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

File No.* SR - 2018 - * 56
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 amend Exchange rules related to Complex Orders.

Contact Information

Provide the name, telephone number, and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the action.

First Name * Adrian Last Name * Griffiths
Title * Senior Associate General Counsel
E-mail * adrian.griffiths@nasdaq.com
Telephone * (212) 231-5176 Fax

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934,

has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

Date 06/22/2018
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 amend its rules related to Complex Orders.

A notice of the proposed rule change for publication in the Federal Register is attached as Exhibit 1. The text of the proposed rule change is attached as Exhibit 5.

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

The proposed rule change was approved by the Board of Directors of the Exchange on November 15, 2012. No other action is necessary for the filing of the rule change.

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

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

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

a. Purpose

The Exchange first adopted Rule 722 for complex orders in October 2001 and has amended and expanded Rule 722 and other Exchange rules to provide for the handling of

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

2 17 CFR 240.19b-4.

complex orders over the years. Although the Exchange has always handled complex orders on an automated basis, the Exchange's rules related to complex orders have largely remained principle based. As a result, the Exchange's rules do not fully describe how complex orders are processed in the level of detail that is now the standard for automated exchanges. Accordingly, the Exchange believes it is necessary and appropriate to revise its rules related to complex orders to provide greater clarity regarding how complex orders are processed on the Exchange. In this respect, the proposed rule change consolidates within Rule 722 provisions that have been added to various other Exchange rules over the years and adds cross references within Rule 722 to other applicable rules to provide a single point of reference for how complex orders are handled on the Exchange. The proposal also expands upon and clarifies various existing provisions, and provides greater detail regarding complex order types, the application of Exchange rules regarding internalization, and complex order crossing transactions. Furthermore, the proposal also adds provisions related to the exposure of complex orders for price improvement and the process for opening complex strategies. The Exchange notes that it is simply including additional detail in its rules on the existing process. No changes to the process are being contemplated by this rule change filing.

Definitions

The Exchange proposes to amend Rule 722(a) to adopt the terms "Complex Options Strategy" for complex strategies that have only options components, "Stock-Option Strategy" for complex strategies that have a stock component and a single options component, and "Stock-Complex Strategy" for complex strategies that have a stock component and multiple options components. The proposed definitions would also include language that explains that only those Complex Options Strategies and Stock-

Complex Strategies with no more than the applicable number of legs are eligible for processing.[3] The applicable number of legs will be determined by the Exchange on a class-by-class basis independently for Complex Options Strategies and Stock-Complex Strategies.[4] In addition, the Exchange proposes to adopt separate definitions for the terms "Complex Options Order," "Stock-Option Order," and "Stock-Complex Order," which refer to orders for a Complex Options Strategy, Stock-Option Strategy, and Stock-Complex Strategy, respectively. Finally, the Exchange proposes to state that the term "Complex Order" includes Complex Options Orders, Stock-Option Orders, and Stock-Complex Orders. Currently, Rule 722(a) does not contain a definition of complex strategies (as opposed to orders) and refers to options only complex orders as "complex orders" and separately defines "stock-option orders." As a result, it may not be clear under the current definitions whether references in the rules to "complex orders" apply to stock-option orders, or whether references are to orders or to the complex instrument. Under the proposal, the term "complex strategy" is used to refer to Complex Options Strategies, Stock-Option Strategies and Stock-Complex Strategies. Accordingly, this proposed change will bring clarity to the Exchange's rules with respect to whether certain provisions apply only to Complex Options Strategies, only to Stock-Options Strategies, only to Stock-Complex Strategies or to all three. In this respect, the Exchange has

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3 By definition, Stock-Option Strategies will have only one option leg and one stock leg.

4 Currently, the Exchange accepts Complex Options Strategies with up to 10 options legs, and Stock-Option Strategies and Stock-Complex Strategies with up to 9 options legs in addition to one stock leg. Chicago Board Options Exchange ("CBOE") Rule 6.53C(a)(1)-(2) provides similar flexibility in determining the maximum number of legs. The Exchange will inform members of any change to the number of legs accepted via Options Trader Alert.

reviewed all of its rules related to the handling of complex strategies to apply the newly defined terms appropriately.[5]

The Exchange also proposes to delete from Rule 722 the definition of SSF-option order, which is a complex order that has a single stock future component, and to delete Supplementary Material .01 to Rule 722 regarding entry and execution of SSF-option orders. Certain aspects of Supplementary Material .01 to Rule 722 also relate to Stock-Option Orders and Stock-Complex Orders. These parts of the rule contain outdated language that is not relevant to the trading of automated Stock-Option Orders and Stock-Complex Orders where all components are traded through the Exchange at a single net price. The Exchange therefore proposes to delete these parts of the rule as well. The Exchange provided for the potential to handle SSF-option orders in anticipation of the launch of exchange-traded single stock futures in 2002. However, the single stock future product has not gained sufficient popularity among investors to support a SSF-option product, and the Exchange has never received a SSF-option order. Therefore, the Exchange proposes to remove the order type from its rules. The Exchange will file a proposal with the Commission should it determine to offer SSF-option orders in the future.

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[5] As discussed more fully later in the filing, the Exchange proposes to substitute the term “complex order” with “Complex Options Order” in Rule 715(k) and current Rule 722(b)(3)(ii) to clarify that legging orders are not created for Stock-Options Orders and Stock-Complex Orders, and in current Supplementary Material .04 to Rule 722 to clarify that market maker spread quotation adjustment functionality applies only to Complex Option Order strategies. The Exchange also proposes to amend the use of the term “complex order” in current Rule 722(b)(1) to clarify the increments for Complex Options Orders, Stock-Option Orders and Stock-Complex Orders, and in current Rule 722(b)(2) to clarify the applicable priority rules for Complex Options Orders, Stock-Option Orders and Stock-Complex Orders.

Order Types

The Exchange proposes to delete current paragraph 722(b)(4) and add new paragraph 722(b), which specifies which of the order types contained in Rule 715 apply to complex orders and identifies any unique aspects with respect to complex orders. All orders and designations the Exchange proposes to codify in Rule 722(b) for complex orders are currently available in the complex order book and are based on order types and designations currently provided in ISE Rule 715 for regular orders. The Exchange also proposes to specify that members may designate complex orders for participation in the complex order exposure process discussed below (i.e., "Exposure Orders" and "Exposure Only Orders").

Specifically, the proposed rule provides that, unless otherwise specified, the definitions used in paragraph 722(b) have the same meaning contained in Rule 715 and that complex orders may be entered using the orders and designations provided in paragraph 722(b). The orders and designations identified in the proposed rule are:[6]

(1) Market Complex Order. A Market Complex Order is a Complex Order to buy or sell a complex strategy that is to be executed at the best price obtainable. If not executable upon entry, such orders will rest on the complex order book unless designated as fill-or-kill or immediate-or-cancel.

(2) Limit Complex Order. A Limit Complex Order is a Complex Order to buy or sell a complex strategy that is entered with a limit price expressed as a net purchase or sale price for the components of the order.

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6 In connection with this change, Exchange proposes to use these definitions where applicable in Rule 722 (i.e., the complex order rule) and certain other rules that specify application to particular complex order types (e.g., Rule 702(d)(2)).

(3) All-Or-None Complex Order. A Complex Order may be designated as an All-or-None Order that is to be executed in its entirety or not at all. An All-Or-None Order may only be entered as an Immediate-or-Cancel Order.

(4) Reserve Complex Order. A Limit Complex Order may be designated as a Reserve Order that contains both a displayed portion and a non-displayed portion.

(i) Both the displayed and non-displayed portions of a Reserve Complex Order are available for potential execution against incoming marketable orders or quotes. A non-marketable Reserve Complex Order will rest on the complex order book.

(ii) The displayed portion of a Reserve Complex Order shall be ranked at the specified limit price and the time of order entry.

(iii) The displayed portion of a Reserve Complex Order will trade in accordance with Rule 722(d).

(iv) When the displayed portion of a Reserve Complex Order is decremented, either in full or in part, it shall be refreshed from the non-displayed portion of the resting Reserve Complex Order. If the displayed portion is refreshed in part, the new displayed portion shall include the previously displayed portion. Upon any refresh, the entire displayed portion shall be ranked at the specified limit price and obtain a new time stamp, i.e., the time that the new displayed portion of the order was refreshed. The new displayed portion will trade in accordance with Rule 722(d).

(v) The initial non-displayed portion of a Reserve Complex Order rests on the complex order book and is ranked based on the specified limit price and time of order entry. Thereafter, non-displayed portions, if any, always obtain the same time stamp as that of the new displayed portion in subparagraph (iv) above. The non-displayed portion of any Reserve Complex Order is available for execution only after all displayed interest on the complex order book has been executed.[7] Thereafter, the non-displayed portion of any Reserve Complex Order will trade in accordance with Rule 722(d).

(vi) Only the displayed portion of a Reserve Complex Order is eligible to be exposed for price improvement pursuant to Rule 722(d)(1) and Supplementary Material .01 to this Rule 722.

(5) Attributable Complex Order. A Market or Limit Complex Order may be designated as an Attributable Order as provided in Rule 715(h).

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[7] The non-displayed portion of a Reserve Complex Order is available for execution after displayed interest on the complex order book but prior to interest on the regular order book. Under the Exchange's current priority rules, at each price, executable interest on the complex order book has priority over bids and offers for the individual options legs. See Rule 722(b)(2) (renumbered to Rule 722(c)(2)). These rules will remain in the proposed rules with only non-substantive changes that do impact the priority given to Complex Orders (including Reserve Complex Orders) entered on the Exchange.

During the last three months, non-displayed Complex Reserve Order interest made up a very small fraction (0.28%) of the total volume executed on the Exchange. In addition, the vast majority (82%) of that non-displayed interest was for the account of a Priority Customer. Institutional customers in particular use Reserve Complex Orders to represent the full size of their interest on the complex order book while mitigating information leakage by displaying only a portion of such interest to the market. While the Exchange typically prioritizes displayed interest over non-displayed interest on the same order book, the Exchange believes that it is important to allow these participants to source ample liquidity on the complex order book by continuing to execute the non-displayed portion of their Reserve Complex Orders prior to any interest on the regular order book.

Furthermore, because the current rules already prioritize Priority Customer orders notwithstanding the general principle that Complex Orders have priority ahead of the regular order book, the Exchange believes that this priority scheme appropriately incentivizes Complex Order interest while maintaining priority of customer orders in the regular market. See Securities and Exchange Act Release No. 44955 (October 18, 2001), 66 FR 53819 (October 24, 2001) (Complex Order Priority Approval Order).

(6) Customer Cross Complex Order. A Customer Cross Complex Order is comprised of a Priority Customer Complex Order to buy and a Priority Customer Complex Order to sell at the same price and for the same quantity. Such orders will trade in accordance with Supplementary Material .08(d) to this Rule 722.

(7) Qualified Contingent Cross Complex Order. A Complex Options Order may be entered as a Qualified Contingent Cross Order, as defined in Rule 715(j). Qualified Contingent Cross Complex Orders will trade in accordance with Supplementary Material .08(e) to this Rule 722.

(8) Day Complex Order. A Complex Order may be designated as a Day Order that if not executed, expires at the end of the day on which it was entered.

(9) Fill-or-Kill Complex Orders. A Complex Order may be designated as a Fill-or-Kill Order that is to be executed in its entirety as soon as it is received and, if not so executed, cancelled.

