .07 to ISE Rule 722 further clarify the existing rules and conform the structure of the rules to the proposed Butterfly and Box Spread protections. The Exchange believes that reorganizing Supplementary Material .07 to ISE Rule 722 by adding titles, capitalizing defined terms, reorganizing the letters and numbers and consolidating text will protect investors and the public interest by adding greater transparency to the rules. The Exchange also notes that it is adding clarifying language to the rule text and relocating the Price Level Protection from Rule 714, which concerns single leg protections to Rule 722 at Supplementary Material .07, which concerns Complex Order protections. The Exchange believes that amending proposed Supplementary Material .07(a)(1) to ISE Rule 722 to apply the setting[40] uniformly across all markets rather than on a class or series basis will align this protection to the manner in which all other protections are applied for Complex Orders. The Exchange believes that uniformly applying the setting is consistent with the Act because it will apply the protection in the same manner regardless of class.

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 does not impose an intra-market burden on competition,

---

[40] Proposed Supplementary Material .07(a)(1) to ISE Rule 722 provides that the System will not permit any leg of a complex order to trade through the NBBO for the series by a configurable amount calculated as the lesser of (i) an absolute amount not to exceed $0.10, and (ii) a percentage of the NBBO not to exceed 500%, as determined by the Exchange.

because it will apply to all Complex Orders, which are either Butterfly or Box spreads entered by any ISE Member. Further, the proposal will not impose an undue burden on inter-market competition, rather the proposal will assist the Exchange in remaining competitive in light of protections offered by other options exchanges.[41] The Exchange competes with many other options exchanges, which offer Complex Orders. In this highly competitive market, market participants can easily and readily direct order flow to competing venues. The Exchange believes that not applying the Box and Butterfly Spread Protections to Customer Cross Orders, in addition to Complex Orders being auctioned in the Facilitation, Solicitation, Price Improvement mechanism and associated auction responses, does not impose any significant burden on competition because it will not be applied to any of these orders for any market participant.

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

---

41 See Phlx Rule 1098(i) and (j).

to Section 19(b)(3)(A)(iii) of the Act[42] and subparagraph (f)(6) of Rule 19b-4 thereunder.[43]

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-ISE-2018-55 on the subject line.

42 15 U.S.C. 78s(b)(3)(A)(iii).

43 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-ISE-2018-55. 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-2018-55 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.[44]

Eduardo A. Aleman
Assistant Secretary

44 17 CFR 200.30-3(a)(12).

EXHIBIT 5

New text is underlined; deleted text is in brackets.

Nasdaq ISE Rulebook

* * * * *

7. Doing Business On The Exchange

* * * * *

Rule 714. Automatic Execution of Orders

Incoming orders that are executable against orders and quotes in the System will be executed automatically by the System subject to the following:

(a) No change.

(b) Other Order Protections. Subject to the NBBO price protection in (a) above, the below [following] additional order protections are automatically enforced by the System for single leg orders.[:] Complex order protections are provided for in Supplementary Material .07 to ISE Rule 722.

(1) – (3) No change.

[(4) Price Level Protection. This protection shall apply to complex orders. There is a limit on the number of price levels at which an incoming complex order to sell (buy) will be executed automatically with the bids or offers of each component leg when there are no bids (offers) from other exchanges at any price for the options series. Complex orders are executed at each successive price level until the maximum number of price levels is reached on any component leg where the protection has been triggered, and any balance is canceled. The number of price levels for the component leg, which may be between one (1) and ten (10), is determined by the Exchange from time-to-time on a class-by-class basis.]

(c) and (d) No change.

* * * * *

Rule 722. Complex Orders

* * * * *

(a) and (b) No change.

Supplementary Material to Rule 722

.01 - .06 No change

.07 [Price limits for complex orders and quotes.]**Complex Order Protections**.

(a) **Price limits for Complex Orders and quotes.**

([a]1) As provided in paragraph (b)(3) above, the legs of a [c]Complex [o]Order may be executed at prices that are inferior to the prices available on other exchanges trading the same options series. Notwithstanding, the System will not permit any leg of a [c]Complex [o]Order to trade through the NBBO for the series by a configurable amount calculated as the lesser of (i) an absolute amount not to exceed $0.10, and (ii) a percentage of the NBBO not to exceed 500%, as determined by the Exchange [on a class or series basis]. A Member can also include an instruction on a [c]Complex [o]Order entered on the [c]Complex [o]Order book that each leg of the [c]Complex [o]Order is to be executed only at a price that is equal to or better than the national best bid or offer for the options series or any stock component, as applicable.