(10) Immediate-or-Cancel Complex Orders. A Complex Order may be designated as an Immediate-or-Cancel Order that is to be executed in whole or in part upon receipt. Any portion not so executed is cancelled.

(11) Opening Only Complex Order. An Opening Only Complex Order is a Limit Complex Order that may be entered for execution during the Complex Opening Process described in Supplementary Material .10 to Rule 722. Any portion of the order that is not executed during the Complex Opening Process is cancelled.

(12) Good-Till-Date Complex Order. A Good-Till-Date Complex Order is an order to buy or sell which, if not executed, will be cancelled at the sooner of the end of the

expiration date assigned to the Complex Order, or the expiration of any individual series comprising the order.

(13) Good-Till-Cancel Complex Order. A Good-Till-Cancel Complex Order is an order to buy or sell that remains in force until the order is filled, canceled or any series of the order expires; provided, however, that a Good-Till-Cancel Complex Order will be cancelled in the event of a corporate action that results in an adjustment to the terms of any series underlying the Complex Order.

(14) Exposure Complex Order. An Exposure Complex Order is an order that will be exposed upon entry as provided in Supplementary Material .01 to this Rule 722 if eligible, or entered on the complex order book if not eligible. Any unexecuted balance of an Exposure Complex Order remaining upon the completion of the exposure process will be entered on the complex order book.

(15) Exposure Only Complex Order. An Exposure Only Complex Order is an order that will be exposed upon entry as provided in Supplementary Material .01 to this Rule 722 if eligible, or cancelled if not eligible. Any unexecuted balance of an Exposure Only Complex Order remaining upon the completion of the exposure process will be cancelled.

(16) Complex QCC with Stock Orders. A Complex QCC with Stock Order is a Qualified Contingent Cross Complex Order, as defined in Rule 722(b)(7), entered with a stock component to be communicated to a designated broker-dealer for execution pursuant to Supplementary Material .08(f) to Rule 722.

Legging Orders

Separately, Rule 715(k) contains a definition of legging orders, which are orders that represent a Complex Options Order on the regular order book. A "legging order" is defined as a limit order on the regular limit order book that represents one side of a complex order that is to buy or sell an equal quantity of two options series resting on the Exchange's complex order book.[8] The Exchange proposes to clarify that legging orders are not created for Stock-Options Orders and Stock-Complex Orders by stating that a legging order represents one side of a "Complex Options Order," and by referencing Complex Options Orders in other parts of the rule. The Exchange also proposes to indicate that a legging order is only generated from the displayed portion of a Complex Options order that is designated as a Reserve Complex Order. The non-displayed portion of such orders are not eligible to create legging orders as generation of a legging order would indicate to market participants that there is additional undisplayed size on the complex order book even though the member entering such Reserve Complex Order has determined not to display that interest.

Trading Increments

Currently, Rule 722 specifies that complex orders may be expressed in any decimal price, and that the legs of a complex order may be executed in one cent increments, regardless of the minimum increments otherwise applicable to the individual options legs of the order. The current language in the current Rule 722(b)(1) (renumbered Rule 722(c)(1) under the proposal), which mirrors the rules of other options exchanges,[9] reflects a combination of the increments applicable to Complex Options Strategies, Stock-Options Strategies and Stock-Complex Strategies. For clarity, the Exchange

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8 Legging orders are firm orders that are included in the Exchange's displayed best bid or offer, and are disseminated over OPRA and the Nasdaq ISE Top Quote Feed. Legging orders are not disseminated over the Nasdaq ISE Order Feed since these orders represent a component leg of Complex Options Orders entered on the complex order book that have already been disseminated over the Nasdaq ISE Spread Feed.

9 See e.g. Commentary .01 to NYSE Amex Rule 980NY.

proposes to amend the Rule to specify that bids and offers for Complex Options Strategies may be expressed in one cent ($0.01) increments, and the options legs of Complex Options Strategies may be executed in one cent ($0.01) increments, regardless of the minimum increments otherwise applicable to the individual options legs of the order. The Exchange also proposes to amend the Rule to specify that bids and offers for Stock-Option Strategies and Stock-Complex Strategies may be expressed in any decimal price determined by the Exchange,[10] and the stock leg of a Stock-Option Strategy and Stock-Complex Strategy may be executed in any decimal price permitted in the equity market. Although the Exchange's current rule states that bids and offers entered on the complex order book can be entered in "any decimal increment" similar to language in the rules of other options markets,[11] the Exchange determines appropriate minimum increments for Stock-Option Strategies and Stock-Complex Strategies, and will not accept orders or quotes that do not abide by the selected minimum increment. Smaller minimum increments are appropriate for complex orders that contain a stock component as the stock component can trade at finer decimal increments permitted by the equity market. Furthermore, the Exchange notes that even with the flexibility provided in the rule, the individual options and stock legs must trade at increments allowed by the Commission in the options and equities markets. For clarity, the Exchange further proposes to add Supplementary Material .04 to Rule 710 (Minimum Trading Increments) to reference Rule 722 and specify the minimum trading increments applicable to the options leg(s) of a complex strategy.

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10 The minimum increment for Stock-Option Strategies and Stock-Complex Strategies will be communicated to members via Options Trader Alert.

11 See NYSE Arca Options Commentary .01 to Rule 6.91.

Finally, the Exchange proposes to amend Supplementary Material .07 to Rule 722 to reflect the different increments applicable to the options and stock legs of complex strategies traded on the Exchange. In particular, the Exchange proposes to amend this rule to state that the system will reject complex strategies where are legs are to buy if entered at a price that is less than the minimum net price, which is calculated as the sum of the ratio on each leg of the complex strategy multiplied by the minimum increment applicable to that leg pursuant to Rule 722(c)(1). Currently, this rule states that the minimum price is calculated by multiplying the sum of the ratio on each leg by $0.01 per leg (i.e., the minimum increment for options legs). While this calculation is accurate for Complex Options Strategies, it does not reflect the treatment of Stock-Option Strategies or Stock-Complex Strategies where the stock leg(s) can be entered in any decimal price determined by the Exchange. For example, an order to buy a share of stock and two call options would have a minimum price of $0.0201 – i.e., $0.02 for two options legs and $0.0001 for the stock leg.

<u>Complex Order Priority</u>

The Exchange proposes to make minor non-substantive changes to the existing text of current Rule 722(b)(2) (renumbered Rule 722(c)(2) under the proposal) for clarity. Rule 722(b)(2) provides that the legs of a complex strategy with multiple options legs (i.e., Complex Options Strategies and the options legs of Stock-Complex Strategies where there are more than one options component) may not be executed at worse prices than are available on the Exchange for the individual series, but may be executed at the same price as bids and offers on the Exchange for the individual series so long as there are no Priority Customer Orders on the Exchange at those prices (provided however that for complex strategy with multiple options legs, if one of the options legs improves upon the best price available on the Exchange then the other leg is permitted to trade at the same price as a Priority Customer).[12] Rule 722(b)(2) further provides that the option leg of a Stock-Option Strategy may be executed at the same price as bids and offers on the Exchange for the individual series but not at the same price as Priority Customer Orders for the individual series. For clarity, the Exchange proposes to re-format Rule 722(b)(2) into three paragraphs and to replace certain cross references with the defined terms "Complex Options Strategy," "Stock-Options Strategy" and "Stock-Complex Strategy" discussed above. The Exchange also proposes to replace references to bids and offers established "in the marketplace" with "on the Exchange" as the reference to "in the marketplace" may create confusion as to whether "marketplace" refers to the Exchange or the broader market. The Exchange also proposes to delete references to SSF-option orders in the text of current Rule 722(b)(2), and to delete related Supplementary Material .01 to Rule 722. As discussed above, the Exchange is proposing to remove all references to SSF-option orders from the Rules. Furthermore, with the proposed elimination of this type of complex strategy from the rulebook, Supplementary Material .01 to Rule 722 is no longer necessary as it contains requirements related to the execution of SSF-option orders, as well as outdated language that no longer applies to the automated execution of complex strategies that contain a stock component. Finally, the Exchange proposes in Proposed Rule 722(c)(2)(iv) to add a new reference to the treatment of Reserve Orders that clarifies that a complex strategy may be executed at a net credit or debit price with one other Member without giving priority to the non-displayed portion of Reserve Orders

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12 Pursuant to ISE Rule 100(a)(49) and (50), a Priority Customer Order is an order for the account of a person or entity that (i) is not a broker or dealer in securities, and (ii) does not place more than 390 orders in listed options per day on average during a calendar month for its own beneficial account(s).

on the bids or offers on the Exchange for the individual legs of the complex strategy. The non-displayed portion of a Reserve Order has no priority on the book because it is hidden from other market participants, and is therefore only available for execution after all displayed interest has been executed.[13] Furthermore, to the extent that members entering orders in the regular market wish to have their orders protected they can use a number of order types that are displayed to the market and therefore retain their regular priority on the order book. Thus, complex strategies may be executed without giving priority to the non-displayed portion of such interest in the regular market. While this is consistent with the general treatment of non-displayed interest in the regular market, the Exchange believes that it is important to add this reference here for additional clarity.

Execution of Orders

For clarity, the Exchanges proposes to specify that complex strategies are not executable unless all of the terms of the strategy can be satisfied and the options legs can be executed at prices that comply with the provisions of current Rule 722(b)(2) (renumbered Rule 722(c)(2) under the proposal).[14] The Exchange also proposes to add new language under proposed Rule 722(d)(4) to clarify that, similar to treatment of orders in the regular market, complex strategies that are not executable may rest on the complex

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13 See Rule 715(g)(5).

14 For example, assume the ISE BBO for series A is $1.00 x $1.10 and the ISE BBO for series B is $0.95 x $1.05. A resting Complex Order to sell series A and sell series B at a net price of $2.16 is not executable because one of the legs of the complex order would need to be executed at a price that is above the best offer available for the individual series (i.e., $1.10 for series A and $1.06 for series B; or $1.11 for series A and $1.05 for series B). Nor would such a complex order be executable at a net price of $2.15 if there were Priority Customer orders on the Exchange to sell series A and/or series B at the ISE best offer; however, assuming the individual legs trade in penny increments, the complex order would be executable at a price of $2.14 pursuant to Rule 722(c)(2).

order book until they become executable. Furthermore, the Exchange proposes to amend the text of current Rule 722(b)(3) (renumbered Rule 722(d) under the proposal) to more clearly reflect the sequence in which complex strategies are processed: (i) first complex orders are exposed for price improvement (if eligible) for a period of up to one second (quotes in complex strategies are not eligible for exposure),[15] (ii) then complex strategies are matched against other interest in the complex order book if possible,[16] and (iii) then complex strategies are executed against bids and offers on the Exchange for the individual series if possible.[17] Furthermore, as clarification, the amended Rule 722(d)(2)

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15 Although quotes in complex strategies are not eligible for exposure pursuant to Supplementary Material .01 to Rule 722, the Exchange notes that market makers that have interest that they wish to go through the exposure process have the option of submitting complex orders instead of quotes to be exposed.

16 As described in proposed language being added to Supplementary Material .02 to Rule 722, the full size of Stock-Option Orders and Stock-Complex Orders that are being processed by the stock execution venue pursuant to Supplementary Material .02 to Rule 722 will be unavailable for trading while the order is being processed. For example, if a Stock-Option Order to buy 100 contracts at a net price of $1.00 is matched with a sell order for 20 contracts in the same complex strategy, the whole 100 contract Stock-Option Order will be unavailable for trading with other interest while the stock portion of the order is being processed for potential execution by the stock execution venue.

17 The Exchange proposes to move the sub-paragraph regarding order exposure from current Rule 722(b)(3)(iii) to proposed Rule 722(d)(1) (and Supplementary Material .01 to Rule 722) so that the rule more clearly indicates that eligible orders are exposed before they are matched against other interest in the complex order book. The Exchange also proposes to add text to current Rule 722(b)(3)(ii) (renumbered to be Rule 722(d)(3) under the proposal) to expressly state that if there are no executable contra-side complex orders on the complex order book, executable Complex Options Orders and the options legs of a Stock-Option Order or Stock-Complex Order (up to a maximum number of options legs) may be executed against bids and offers on the Exchange for the individual options legs if possible. The Exchange will continue to manage and curtail attempts to trade against the individual options legs so as to not negatively impact system capacity and performance. See Securities Exchange Act Release No. 66234 (January 24, 2012), 77 FR 4852 (January 31, 2012) (SR-ISE-2011-82) (Approval Order). The Exchange will curtail the number of legging orders on an objective basis, such as

will explicitly reference that complex strategies will be executed at the best net price available from executable Complex Orders and quotes on the complex order book, and bids and offers for the individual options series. Certain complex strategies are not available to leg in to the regular market;[18] complex orders for those strategies remain eligible for the complex order exposure process, and may also trade with other interest on the complex order book in accordance with the terms of the complex order. Finally, the Exchange proposes to add reference to "executable" complex strategies throughout this section to re-enforce that complex strategies cannot be executed unless the restrictions of current Rule 722(b)(2) (renumbered Rule 722(c)(2) under the proposal) are satisfied.[19]

Incoming Complex Order Exposure Process

The Exchange proposes to amend Rule 722 with respect to the exposure of complex orders upon entry. Rule 722 currently provides that members can choose to have complex orders that are marketable upon entry exposed for up to one second before being automatically executed. Similar to rules adopted by other options exchanges that trade

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limiting the number of orders generated in a particular class. The Exchange will not limit the generation of legging orders on the basis of the entering participant or the participant category of the order (e.g., Priority Customer, Professional Order, etc.). See id.

18 See Rule 722(b)(3)(ii) (renumbered Rule 722(d)(3)); see also Securities Exchange Act Release No. 74004 (January 6, 2015), 80 FR 1565 (January 12, 2015) (SR-ISE-2014-56).

19 The Exchange proposes to add clarifying language to proposed Rule 722(d)(3) to separately identify that Complex Options Orders and the options legs of a Stock-Option Order or Stock-Complex Order (up to a maximum number of legs) may be executed against bids and offers on the Exchange for the individual options series. This change is consistent with the proposal to clarify the complex order definitions as discussed in supra note 5 and accompanying text.

complex orders,[20] the proposal will amend the rule to provide for an auction process. Specifically, the proposed rules would describe an auction process whereby complex orders that improve upon the best price for the same complex strategy on the complex order book upon entry may be exposed for up to one second, as described in more detail in the following paragraphs.[21]

Proposed Supplementary Material .01 to Rule 722[22] specifies that upon entry of an eligible complex order designated for exposure, a broadcast message containing the details of the complex order (i.e., net price or at market, size, and side) is sent to all members,[23] who are then given up to one second to enter responses with the prices and sizes at which they are willing to participate in the execution of the complex order. The

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[20] See Phlx Rule 1098(e); EDGX Rule 21.20(d); CBOE Rule 6.53(d), each of which describe different processes for auctioning complex orders entered on those markets.

[21] A complex order improves upon the best price for the same complex strategy on the complex order book if it is a limit order to buy priced higher than the best bid, a limit order to sell priced lower than the best offer, or a market order to buy or sell.

[22] As proposed, the complex order exposure process will be described in Supplementary Material .01 to Rule 722. The Exchange therefore proposes to amend rules that cite to this process (e.g., Rule 722(d)(2)) to point to this rule instead of Rule 722(b)(3)(iii).

[23] Prices for complex orders are not eligible to be reported to the Options Price Reporting Authority ("OPRA") for inclusion in consolidated quotation data but trade prices on the individual legs are reported to OPRA as a part of last sale data with an identifier noting that the trade was part of a complex transaction. Accordingly, the Exchange does not provide information regarding the complex orders being exposed and responses entered during the process to OPRA. Instead, a broadcast message is sent to subscribers of the Exchange's order feed. The Exchange notes that it previously operated another auction mechanism, namely the Price Improvement Mechanism, without blind responses. See Securities Exchange Act Release No. 50819 (December 8, 2004), 69 FR 75093 (December 15, 2004) (SR-ISE-2003-06).

proposed rule change also specifies that such responses are only executable against the Complex Order with respect to which they are entered,[24] can be modified or withdrawn at any time prior to the end of the exposure period, and will be considered up to the size of the Complex Order being exposed. During the exposure period, the Exchange will broadcast the best Response price and the aggregate size of Responses available at that price.

In addition, the proposed rule change specifies that the exposure period is automatically terminated due to the receipt of certain unrelated complex orders for the same complex order strategy,[25] or if a trading halt is initiated during the exposure period.[26] At the end of the exposure period complex orders are automatically executed to the greatest extent possible pursuant to Rule 722(d)(2)-(3) taking into consideration (i) bids and offers on the complex order book, (ii) bids and offers on the Exchange for the individual options series, and (iii) Responses received during the exposure period, provided that when allocating pursuant to 722(d)(2)(ii), Responses are allocated pro-rata

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24 At the conclusion of the exposure period, any unexecuted balance of a Response is automatically cancelled. In addition, since any Responses are only available to trade against the order being exposed, only contra-side Responses are eligible to be executed in an exposure auction.

25 The exposure period will end immediately upon: (i) the receipt of a Complex Order or quote for the same complex strategy on either side of the market that is marketable against the complex order book or bids and offers for the individual legs; or (ii) the receipt of a non-marketable Complex Order or quote for the same complex strategy on the same side of the market that would cause the price of the exposed Complex Order to be outside of the best bid or offer for the same complex strategy on the complex order book.

26 If a trading halt is initiated during the exposure period, the Complex Order exposure process will be automatically terminated without execution.

based on size.[27] Thereafter, any unexecuted balance of the complex order at the end of the exposure period is placed on the complex order book.

An Exposure Only Order, on the other hand, is a complex order that will be exposed upon entry as provided in Supplementary Material .01 to Rule 722 if eligible, but is cancelled if not eligible. Any unexecuted balance of an eligible Exposure Only Order upon the completion of the exposure process is also cancelled. Similar to Immediate-or-Cancel Orders, the Exposure Only order type is designed to assist members in achieving a speedy execution by exposing eligible Complex Orders to potential price improvement before cancelling any unexecuted balance.

Example:

Suppose the following market in complex strategy ABC:

ISE Complex BBO: 10 @ 1.00 x 10 @ 1.05

An Exposure Only Order is entered to buy 20 @ 1.03:

A broadcast message is sent announcing the start of an exposure auction. During the exposure period, the following responses are received:

Response 1: Sell 10 @ 1.03

Response 2: Sell 5 @ 1.02

At the end of the exposure period, the Exposure Only Order trades against:

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27 Pursuant to Rule 722(d)(2), complex orders are executed against bids and offers on the complex order book in price priority. The Exchange designates on a class-by-class basis whether bids and offers at the same price on the complex order book are executed: (i) in time priority; or (ii) pursuant to an algorithm whereby priority customers are given priority and professional orders and market maker quotes are executed pro-rata based on size after certain allocation preferences are satisfied; or (iii) pro-rata based on size (i.e., without any special priority for Priority Customer Orders or allocation preferences). Pursuant to Rule 722(d)(3), complex order are also automatically executed against bids and offers on the Exchange for the individual legs of the complex order if possible.

Response 2: 5 @ 1.02

Response 1: 10 @ 1.03

The remaining quantity of 5 contracts is then cancelled.

Market Maker Quotes

Supplementary Material .03 to Rule 722, which is currently subject to delayed implementation in conjunction with the Exchange's recent transition to the Nasdaq INET platform as described in the rule, provides that Market makers may enter quotes on the complex order book in their appointed options classes. Prior to the INET transition, quoting in the complex order book was available in a subset of the options classes. The Exchange therefore proposes to amend Supplementary Material .03 to Rule 722 to clarify that complex quoting will only be available in options classes selected by the Exchange and announced to members via Options Trader Alert.[28] In addition, market makers that quote in the complex order book must enter certain risk parameters pursuant to Supplementary Material .04 to Rule 722 ("Market Maker Speed Bump"). In connection with changes described in the "Definitions" section above, the Exchange proposes to amend Supplementary Material .04 to Rule 722 to clarify that the Market Maker Speed Bump applies to Complex Options Strategies and not to Stock-Option Strategies or Stock-Complex Strategies.

Internalization and Crossing

The Exchange proposes to add text to Rule 722 to provide clarity regarding the application of Rule 717(d) and (e) (regarding facilitation and solicitation), Rule 716

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[28] Market makers that wish to trade in complex strategies where quoting is not available may do so by entering Complex Orders. Market makers are not prohibited from entering Complex Orders in any options classes. See Rule 805.

(regarding the Facilitation and Solicited Order Mechanisms), Rule 721 (regarding crossing orders), and Rule 723 (regarding the Price Improvement Mechanism) to complex orders.[29] In this respect, the Exchange proposes to re-organize and clarify certain existing rule text, and to add additional provision into Rule 722 and proposed Supplementary Material .08 thereto.

Rule 717(d) requires members to expose orders they represent as agent to other market participants before they execute them as principal, and Rule 717(e) requires members to expose orders they represent as agent to other market participants before they execute them against orders that they solicit from other members of the Exchange or non-member broker-dealers. Rule 717(d) and (e) provide a number of ways in which members may comply with this exposure requirement: (i) members can expose orders on the Exchange for at least one second (i.e., entering them on the limit order book and waiting at least one second before entering a contra-side proprietary or solicited order), or (ii) members can enter the orders into one of the specified crossing mechanisms.[30] The purpose of this Rule is to assure that all market participants have adequate opportunity to trade with orders executed on the Exchange and to provide an opportunity for price improvement through the various crossing mechanisms. The Exchange has consistently applied the exposure requirement contained in Rule 717(d) and (e) to the execution of

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29 With the addition of language on complex auctions in Rule 722, the Exchange also proposes to delete the current language addressing these auctions in Rules 716 and 723.

30 Rule 717(d) also specifies that the exposure requirement is satisfied if the member was already bidding or offering on the Exchange for at least one second prior to receiving an agency order that is executable against such bid or offer.

complex orders on the complex order book,[31] and has provided for the execution of complex orders using the specified mechanisms.[32]

For clarity, the Exchange proposes to specify in Rule 722 that the requirements of Rule 717(d) and (e) apply to the execution of Complex Orders. In particular, the Exchange proposes to specify that Complex Orders represented as agent may be executed (i) as principal as provided in Rule 717(d), or against orders solicited from members and non-member broker-dealers as provided in Rule 717(e). The exposure requirements of Rule 717(d) or (e) must be met on the complex order book unless the order is executed in one of the mechanisms described in Supplementary Material .08 to this Rule 722. For example, an Electronic Access Member would meet its exposure requirement under Rule 717(d)(i) by exposing the agency order on the complex order book for at least one (1) second, or could enter the order into one of the Exchange's Complex Order crossing mechanisms described below.