([b]A) The System will reject any [c]Complex [o]Order strategy where all legs are to buy if it is entered at a price that is less than the minimum price, which is calculated as the sum of the ratio on each leg of the [c]Complex [o]Order multiplied by $0.01 per leg (e.g., an order to buy 2 calls and buy 1 put would have a minimum price of $0.03).

([c]b) **Strategy Protections.** The following protections will apply throughout the trading day, including pre-market, during the Opening Process and during a trading halt. The protections will not apply to Complex Orders being auctioned and auction responses [Other than for complex orders executed] in the Facilitation Mechanism, Solicited Order Mechanism, and Price Improvement Mechanism and will not apply to Customer Cross Orders.[, the System will:]

(1) **Vertical Spread Protection.** The Vertical Spread Protection will apply to a vertical spread. A vertical spread is an order to buy a call (put) option and to sell another call (put) option in the same security with the same expiration but at a higher (lower) strike price).

([1]A) The System will reject a [v]Vertical [s]Spread order [(i.e., an order to buy a call (put) option and to sell another call (put) option in the same security with the same expiration but at a higher (lower) strike price)] when entered with a net price of less than zero (minus a pre-set value), and will prevent the execution of a [v]Vertical [s]Spread order at a price that is less than zero (minus a pre-set value) when entered as a [m]Market [o]Order to sell. The Exchange will set a common pre-set value not to exceed $1.00 to be applied uniformly across all classes. The Exchange may amend the pre-set value uniformly across all classes.

([2]B) The System will reject a [v]Vertical [s]Spread order when entered with a net price greater than the value of the higher strike price minus the lower strike price (plus a pre-set value), and will prevent the execution of a [v]Vertical [s]Spread order at a price that is greater than the value of the higher strike price minus the lower strike price (plus a pre-set value) when entered as a [m]Market [o]Order to buy. [The pre-set value is the lesser of an absolute amount and a percentage of the difference between the strike prices.] The pre-set value used by the vertical spread check will be the lesser of (1) an absolute amount not to exceed $1.00 and (2) a percentage of the difference between the strike prices not to exceed 10% to be applied uniformly across all classes. The Exchange may amend the pre-set value uniformly across all classes.

(2) **Calendar Spread Protection.** The Calendar Spread Protection will apply to a Calendar Spread. A calendar spread is an order to buy a call (put) option with a longer expiration and to sell another call (put) option with a shorter expiration in the same security at the same strike price.

([3]A) The System will reject a [c]Calendar [s]Spread order[(i.e., an order to buy a call (put) option with a longer expiration and to sell another call (put) option with a shorter expiration in the same security at the same strike price)] when entered with a net price of less than zero (minus a pre-set value), and will prevent the execution of a [c]Calendar [s]Spread order at a price that is less than zero (minus a pre-set value) when entered as a [m]Market [o]Order to sell. The Exchange will set a common pre-set value not to exceed $1.00 to be applied uniformly across all classes. The Exchange may amend the pre-set value uniformly across all classes.

[(4)(i) For purposes of the price protections set forth in paragraphs (c)(1) and (c)(3), the Exchange will set a common pre-set value not to exceed $1.00 to be applied uniformly across all classes.]

[(ii) For purposes of the price protections set forth in paragraph (c)(2), the Exchange will set common pre-set values of (1) an amount not to exceed $1.00 and (2) a percentage of the difference between strike prices not to exceed 10% to be applied uniformly across all classes.]

[(5) The Exchange may change the pre-set values established in paragraph (c)(4) in accordance with the parameters set forth therein from time to time uniformly across all classes.]

(3) **Butterfly Spread Protection**. The Butterfly Spread Protection will apply to a butterfly spread. A butterfly spread is a three legged Complex Order with the following: (1) two legs to buy (sell) the same number of calls (puts); (2) one leg to sell (buy) twice the number of calls (puts) with a strike price at mid-point of the two legs to buy (sell); (3) all legs have the same expiration; and (4) each leg strike price is equidistant from the next sequential strike price.