The Exchange also proposes to move into Supplementary Material .08 to Rule 722 the rule text regarding the execution of complex orders using the Facilitation and Solicited Order Mechanisms from Rule 716, and the rule text regarding the execution of complex orders using the Price Improvement Mechanism from Rule 723. The Exchange also proposes to make non-substantive changes to the text to: (i) re-enforce that complex orders cannot be executed unless they satisfy the requirements of current Rule 722(b)(2) (renumbered Rule 722(c)(2) under the proposal), (ii) clarify that Stock-Options Orders

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31 See, e.g., Securities Exchange Act Release No. 57706 (April 24, 2008), 73 FR 23517 (April 30, 2008) (SR-ISE-2007-77).

32 ISE Rule 716, Supplementary Material .08 (regarding Facilitation and Solicited Order Mechanisms); and ISE Rule 723 Supplementary Material .10 (regarding Price Improvement Mechanism).

and Stock-Complex Orders cannot leg-into the market when they are executed using one of the mechanisms, (iii) specify that each options leg of a complex order must meet the minimum contract size requirement contained in paragraphs (d) and (e) of Rule 716, and (iv) add additional detail regarding how the Exchange processes complex orders entered into these mechanisms.[33] These changes reflect the current operation of the Facilitation Mechanism, Solicited Order Mechanism, and Price Improvement Mechanism for Complex Orders, and are intended to provide greater clarity to Members with respect to treatment of their complex crossing orders. The proposed language also specifies that the application of current Rule 722(b)(2) (renumbered Rule 722(c)(2) under the proposal) may prevent the execution of orders entered into a mechanism, in which case, the transaction will be cancelled.

The Exchange also proposes to consolidate certain other provisions related to the auction mechanisms for Complex Orders and include relevant information in Rule 722 and the Supplementary Material thereto. For example, Proposed Supplementary Material .08(g) to Rule 722 contains a reference to the minimum contract threshold for Mini Options, which merely restates requirements contained in Supplementary Material .13 to Rule 504. In addition, Proposed Rule 722(c)(3) reaffirms that the requirements of existing Rules 717(d) (Principal Transactions) and (e) (Solicitation Orders) apply to Complex Orders represented as agent, and that the exposure requirements of those rules must be met on the complex order book unless the order is executed in one of the mechanisms

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33 With respect to the Complex Facilitation Mechanism, the entry check pursuant to proposed Supplementary Material .08(a)(1) to Rule 722 is different for Complex Options Orders and Complex Orders that have a stock component (i.e., Stock-Option Orders and Stock-Complex Orders) since Stock-Option Orders and Stock-Complex Orders entered in the Complex Facilitation Mechanism are not eligible to trade with bids and offers for the individual legs.

described in Supplementary Material .08 to this Rule 722. Although these requirements are located in other parts of the rulebook, the Exchange believes that including them in Complex Order rule will reinforce their applicability and aid members in navigating the Exchange's rulebook.

The following examples illustrate how complex orders are transacted in the Exchange's crossing mechanisms and their interaction with individual bids and offers (while the examples below are for complex orders entered into the Facilitation Mechanism, these orders would interact similarly with individual bids and offers when entered into the Solicited Order Mechanism and the Price Improvement Mechanism):

Example 1:

Suppose the following market in option class A:

ISE BBO: 10 @ 1.00 x 10 @ 1.05

Suppose further the following market in option class B:

ISE BBO: 10 @ 2.00 x 10 @ 2.05

A complex order is entered into the Complex Facilitation Mechanism in the complex order book for a strategy buying 1 option class A and buying 1 option class B:

Agency Complex Order: Buy 50 @ 3.05

Contra Side Complex Order: Sell 50 @ 3.05

A broadcast message is sent announcing the start of the auction. During the exposure period, the following orders and quotes are received:

Priority Customer 1 Complex Order: Sell 5 @ 3.05

Non-Customer 1 Complex Response: Sell 50 @ 3.05

Non-Customer 2 Complex Response: Sell 50 @ 3.05

At the end of the exposure period, the following orders/responses trade with the Complex Agency Order:

Priority Customer 1 Complex Order: 5 @ 3.05

Contra Side Complex Order: 20 @ 3.05 (40% of 50)[34]

Non-Customer 1 Complex Response: 13 @ 3.05 (Pro-Rata)

Non-Customer 2 Complex Response: 12 @ 3.05 (Pro-Rata)

Example 2:

Suppose the following market in option class A:

ISE BBO: 10 @ 1.00 x 10 @ 1.05

Suppose further the following market in option class B:

ISE BBO: 10 @ 2.00 x 10 @ 2.05.

A complex order is entered into the Complex Facilitation Mechanism in the complex order book for a strategy buying 1 option class A and buying 1 option class B:

Agency Complex Order: Buy 50 @ 3.05

Contra Side Complex Order: Sell 50 @ 3.05

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[34] Pursuant to the proposed rules, Electronic Access Members that enter orders into the Facilitation or Price Improvement Mechanisms may also elect to receive a percentage allocation that is less than 40%. If the member includes such an instruction, the contra-side order would receive an allocation consistent with the percentage requested by the member. To ensure that all members have an opportunity to trade with the agency order, however, the allocation received would be limited to a maximum equal to the 40% allocation ordinarily given to the contra-side order. Furthermore, the contra-side order would still be responsible for executing up to the full size of the agency order if there is not enough interest to execute the agency order at a particular price. Other options exchanges such as Nasdaq BX, Inc. (“BX”) provide similar functionality that allows members using an auction mechanism to give up allocation priority. See e.g. BX Options Rules, Chapter VI, Sec. 9, which provides a similar feature for the BX Options Price Improvement Auction (“PRISM”).

A broadcast message is sent announcing the start of the auction. During the exposure period, the following orders and quotes are received:

Priority Customer 1 Complex Order: Sell 5 @ 3.05

Non-Customer 1 Complex Response: Sell 50 @ 3.05

Non-Customer 2 Complex Response: Sell 50 @ 3.05

Priority Customer 2 Regular Order: Sell 5 Option Class A @ 1.02

Priority Customer 3 Regular Order: Sell 5 Option Class B @ 2.03

At the end of the exposure period, the Complex Facilitation transaction is canceled since a trade at 3.05 with counter side orders/responses will violate the priority rules for Priority Customer 2 and Priority Customer 3 Regular Orders.

Example 3:

Suppose the following market in option class A:

ISE BBO: 10 @ 1.00 x 10 @ 1.05

Suppose further the following market in option class B:

ISE BBO: 10 @ 2.00 x 10 @ 2.05.

A complex order is entered into the Complex Facilitation Mechanism in the complex order book for a strategy buying 1 option class A and buying 1 option class B:

Agency Complex Order: Buy 50 @ 3.05

Contra Side Complex Order: Sell 50 @ 3.05

A broadcast message is sent announcing the start of the auction. During the exposure period, the following orders and quotes are received:

Priority Customer 1 Complex Order: Sell 5 @ 3.05

Non-Customer 1 Complex Response: Sell 50 @ 3.05

Non-Customer 2 Complex Response: Sell 50 @ 3.05

Non-Customer 3 Regular Order: Sell 40 Option Class A @ 1.02

Non-Customer 4 Regular Order: Sell 40 Option Class 5 @ 2.02

Non-Customer 5 Complex Response: Sell 10 @ 3.03

At the end of the exposure period, the following orders/responses trade with the Complex Agency Order:

Non-Customer 5 Complex Response: Sell 10 @ 3.03

Non-Customer 3 Regular Order: Sell 40 Option Class A @ 1.02

Non-Customer 4 Regular Order: Sell 40 Option Class 5 @ 2.02

In above example, the response and bids and offers on the individual legs can provide price improvement for the full size, hence the Complex Agency Order trades at improved price(s).

The Exchange also proposes to adopt text in Supplementary Material .08 to Rule 722 addressing how Customer Cross Orders apply to Complex Orders. As discussed above, Rule 717(d) and (e) apply when a member seeks to execute an order it represents as agent against a proprietary order (i.e., a facilitation transaction) or an order the member has solicited from another broker-dealer (i.e., a solicited transaction). Accordingly, transactions where neither side is for the account of a broker-dealer are not within the scope of Rule 717(d) and (e), and members can enter the buy and sell orders on the limit order book nearly simultaneously.[35] To make the execution of such customer

[35] Supplementary Material .01 to Rule 717 prohibits members from entering into arrangements designed to circumvent the exposure require for facilitation transactions. Accordingly, it would be a violation of Rule 717(d) for a member to effectively facilitate an order by providing an opportunity for a customer or other

orders more efficient, the Exchange developed a way to enter opposing customer orders using a single order type ("Customer Cross Orders").[36] Customer Cross Orders were limited to Priority Customer Orders in February 2010 after the Exchange adopted this sub-category of non-broker-dealer investors.[37]

Pursuant to Rule 721, Customer Cross Orders are automatically executed upon entry provided that the execution: (i) is at or between the best bid and offer on the Exchange, (ii) is not at the same price as a Priority Customer Order on the book, and (iii) will not trade through the NBBO.[38] Customer Cross Orders are rejected if they cannot be executed. Rule 721 also provides that Customer Cross Orders may only be entered in the trading increments applicable to the options class under Rule 710, and that Supplemental Material .01 to Rule 717, which prohibits a member from being a party to any arrangement designed to circumvent the requirements applicable to executing agency orders as principal, applies to Complex Customer Cross Orders.

Just as the Exchange has applied the exposure requirements of Rule 717(d) and (e) for facilitation and solicitation transactions involving Complex Orders, it has also provided for Complex Customer Cross Orders for the execution of off-setting complex Priority Customer Orders, which are not required to be exposed under Rule 717(d) and

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person (including affiliates) to regularly execute against agency orders handled by the member immediately upon their entry on the Exchange.

36 Securities Exchange Act Release No. 60253 (July 7, 2009), 74 FR 34063 (July 14, 2009) (SR-ISE-2009-34).

37 Securities Exchange Act Release No. 61433 (January 27, 2010), 75 FR 5824 (February 4, 2010) (SR-ISE-2010-04). See also, supra note 12 (definition of Priority Customer Order).

38 ISE Rule 1901 (Order Protection) prohibits members from trading through Protected Bids and Protected Offers from other options exchanges.

(e). The Exchange processes Complex Customer Cross Orders consistent with all of the applicable rules. Specifically, Rule 722(b) provides that "[e]xcept as otherwise provided in this Rule, Complex Orders shall be subject to all other Exchange Rules that pertain to orders generally." As discussed above, current Rule 722(b)(1) provides that Complex Orders may be traded in any decimal increment "regardless of the minimum increments otherwise applicable to the individual legs of the orders," Rule 722(b)(2) (renumbered Rule 722(c)(2) under the proposal) provides that a Complex Order may not trade at prices that are worse than the best bids and offers on the Exchange in the individual series (nor in most circumstances at the same price as a Priority Customer Order), and current Rule 722(b)(3) provides that "[c]omplex orders will be executed without consideration of any prices that might be available on other exchanges trading the same options contract." [39] Accordingly, when executing Complex Customer Cross Orders, the Exchange permits the execution of a Complex Customer Cross Order so long as it is at or better than the best price available for the same complex strategy on the complex order book and there are no Priority Customer Orders at that price on the complex order book as required by Rule 721(a). The Exchange also applies the regular trading increments for complex orders and Supplementary Material .01 to Rule 717 as specified in Rule 721(a). Pursuant to Rule 722(b)(3), the Exchange does not take into consideration prices available at other exchanges (i.e., there is no NBBO for Complex Orders or trade-through protection),[40] and applies instead the priority rules for Complex Orders contained in Rule 722(b)(2), which prevents a Complex Order from trading at prices that are worse than the best bids

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39 A transaction that is effected as a portion of a Complex Trade is exempted from the order protection rule. ISE Rule 1901(b)(7).

40 Id.

and offers on the Exchange in the individual series (and in most circumstances at the same price as a Priority Customer Order).

The Exchange believes that its application of the Customer Cross Order for Complex Orders is consistent with all applicable existing Exchange rules and with the purpose underlying Customer Cross Orders. Specifically, the Complex Customer Cross Order protects Priority Customer Orders on the complex order book just as Priority Customer Orders are protected in the regular market pursuant to Rule 721(a). Furthermore, by applying the priority rules for Complex Orders contained in Rule 722(b)(2) (renumbered Rule 722(c)(2) under the proposal), Priority Customer Orders on the Exchange for the individual series are protected to the same extent as when any other Complex Orders are executed on the complex order book, and in particular when two off-setting Priority Customer Orders are entered on the complex order book nearly simultaneously rather than as a single Customer Cross Order.

The Exchange also proposes to adopt text in Supplementary Material .08 to Rule 722 addressing how Qualified Contingent Cross Orders ("QCCs"), including QCC with Stock Orders, apply to Complex Options Orders. Pursuant to Rule 715(j), QCCs are orders to buy or sell at least 1000 contracts that are identified as being part of a qualified contingent trade, as that term is defined in Supplementary Material .01 to Rule 715.[41]

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[41] The definition of QCC trade is substantively identical to the Commission's definition of a Qualified Contingent Transaction ("QCT") for which the Commission, by order, has provided trade-through relief in the equities market. Securities Exchange Act Release No. 57620 (April 4, 2008), 73 FR 19271 (April 9, 2008) (the "QCT Release"). Pursuant to Supplementary Material .01 to ISE Rule 715, a QCC trade must meet the following conditions: (i) at least one component must be an NMS Stock; (ii) all the components must be effected with a product price contingency that either has been agreed to by all the respective counterparties or arranged for by a broker-dealer as principal or agent; (iii) the

QCCs are not limited to Priority Customers. QCCs are executed upon entry without being exposed provided that the execution is at or between the NBBO and is not at the same price as a Priority Customer Order on the Exchange's limit order book. QCCs were adopted in 2011 following the elimination of the trade-through exemption for block trades in the options market,[42] as the Exchange recognized that the loss of the block trade exemption would adversely affect the ability of ISE members to effect large trades that are tied to stock (i.e., Stock Options Orders and Stock-Complex Orders). The QCC addresses the dislocation resulting from elimination of the block trade exemption by permitting members to provide their customers a net price for the entire trade, and then allowing the members to execute the options leg of the trade on the ISE at a price at least equal to the NBBO while using the Qualified Contingent Trade ("QCT") exemption[43] to

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execution of one component must be contingent upon the execution of all other components at or near the same time; (iv) the specific relationship between the component orders (e.g., the spread between the prices of the component orders) must be determined by the time the contingent order is placed; (v) the component orders must bear a derivative relationship to one another, represent different classes of shares of the same issuer, or involve the securities of participants in mergers or with intentions to merge that have been announced or cancelled; and (iv) the transaction must be fully hedged (without regard to any prior existing position) as a result of other components of the contingent trade. Consistent with the QCT Release members must demonstrate that the transaction is fully hedged using reasonable risk-valuation methodologies.

42 Securities Exchange Act Release No. 63955 (File No. SR-ISE-2010-73), 76 FR 11533 (March 2, 2011) ("QCC Release"). The Distributive Linkage Plan replaced the Plan for the Purpose of Creating and Operating an Intermarket Option Linkage ("Old Linkage Plan"), and the Exchange's Linkage Rules replaced the existing ISE rules implementing the Old Plan (the "Old Linkage Rules"). The Old Linkage Plan and the Old Linkage Rules provided a limited Trade-Through exemption for "Block Trades," defined to be trades of 500 or more contracts with a premium value of at least $150,000. However, as with Regulation NMS, the Distributive Linkage Plan did not provide a Block Trade exemption.

43 See QCT Release, supra note 41.

effect the trade in the equities leg at a price necessary to achieve the net price. Pursuant to Rule 721(b), a QCC must be executed at a price that is at or between the NBBO. Furthermore, a QCC may not be executed at the same price as a Priority Customer Order in the series on the Exchange.

Qualified Contingent Transactions may have multiple options components, in which case members may enter QCCs with multiple options legs (i.e., a Complex Options Order), and the Exchange applies the same principles contained in Rule 721(b) when executing such orders. For clarity, the Exchange proposes to specify in Supplementary Material .08 to Rule 722 that Complex Options Orders entered as QCCs are automatically executed upon entry so long as: (i) the price of the transaction is at or within the best bid and offer for the same complex options strategy on the complex order book; (ii) there are no Priority Customer Complex Options Orders for the same strategy at the same price on the complex order book; and (iii) the individual options legs can be executed at prices that are at or between the NBBO for the individual series, and comply with the provisions of Rule 722(c)(2)(i), provided that no legs of the Complex Options Order can be executed at the same price as a Priority Customer Order on the Exchange in the individual options series. The proposed text also specifies that Complex Qualified Contingent Cross Orders are automatically canceled if they cannot be executed. In addition, Complex Qualified Contingent Cross Orders may only be entered in the regular trading increments applicable pursuant to Rule 722(c)(1), and each leg of a Complex Options Order must meet the 1000 contract minimum size requirement for Qualified Contingent Cross Orders.

The Exchange further believes that the proposed text is consistent with the requirements of Rule 721(b) and Rule 722, and that adding the proposed text to Rule 722 will provide clarity with respect to the execution of complex QCCs. In particular, the Exchange notes that in executing complex QCCs, Priority Customer Orders on the complex order book and Priority Customer Orders on the Exchange for the individual options series are protected. The purpose of allowing QCCs to be executed without exposure is to facilitate the execution of the options component of a QCT in the Exchange's electronic market. As such, the Exchange's initial QCC proposal did not provide for Priority Customer protection. However, the Exchange amended the proposal to provide for Priority Customer protection to alleviate concerns that adoption of the QCC, which is not limited to Priority Customers, would deprive Priority Customers of executions of their resting orders, which might also create a disincentive to placing Priority Customer limit orders on the Exchange.[44] In its approval order, the Commission noted that the QCC proposal was consistent with the NMS QCT Exemption, which found that QCTs are of benefit to the market as a whole and a contribution to the efficient functioning of the securities markets and the price discovery process, but also noted that the ISE's QCC proposal was narrowly drawn to provide a limited exception to the general principle of exposure, and that it retained the general principle of customer priority.[45] Accordingly, when implementing complex QCCs, the Exchange believed it was necessary and appropriate to protect Priority Customer Orders for the individual series in addition to Priority Customer Orders on the complex order book when executing complex QCCs. Similarly, the Exchange believed it was necessary and appropriate to

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[44] QCC Release, supra note 42 at 11541.

[45] Id.

execute the individual legs of complex QCCs only at prices that are at or between the NBBO for the individual series.

The proposed rules also explain how QCC with Stock Complex Orders are handled on the Exchange.[46] The QCC with Stock Order is a piece of functionality that facilitates the execution of stock component of qualified contingent trades.[47] In particular, a QCC with Stock Order is a QCC Order entered with a stock component to be communicated to a designated broker-dealer for execution. Since QCC Orders represent one component of a qualified contingent trade, each QCC Order must be paired with a stock transaction. Whereas members are required to separately execute the stock component of a regular Qualified Contingent Cross Complex Order, with a QCC with Stock Complex Order, the Exchange will attempt to facilitate the execution of the stock component in addition to the options component. When a member enters a QCC with Stock Complex Order, a Qualified Contingent Cross Complex Order is entered on the Exchange pursuant to Supplementary Material .08(e) to Rule 722. If the Qualified Contingent Cross Complex Order is executed, the Exchange will automatically communicate the stock component to the member's designated broker-dealer for execution. Alternatively, if the Qualified Contingent Cross Complex Order cannot be executed, the entire Complex QCC with Stock Order, including both the stock and options components, is cancelled.[48] Supplementary Material .01 – .03 to Rule 721 apply

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[46] See Proposed Rule 722(b)(16) and Supplementary Material .08(f) to Rule 722.

[47] See Securities Exchange Act Release No. 80090 (February 22, 2017), 82 FR 12150 (February 28, 2017) (SR-ISE-2017-12) ("QCC with Stock Notice").

[48] Members that execute the options component of a qualified contingent trade entered as a QCC with Stock Order remain responsible for the execution of the stock component if they do not receive an execution from their designated broker-

to the entry and execution of Complex QCC with Stock Orders. As explained in more detail in the QCC with Stock Notice,[49] QCC with Stock Orders assist members in maintaining compliance with Exchange rules regarding the execution of the stock component of qualified contingent trades, and help maintain an audit trail for surveillance of members for compliance with such rules.

Simultaneous Auctions

In addition to other language describing the Exchange's processes for auctioning eligible Complex Orders as described above, the Exchange proposes to add language to Proposed Supplementary Material .01(b)(iii) and Proposed Supplementary Material .08(c)(4)(vi) regarding the processing of simultaneous auctions. The Complex Order Exposure and Price Improvement Mechanisms are eligible for termination before the end of the exposure period pursuant to Supplementary Material .01(b)(ii) and .08(c)(4)(v) to Rule 722. Specifically, these auctions are subject to early termination on the receipt of a Complex Order or quote for the same complex strategy on either side of the market that is marketable against the complex order book or bids and offers for the individual legs (including when the system receives a marketable Complex Order though the Complex Uncrossing Process described in Supplementary Material .12 to Rule 722); or the receipt of a non-marketable Complex Order or quote for the same complex strategy on the same side of the market that would cause the price of the Complex Order being auctioned to be outside of the best bid or offer for the same complex strategy on the complex order book.

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dealer. The Exchange conducts surveillance to ensure that members execute the stock component of their qualified contingent trades. See id.

49 Id.

In the event auctions are early terminated, the auctions will be processed in the sequence in which they were started. Furthermore, if an early termination condition occurs on a component leg of a complex strategy, the component leg auctions are early terminated first. If the event also affects a complex strategy, then auctions in the complex strategy will be evaluated for early termination and processing after auctions for the component legs have been processed. Eligible interest remaining on the Exchange's order books after an auction trades may trade with subsequent auctions as those are processed. The Exchange notes that except as provided in Supplementary Material .08(a)(2), (b)(2) to Rule 722 with respect to trading halts, the Complex Facilitation Mechanism and Complex Solicitation Mechanism do not terminate prior to the end of the period given for the entry of Responses.