(A) A Butterfly Spread Limit Order that is priced higher than the Maximum Value or lower than the Minimum Value will be rejected. A Butterfly Spread Market Order (or Butterfly Spread Limit Order entered with a net price inside the Butterfly Spread Protection Range) to buy (sell) will be restricted from executing by legging into the single leg market with a net price higher (lower) than the Maximum (Minimum) Value. The Butterfly Spread Protection Range is the absolute difference between the Minimum Value and the Maximum Value.

(i) The Initial Maximum Value is the distance between the strike price of the leg with the mid-point strike and either of the outer leg strike prices. The Maximum Value Buffer is the lesser of a configurable absolute dollar value or percentage of the Initial Maximum Value set by the Exchange and announced via a notice to members. The Maximum Value is calculated by adding the Initial Maximum Value and Maximum Value Buffer.

(ii) The Initial Minimum Value is zero. The Minimum Value Buffer is a configurable absolute dollar value set by the Exchange and announced via a notice to members. The Minimum Value is calculated by subtracting the Minimum Value Buffer from the Initial Minimum Value of zero.

(4) **Box Spread Protection**. The Box Spread Protection will apply to a box spread. A box spread is a four legged Complex Order with the following: (1) one pair of legs with the same strike price with one leg to buy a call (put) and one leg to sell a put (call); (2) a second pair of legs with a different strike price from the pair described in (1) with one leg to sell a call (put) and one leg to buy a put (call); (3) all legs have the same expiration; and (4) all legs have equal volume.

(A) A Box Spread Limit Order that is priced higher than the Maximum Value or lower than the Minimum Value will be rejected. A Box Spread Market Order (or Box Spread Limit Order entered with a net price inside the Box Spread Protection Range) to buy (sell) will be restricted from executing by legging into the single leg market with a net price higher (lower) than the Maximum (Minimum) Value. The Box Spread Protection Range is the absolute difference between the Minimum Value and the Maximum Value.

(i) The Initial Maximum Value is the distance between the strike prices of each pair of leg strike prices. The Maximum Value Buffer is the lesser of a configurable absolute dollar value or percentage of the Initial Maximum Value set by the Exchange and announced via a notice to members. The Maximum Value is calculated by adding the Initial Maximum Value and Maximum Value Buffer.

(ii) The Initial Minimum Value is zero. The Minimum Value Buffer is a configurable absolute dollar value set by the Exchange and announced via a notice to members. The Minimum Value is calculated by subtracting the Minimum Value Buffer from the Initial Minimum Value of zero.

(c) Other Price Protections which apply to Complex Orders.

([d]1) **Limit Order Price Protection**. There is a limit on the amount by which the net price of an incoming [c]Complex [l]Limit [o]Order to buy may exceed the net price available from the individual options series on the Exchange and by which the net price of an incoming [c]Complex [l]Limit [o]Order to sell may be below the net price available from the individual options series on the Exchange. Limit orders that exceed the pricing limit are rejected. The limit is established by the Exchange from time-to-time for [c]Complex [o]Orders to buy (sell) as the greater of the net price available from the individual options series on the Exchange plus (minus): (i) an absolute amount not to exceed $2.00, or (ii) a percentage of the net price available from the individual options series on the Exchange not to exceed 10%. This limit order price protection applies only to orders and does not apply to quotes.

([e]2) **Size Limitation**. There is a limit on the number of contracts (and shares in the case of a stock-option order) any single leg of an incoming [c]Complex [o]Order may specify. Orders or quotes that exceed the maximum number of contracts (or shares) are rejected. The maximum number of contracts (or shares), which shall not be less than 10,000 (or 100,000 shares), is established by the Exchange from time-to-time.

(3) **Price Level Protection**. There is a limit on the number of price levels at which an incoming Complex Order to sell (buy) will be executed automatically with the bids or offers of each component leg when there are no bids (offers) from other exchanges at any price for the options series. Complex Orders are executed at each successive price level until the maximum number of price levels is reached on any component leg where the protection has been triggered, and any balance is canceled. The number of price levels for the component leg, which may be from one (1) to ten (10), is determined by the Exchange from time-to-time on a class-by-class basis.

* * * * *