Price Limits for Complex Orders and Quotes

Current Rule 722(b)(3) (renumbered Rule 722(d) under the proposal) provides that complex strategies may be executed without consideration of any prices that might be available on other exchanges trading the same options contracts: (i) by trading on the complex order book, (ii) by legging to access liquidity on the regular order book, or (iii) through a process whereby Complex Orders are marked for price improvement (i.e., a Complex Order Exposure, as detailed in other parts of this rule change). Nevertheless, the Exchange believes that members may not want complex strategies to trade at prices that are significantly outside the market for the individual legs. Supplementary Material .07(a) to Rule 722 therefore establishes a risk protection that limits the amount that the legs of a complex strategy may be executed at prices inferior to the prices available on other exchanges trading the same options series.[50] The Exchange proposes to include a reference in this rule to the stock leg of Stock-Option Strategies and Stock-Complex Strategies as well for clarity. In particular, the legs of a complex strategy cannot trade through the national best bid or offer for the series or any stock component 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, series, or underlying basis.[51]

In addition, the Exchange proposes to amend this rule to state that, unless the applicable rule states otherwise, when calculating the best net price achievable from the best ISE bids and offers for the individual legs, the price of the stock leg is the national best bid or offer price calculated pursuant to this Supplementary Material .07(a) to Rule 722. In connection with this change, the Exchange also proposes to amend its rules for the Limit Order Price Protection pursuant to Supplementary Material .07(d) to Rule 722 to clarify that the national best bid or offer price is used for any stock leg. The Exchange believes that these two changes will increase transparency about the prices used by the Exchange for various purposes where the Exchange must derive a best bid or offer price from the prices available in the regular market.

Furthermore, Supplementary Material .07(d) to Rule 722 provides that the Exchange will reject Limit Complex Orders to buy (sell) if the net price of the Limit Complex Order exceeds (is below) the net price available from the individual options

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[50] Other options exchanges have similar rules for trading the legs of a complex order at prices at inferior prices. See e.g., BOX Rule 7240(b)(3)(iii)(A).

[51] Supplementary Material .07 to Rule 722 also allows members to include an instruction on their Complex Orders that each leg is to be executed at a price that is equal to or better than the national best bid or offer.

series on the Exchange by a specified amount. Currently, the Exchange's rule states that this limit is established for Complex Orders to buy (sell) as *the greater of* the net price available from the individual options series on the Exchange plus (minus) an absolute or percentage amount determined by the Exchange. While this reflects the limit order price protection for Limit Complex Orders to buy, it suggests that the Exchange will reject Limit Complex Orders to sell based on whether the Limit Complex Order is priced below the greater (rather than lesser) of (1) the net price available from the individual options series minus the applicable absolute amount, or (2) the net price available from the individual options series minus the percentage amount. To adequately describe the rule for Limit Complex Orders to sell, the Exchange proposes to amend this rule text to state that the limit is established for Complex Orders to buy (sell) as the net price available from the individual options series on the Exchange plus (minus) the *greater of the absolute or percentage values described in the rule*.

Trade Value Allowance

The Exchange proposes to adopt text in proposed Supplementary Material .09 to Rule 722 that clarifies how the Exchange handles Stock-Option Strategies and Stock Complex Strategies when different minimum trading increments are allowed for the stock and options legs of such trades. Members enter Stock-Option Strategies and Stock Complex Strategies on the complex order book with a single net price that includes all stock and option legs of the order. As the stock leg is eligible for execution at finer increments permitted by the equity market responsible for executing the stock portion of such orders,[52] Members can submit Stock Option Strategies and Stock Complex

[52] See Rule 722(c)(1).

Strategies with up to a number of decimal places determined by the Exchange. The options leg(s), however, must be executed in one cent increments, in keeping with the minimum increment permitted for options executions.[53] After calculating the appropriate options match price expressed in a valid one cent increment, the trading system will calculate the corresponding stock match price. This stock match price must be rounded to the increment supported by the equity market. In a small subset of cases, this rounding may result in a small difference between the expected notional value of the trade and the actual trade value (i.e., a "Trade Value Allowance").[54] Members generally prefer not to forgo an execution for their Stock-Option Strategies and Stock-Complex Strategies when there is a Trade Value Allowance, as the amount of the rounding is miniscule compared to the total value of the trade. Therefore, the Exchange offers to members functionality that allows Stock-Option Strategies and Stock-Complex Strategies to trade outside of their specified net prices so long as the amount of any Trade Value Allowance does not exceed a value determined by the member. Members have the option of opting out of this functionality if they do not want their orders to be executed when there is a Trade Value Allowance of any amount. In such cases, the Exchange will strictly enforce the net price marked on the order. For members that do not supply their own values, default values determined by the Exchange and announced to members will be applied instead. Any amount of Trade Value Allowance is permitted for auction orders pursuant to

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53 Id.

54 Proposed Supplementary Material .09 to Rule 722 defines "Trade Value Allowance" as the percentage difference between the expected notional value of a trade and the actual notional value of the trade.

Supplementary Material .08 to Rule 722 that do not trade solely with their contra-side order.

<u>Example</u>:

- Member has set a Trade Value Allowance of 0.05% of the expected trade value.
- Member enters order to Sell 57 shares of ABC stock and Buy a Jan 80 ABC call with a net price of $43.746 and a quantity of 77.
- Order matched with corresponding contra order on the complex order book.
- The expected trade value based on the order's limit price / quantity and a contract multiplier of 100 is $336844.20 – i.e., $43.746 x 77 x 100.
- Calculated options match price is $2.39 based on market prices and the stock match price is $80.940351 (rounded to six decimals).
- The rounding of the stock match price results in a total notional trade value of $336844.200539 – i.e., 77 x (($80.940351 x 57) - ($2.39 x 100)).
- The total notional Trade Value Allowance is approximately $0.000539 – i.e., less than one cent.
- Order is executed as the Trade Value Allowance is less than 0.05% of the expected trade value of $336,844.20.

Trade Value Allowance is helpful as this feature allows members to receive an expeditious execution, and trade the stock and options components of a Stock-Option Strategy or Stock-Complex Strategy in a moving market without introducing legging risk. Without this functionality members would be forced to resubmit their orders and potentially receive a much worse price or miss an execution.

Complex Opening Process

Options series traded on the Exchange are opened pursuant to Rule 701 at the opening of the Exchange each business day, or during the reopening of the market after a trading halt.[55] Proposed Supplementary Material .10 describes the Exchange's Complex Opening Process, and provides that after each of the individual component legs have opened, or reopened following a trading halt, Complex Options Strategies will be opened pursuant to the Complex Opening Price Determination described in Supplementary Material .11 to Rule 722, and Stock-Option Strategies and Stock-Complex Strategies will be opened pursuant to the Complex Uncrossing Process described in Supplementary Material .12(b) to Rule 722.[56] Each of these processes is described in more detail below.

Complex Opening Price Determination

Complex Options Strategies are opened pursuant to an opening process that attempts to execute Complex Orders and quotes on the complex order book at a single price that is within Boundary Prices that are constrained by the NBBO for the individual legs, thereby serving an important price discovery function.

Proposed Supplementary Material .11(b) to Rule 722 provides that eligible interest during the Complex Opening Price Determination includes Complex Orders and quotes on the complex order book except the non-displayed portion of Reserve Complex Orders. The non-displayed portion of a Reserve Complex Order is contingent, non-

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55 Complex orders and quotes are disseminated to subscribers of the Exchange's market data feeds prior to the commencement of the Complex Opening Process. When the complex strategy has opened the Exchange disseminates a trading state indicating that regular trading has begun.

56 The Complex Uncrossing Process is also used during regular trading when a resting Complex Order or quote that is locked or crossed with other interest becomes executable.

displayed interest, and therefore not eligible for the Complex Opening Process. Allowing only the displayed portion of Reserve Complex Orders to participate in the Complex Opening Price Determination encourages members to enter displayed interest to participate in the opening auction, and ensures that the price discovery that occurs in the Complex Opening Price Determination is not skewed by interest that is not displayed to market participants. The non-displayed portion of a Reserve Complex Order may participate in the Complex Uncrossing Process pursuant to Proposed Supplementary Material .12(b) and thereby receive an execution during the Complex Opening Process. In addition, only interest on the complex order book is considered for the Complex Opening Price Determination as this part of the process is designed to promote price discovery for the complex strategy, and therefore bids and offers for the individual legs of the Complex Strategy are not eligible to participate in the Complex Opening Price Determination but will participate in the Complex Uncrossing Process.

Proposed Supplementary Material .11(c) to Rule 722 describes the Exchange's process for opening when the best bid for a complex strategy does not lock or cross the best offer. In particular, if the best bid for a complex strategy does not lock or cross the best offer, there will be no trade in the Complex Opening Price Determination and the complex strategy will open pursuant to the Complex Uncrossing Process described in Supplementary Material .12(b) to Rule 722. The Exchange believes that it is appropriate to open with a Complex Order Uncrossing when the complex order book is not executable in the Complex Opening Price Determination as the uncrossing process supports the trading of additional interest and will thereby provide another opportunity for Complex Orders and quotes to be executed in the Complex Opening Process.

Proposed Supplementary Material .11(d) to Rule 722 describes the Exchange's process for opening a Complex Strategy when a trade may be possible – i.e., if the best bid for the complex strategy locks or crosses the best offer.

First, the system calculates Boundary Prices[57] at or within which Complex Orders and quotes may be executed during the Complex Opening Price Determination. Boundary prices are calculated to ensure that the opening price is at or within the individual bids and offers established in the market. In particular, the Boundary Prices are calculated based on the NBBO for the individual legs; provided that, if the NBBO for any leg includes a Priority Customer order on the Exchange, the system adjusts the Boundary Prices according to Rule 722(c)(2).

Example 1:

- Complex strategy to buy 1 contract of Series A and 1 contract of Series B
- ABBO for Series A is $1.00 x $1.03
- ISE BBO for Series A is $1.01 x 1.04
- ABBO for Series B is $0.98 x $1.01
- ISE BBO for Series B is $0.98 x $1.02
- *Boundary price is $1.99 x $2.04*

Example 2:

- Market is the same as described in Example 1 above except that the ISE BBO for Series B includes a Priority Customer order on the bid
- *Boundary price is $2.00 x $2.04 as the bid boundary is adjusted according to Rule 722(c)(2)*

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57 See Proposed Supplementary Material .11(d)(i) to Rule 722.

Next, the Exchange will calculate the Potential Opening Price[58] and Opening Price[59] pursuant to Proposed Supplementary Material .11(d)(ii)-(iv) to Rule 722.

The Potential Opening Price is first calculated pursuant to Proposed Supplementary Material .11(d)(ii) to Rule 722 by identifying the price(s) at which the maximum number of contracts can trade ("maximum quantity criterion") taking into consideration all eligible interest pursuant to Supplementary Material .11(b) to Rule 722. Proposed Supplementary Material .11(d)(iii) to Rule 722 also outlines additional considerations for calculating the Potential Opening Price when multiple prices would satisfy the maximum quantity criterion. Generally, when two or more Potential Opening Prices would satisfy the maximum quantity criterion: (A) without leaving unexecuted contracts on the bid or offer side of the market at those prices, the system takes the highest and lowest of those prices and takes the mid-point; provided that (1) if the highest and/or lowest price described above is through the price of a bid or offer that is priced to not allocate in the Complex Opening Price Determination, the highest and/or lowest price will be rounded to the price of such bid or offer that is priced to not allocate before taking the mid-point, and (2) if the mid-point is not expressed as a permitted minimum trading increment, it will be rounded down to the nearest permissible minimum trading increment; or (B) leaving unexecuted contracts on the bid (offer) side of the market at those prices, the Potential Opening Price is the highest (lowest) executable bid (offer) price. Notwithstanding the foregoing: (C) if there are Market Complex Orders on the bid (offer) side of the market that would equal the full quantity of Complex Orders and

58 See Supplementary Material .11(d)(ii)-(iii) to Rule 722.

59 See Supplementary Material .11(d)(iv) to Rule 722.

quotes on offer (bid) side of the market, the limit price of the highest (lowest) priced Limit Complex Order or quote is the Potential Opening Price; and (D) if there are only Market Complex Orders on both sides of the market, or if there are Market Complex Orders on the bid (offer) side of the market for greater than the total size of Complex Orders and quotes on the offer (bid) side of the market, there will be no trade in the Complex Opening Price Determination and the complex strategy will open pursuant to the Complex Uncrossing Process described in Supplementary Material .12(b) to Rule 722. The examples below illustrate the scenarios discussed above, opening a complex strategy to buy 1 contract of Series A and 1 contract of Series B.

<u>Example 3</u>:

- The following Complex Orders are on the complex order book:
    - Buy Complex Order for 10 contracts at $0.42
    - Buy Complex Order for 10 contracts at $0.41
    - Sell Complex Order for 10 contracts at $0.32
    - Sell Complex Order for 10 contracts at $0.35
- 20 contracts can be allocated at prices between $0.35 and $0.41 without leaving unexecuted contracts on the bid or offer side of the market of Complex Orders and quotes to be traded at those prices.
- The system therefore takes the mid-point of these prices (i.e., $0.38) as the Preliminary Opening Price pursuant to paragraph (A) above.

<u>Example 4:</u>

- The following Complex Orders are on the complex order book:
    - Buy Complex Order for 10 contracts at $0.42

  - Buy Complex Order for 10 contracts at $0.41
  - Buy Complex Order for 10 contracts at $0.33
  - Sell Complex Order for 20 contracts at $0.32
  - Sell Complex Order for 10 contracts at $0.35

- 20 contracts can be allocated at prices between $0.32 and $0.41 without leaving unexecuted contracts on the bid or offer side of the market of Complex Orders and quotes to be traded at those prices; however, both of those prices are through the price of a bid or offer that is priced not to allocate – i.e., the Buy Complex Order at $0.33 and the Sell Complex Order at $0.35.
- The system therefore rounds these prices to the price of interest priced not to allocate (i.e., $0.33 and $0.35) before taking the mid-point of these prices (i.e., $0.34) as the Preliminary Opening Price pursuant to paragraph (A) above.

Example 5:

- The following Complex Orders are on the complex order book:
  - Buy Complex Order for 20 contracts at $0.41
  - Sell Complex Order for 10 contracts at $0.35
- 10 contracts can be allocated at prices between $0.35 and $0.41 leaving unexecuted contracts on the bid side of the market of Complex Orders and quotes to be traded at those prices (i.e., 10 contracts to buy).
- The system therefore takes the highest executable bid (i.e., $0.41) as the Preliminary Opening Price pursuant to paragraph (B) above.

Example 6:

- The following Complex Orders are on the complex order book:

  - o Buy Market Complex Order for 20 contracts
  - o Sell Complex Order for 10 contracts at $0.35
  - o Sell Complex Order for 10 contracts at $0.40
- The 20 contracts of Market Complex Order quantity on the bid side of the market equals the full 20 contracts available on the offer side of the market.
- The system therefore takes limit price of the highest priced Limit Complex Order (i.e., the Sell Complex Order priced at $0.40) as the Preliminary Opening Price pursuant to paragraph (C) above.

Example 7:

- The following Complex Orders are on the complex order book:
  - o Buy Market Complex Order for 30 contracts
  - o Sell Complex Order for 10 contracts at $0.35
  - o Sell Complex Order for 10 contracts at $0.40
- The 30 contracts of Market Complex Order quantity on the bid side of the market exceeds the full 20 contracts available on the offer side of the market.
- There is no Potential Opening Price and no trade is possible in the Opening Price Determination pursuant to paragraph (D) above. The Complex Opening Process continues to the Complex Uncrossing Process.

Pursuant to Proposed Supplementary Material .11(d)(iv) to Rule 722, if the Potential Opening Price is at or within the Boundary Prices, the Potential Opening Price becomes the Opening Price. If the Potential Opening Price is not at or within the Boundary Prices, the Opening Price will be the price closest to the Potential Opening Price that satisfies the maximum quantity criteria without leaving unexecuted contracts on the bid or offer side of the market at that price and is at or within the Boundary Prices. If the bid Boundary Price is higher than the offer Boundary Price, or if no valid Opening Price can be found at or within the Boundary Prices, there will be no trade in the Complex Opening Price Determination and the complex strategy will open pursuant to the Complex Uncrossing Process described in Supplementary Material .12(b) to Rule 722.

Example 8:

- Individual leg prices are the same as Example 1 in this opening section. In addition, the following Complex Orders are on the book:
    - Buy Complex Order 1 for 10 contracts at $2.02
    - Buy Complex Order 2 for 15 contracts at $2.03
    - Sell Complex Order 3 for 30 contracts at $2.02
- $2.02 is the Preliminary Opening Price as this is the price at which the maximum size of 25 contracts can be allocated. Since $2.02 is at or within the Boundary Prices (see Example 1) it is also the Opening Price.
- Buy Complex Order 1 and Buy Complex Order 2 are executed in full; Sell Complex Order 3 executes 25 contracts.
- The remaining 5 contracts of Sell Complex Order 3 will rest on the complex order book as there is no locked/crossed interest to participate in the Complex Uncrossing Process.

Example 9:

- Individual leg prices are the same as Example 1 in this opening section. In addition, the following Complex Orders are on the book:

- Buy Complex Order 1 for 20 contracts at $2.06
- Sell Complex Order 1 for 20 contracts at $2.04

- 20 contracts can be allocated at prices between $2.04 and $2.06 without leaving unexecuted contracts on the bid or offer side of the market of Complex Orders and quotes to be traded at those prices.
- The system therefore takes the mid-point of these prices (i.e., $2.05) as the Preliminary Opening Price pursuant to paragraph (A) above.
- Since $2.05 is outside the Boundary Prices (see Example 1) the Opening Price will be $2.04 – i.e., the price closest to the Potential Opening Price that satisfies the maximum quantity criteria without leaving unexecuted contracts on the bid or offer side of the market at that price and is at or within the Boundary Prices.

Finally, the Exchange will allocate contracts to trade during the Complex Opening Process. In particular, where there is an execution possible, the system will give priority to Market Complex Orders first, then to resting Limit Complex Orders and quotes on the complex order book. The allocation provisions of Rule 722(d)(2) apply with respect to Complex Orders and quotes with the same price with priority given first to better priced interest.

Proposed Supplementary Material .11(vi) to Rule 722 provides that the system will refresh Reserve Complex Orders pursuant to Rule 722(b)(4)(iv) following the execution of the displayed portion of Reserve Complex Orders in the process described above.

Proposed Supplementary Material .11(vii) to Rule 722 describes the Exchange's process for uncrossing the complex order book following the Complex Opening Price Determination described above. In particular, if the complex order book remains locked or crossed following the steps described above, the system will process any remaining Complex Orders and quotes, including Opening Only Complex Orders and the non-displayed portion of Reserve Complex Orders, in accordance with the Complex Uncrossing Process described in Supplementary Material .12(b) to Rule 722. Bids and offers for the individual legs of the complex strategy will be eligible to participate in the Complex Uncrossing Process.

Complex Uncrossing Process

Proposed Supplementary Material .12(b) to Rule 722 describes the Exchange's process for uncrossing the complex order book when a resting Complex Order or quote that is locked or crossed with other interest becomes executable during regular trading or as part of the Complex Opening Process. The Complex Uncrossing Process applies to Complex Options Strategies, Stock-Option Strategies, and Stock-Complex Strategies. Complex strategies are uncrossed using the following procedure: First, the system identifies the oldest Complex Order or quote among the best priced bids and offers on the complex order book – i.e., based on the limit or market price of Complex orders and quotes on the complex order book. When determining which bids and offers are at the best price, all Complex Orders and quotes are considered at their limit or market price. A Complex Order entered with an instruction that it must be executed at a price that is equal to or better than the national best bid or offer pursuant to Supplementary Material .07(a) to Rule 722 is also considered based on its actual limit or market price and not the price of the national best bid or offer for the component legs at which the order would be executed, as would otherwise be the case. Then, the selected Complex Order or quote is matched pursuant to Rule 722(d)(2)-(3) with resting contra-side interest on the complex order book and, for Complex Orders, bids and offers for the individual legs of the complex strategy. This process is repeated until the complex order book is no longer executable.[60]

Example 10:

- Individual leg prices are the same as Example 1 above. In addition, the following Complex Orders and quotes are on the book:
  - Sell Complex Order 1 at $2.02 submitted at time T1
  - Sell Complex Order 2 at $2.02 submitted at time T2
- ISE Bid on Series B improves to $1.01 such that the leg markets are now executable with the resting Sell Complex Orders.
- Complex Uncrossing Process will occur. Complex Order 1 is the oldest Complex Order at the best price and is selected and trades with the leg markets first – i.e. Complex Order 1 will trade with the ISE Best Bid on Series A at 1.01 and the ISE Best Bid on Series B at 1.01. After Complex Order 1, Complex Order 2 will be selected and can trade with the remaining quantity on the leg markets.

The Complex Uncrossing Process serves an important function when used in the Complex Opening Process and during regular trading. The Complex Opening Price Determination described in the section above is designed to permit interest residing on the complex order book to trade at a single price pursuant to a price discovery process

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60 The Exchange will manage and curtail repetition of the Complex Uncrossing Process so as to not negatively impact system capacity and performance.

within Boundary Prices that are constrained by the NBBO for the individual legs. There may be additional interest on the complex order book that could trade, for example, by legging to access liquidity on the regular order book. In addition, trades during the Complex Uncrossing Process are not constrained by the NBBO for the individual legs and can instead trade at prices permitted under Supplementary Material .07 to Rule 722, which allows the legs of a complex strategy to trade through the NBBO for the individual legs by a configurable amount. The Exchange therefore continues the Complex Opening Process by performing an uncrossing if the Complex Opening Price determination fails to discover an appropriate execution price (for example, if no valid Opening Price can be found at or within the Boundary Prices) or where there continues to be interest that is locked or crossed after Complex Orders and quotes are executed in the Complex Opening Price Determination. Furthermore, the Complex Uncrossing Process provides an efficient and fair way of determining how to execute Complex orders and quotes when interest that is locked or crossed becomes executable during regular trading. During the trading day there may be Complex Orders and quotes on the complex order book that are locked or crossed with other interest but that are not executable, for example, because the legs cannot be printed at permissible prices. When market conditions change and these Complex Orders or quotes become executable, the Exchange uses the Complex Uncrossing Process to execute Complex Orders or quotes against resting contra-side interest.

Updates to Rule 722

The first two paragraphs of Rule 722 currently provide for the delay of re-introduction for certain complex functionality until specified dates, namely the legging functionality for Stock-Option Orders and functionality which permits concurrent complex order auctions, as further described in this Rule. The Exchange now proposes to update the rule references presently contained in these provisions to reflect the proposed renumbering and expansion of rules described above.[61]

b. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Securities Exchange Act of 1934 (the "Act")[62] in general, and furthers the objectives of Section 6(b)(5) of the Act[63] in particular, in that it is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism for a free and open market and a national market system, and, in general, to protect investors and the public interest. The proposed rule change provides greater clarity regarding how Complex Orders are processed on the Exchange and expands upon various existing provisions within the Exchange's rules, including by adopting a rule that addresses the Exchange's process for opening complex strategies. The Exchange therefore believes that the proposed rule change will better enable members and investors to make informed decisions regarding the use of Complex Orders on the Exchange.

Specifically, with respect to the proposed changes to the definitions contained in Rule 722, the Exchange believes it is consistent with Section 6(b)(5) of the Act to more clearly identify Complex Options Strategies, Stock-Option Strategies and Stock-Complex

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[61] Specifically: current Rule 722(b)(3)(ii) (proposed Rule 722(d)(3)), current Rule 722(b)(3)(iii) (proposed Rule 722(d)(1) and Supplementary Material .01 to Rule 722), current Supplementary Material .08 to Rule 716 (proposed Supplementary Material .08(a) and .08(b) to Rule 722), and current Supplementary Material .09 to Rule 723 (proposed Supplementary Material .08(c) to Rule 722).

[62] 15 U.S.C. 78f(b).

[63] 15 U.S.C. 78f(b)(5).

Strategies (collectively complex strategies), including by indicating that the Exchange may limit the applicable number of legs accepted for each of these types of complex strategies, and to adopt separate definitions for orders in those strategies (as opposed to quotes) so that differences in processing are reflected more clearly in the Exchange's Rules. Similarly, the Exchange believes specifying which order types and designations contained in Rule 715 for regular orders on the Exchange apply to Complex Orders and specifying any differences with respect to the processing of Complex Orders within proposed Rule 722(b) will bring clarity to the available Complex Order types. The added clarity will also assist investors with determining which types of Complex Orders they can trade on the Exchange in order to fully realize their trading and hedging potential. With respect to Exposure Orders and Exposure Only Orders, the Exchange believes it is reasonable to provide an opportunity for investors to seek to have their orders exposed for an opportunity for price improvement. Furthermore, the Exchange believes that it is appropriate to give members the option to have such orders canceled if they are not eligible for exposure (i.e., for Exposure Only Orders) or have those orders entered on the complex order book (i.e., for Exposure Orders) based on their trading needs. With respect to legging orders,[64] the Exchange believes that the proposed rule amendments will more clearly articulate that only Complex Options Order strategies can generate legging orders, and that a Reserve Complex Order will only generate a legging order from its displayed quantity to avoid exposing non-displayed size to market participants.

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64 See Rule 715(k).

The Exchange also believes that specifying that bids and offers for Complex Options Strategies may be expressed in $0.01 increments,[65] and that the options legs of complex strategies may be executed in $0.01 increments and not in "any decimal price" will remove any confusion regarding the applicable increment that may have existed with the current language that applied to all complex strategies. The rule will continue to state that Stock-Option Strategies and Stock-Complex Strategies are accepted in decimal increments, but the Exchange is clarifying the permitted increments will be determined by the Exchange with notice to its members.[66] The Exchange believes that smaller increments are appropriate for complex strategies that have a stock component since the stock leg of such strategies are permitted to trade in finer increments than permitted in the options market. The proposed rule therefore gives the Exchange flexibility to adopt minimum increments that are appropriate for the trading of these strategies. Moreover, specifying the minimum trading increments for complex strategies in the Supplementary Material to Rule 710 will remove any potential confusion as to the application of Rule 710 to Complex Orders.

The Exchange further believes that is it consistent with Section 6(b)(5) of the Act to provide greater clarity to the priority of complex strategies with respect to bids and offers for the individual component series on the Exchange by re-formatting Rule 722(b)(2) (renumbered Rule 722(c)(2) under the proposal) and replacing certain references with defined terms. The Exchange also believes that it is consistent with the protection of investors and the public interest to add language in Proposed Rule

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65 See Rule 722(c)(1).

66 The stock leg may be executed in any decimal price permitted in the equity market.

722(c)(2)(iv) that explains that complex strategies may be executed on the complex order book without giving priority to the non-displayed portion of Reserve Orders on the bids or offers for the individual legs of the complex strategy. As explained in the purpose section of this proposed rule change, complex strategies may be executed without giving priority to the non-displayed portion of a Reserve Order in the regular market as this non-displayed interest has no priority on the book, and is only available for execution after all displayed interest has been executed. The Exchange believes that the proposed changes to Rule 722(b)(3) (renumbered Rule 722(d) under the proposal) regarding the execution of complex strategies will also bring clarity to how complex strategies are executed. In particular, the proposal specifies that complex strategies are not executable unless the requirements of Rule 722(b)(2) (renumbered Rule 722(c)(2) under the proposal), regarding the protection of Priority Customer orders in the regular market, are satisfied, and more clearly identifies the sequence of complex strategy processing.

The Exchange also believes that providing for an auction process whereby Complex Orders that improve upon the best price for the same options strategy on the complex order book benefits such Complex Orders by giving them an opportunity for price improvement, and that the exposure process specified in the proposed rule change is consistent with the requirements of Section 6(b)(5) of the Act.[67] The proposed rule provides a fair opportunity for all members to participate in the execution of such Complex Orders according to the existing execution priority rules for Complex Orders. In particular, the Exchange notes that the proposed rule does not exclude any market participants from initiating or participating in the Complex Order auction and that all of

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[67] See Supplementary Material .01 to Rule 722.

the material terms of the order are included in the broadcast message. Additionally, the proposed rule assures that the exposure process will not interrupt the processing of Complex Orders by terminating the auction upon the receipt of certain Complex Orders for the same complex strategy. Specifically, the exposure period for a Complex Order will end immediately upon the receipt of a Complex Order or quote for the same options strategy on either side of the market that is marketable against the complex order book or bids and offers for the individual legs, which assures that incoming orders are not delayed by the exposure process. The exposure period for a Complex Order will also be terminated upon the receipt of a non-marketable Complex Order or quote for the same complex strategy on the same side of the market that would cause the price of the Complex Order to be outside of the best bid or offer for the same complex strategy on the complex order book, which protects the Complex Order being exposed from missing an execution opportunity. The Exchange further notes that investors are given the ability to designate whether or not their Complex Orders should be exposed for price improvement if eligible. Thus, the proposed rule specifies a process designed to balance the needs of investors that prefer an immediate execution and those that prefer an opportunity for price improvement.

The Exchange believes that specifying in Supplementary Material .03 to Rule 722 that market makers can enter quotes in classes selected by the Exchange will enhance clarity for members and investors as the Exchange has traditionally offered complex quoting functionality in only a limited number of symbols. Although complex quoting functionality has not yet been implemented on INET,[68] the Exchange intends to continue this practice when complex quoting is re-enabled. Any classes selected by the Exchange for complex quoting are announced to the membership via Options Trader Alert, and market makers can enter Complex Orders in all classes regardless of whether quoting is permitted. In addition, the Exchange believes that it is appropriate to remove references to “complex order strategies” in the Market Maker Speed Bump rule (i.e., Supplementary Material .04 to Rule 722) as the proposed rules now contain a more specific definition of “Complex Options Strategies.” Due to the nature of the Market Maker Speed Bump, which is based exclusively on options contracts executed, this protection applies only to Complex Options Strategies and not to complex strategies that have a stock component – i.e., Stock-Option Strategies and Stock-Complex Strategies. The Exchange does not believe that the stock and options components of a Stock-Option Strategy or Stock-Complex Strategy can be combined in a way that provides a meaningful measure of risk exposure for members, and has therefore determined not to provide the Market Maker Speed Bump for these complex strategies.

The Exchange believes that specifying in Rule 722(c)(3) that the requirements of Rule 717(d) and (e) apply to the execution of Complex Orders will provide clarity to members. The Exchange further believes that moving the text related to the execution of Complex Orders in the various crossing mechanisms into Supplementary Material .08 to Rule 722 will better enable members to understand how Complex Orders may be executed in compliance with the requirements of Rule 717(d) and (e), and that the proposed non-substantive changes to the existing text will provided greater detail and

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68 See Securities Exchange Act Release No. 80613 (April 26, 2017), 82 FR 22022 (May 11, 2017) (SR-ISE-2017-37).

clarity regarding how Complex Orders are processed by the mechanisms. The Exchange also proposes to add additional detail to the Supplementary Material .08 to Rule 722 to more fully describe the operation of the Exchange's crossing mechanisms, including but not limited to the prices at which Complex Orders can be entered into the Complex Facilitation, Solicited Order, and Price Improvement Mechanisms. These proposed changes reflect the current operation of the Exchange's crossing mechanisms for Complex Orders, and are intended to provide additional details as are customary for rules today.

As discussed in detail above, the Exchange also believes that the proposed rule changes related to complex Customer Cross Orders[69] and complex QCCs – including Complex QCC Orders[70] and Complex QCC with Stock Orders[71] where the Exchange attempts to facilitate the execution of the stock component of the transaction to aid members in meeting their compliance obligations – is consistent with all applicable rules and with Section 6(b)(5) of the Act. Specifically, with respect to complex Customer Cross Orders which are not subject to the general principle of exposure, Priority Customer Orders on the Exchange for the individual series are protected to the same extent as when any other Complex Orders are executed on the complex order book. The Exchange believes that in this context, where two Priority Customer Complex Orders are being executed, it is reasonable and consistent with existing rules to apply the requirements of Rule 722(b)(2) and (b)(3) (renumbered Rule 722(c)(2) and 722(d)

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69 See Supplementary Material .08(d) to Rule 722.

70 See Supplementary Material .08(e) to Rule 722.

71 See Supplementary Material .08(f) to Rule 722.

respectively). Indeed, it would be contrary to investor expectations if entering a complex Customer Cross Order reduced the opportunity for execution as compared to entering two separate Priority Customer Orders on the complex order book nearly simultaneously. In contrast, with respect to complex QCCs, which are not limited to Priority Customer Orders and were narrowly drawn to provide a limited exception to the general principle of exposure, the Exchange believes it is necessary and appropriate to restrict the execution if there are Priority Customer Orders on the Exchange in the individual options series at the same price or if the net price cannot be achieved at or within the NBBO for the individual series. The Exchange further believes that the proposed rule change to specify how complex Customer Cross Orders and complex QCCs are processed in Supplementary Material .08 to Rule 722 will provide clarity to members and investors.

Furthermore, the Exchange believes that it is consistent with the protection of investors and the public interest to update its rules to clarify in Supplementary Material .07(a) to Rule 722 how the stock leg is considered when determining the best net price achievable from the ISE bids and offers for the individual legs. Although it is clear what this language means with respect to Complex Options Orders when the bids and offers for the individual legs refer to interest on the Exchange’s regular order book, it is not currently clear with respect to the stock leg of Stock-Option Orders and Stock-Complex Orders. The stock leg of Stock-Option Orders and Stock-Complex Orders are permitted to trade through the national best bid or offer pursuant to the QCT exemption under Regulation NMS. To reinforce that these complex strategies benefit from the QCT Exemption, the Exchange proposes in Supplementary Material .13 to Rule 722 to provide that Members may only submit Complex Orders and quotes in Stock-Option Strategies and Stock-Complex Strategies if such Complex Orders and quotes comply with the QCT exemption. Members submitting Complex Orders and quotes in Stock-Option Strategies and Stock-Complex Strategies represent that they comply with the QCT exemption. The Exchange believes that explaining this in its rules will increase transparency around the operation of the Exchange to the benefit of members and other market participants that trade on the Exchange.

With respect to Supplementary Material .07(d) to Rule 722, the Limit Order Price Protection is designed to ensure that orders are entered at prices that are reasonably related to the market. The Exchange therefore believes that it is appropriate to use the national best bid or offer price for this purpose, and is making it clear that the national best bid or offer price of the stock leg is used for this system protection.

In addition, with respect to the other change to the Limit Order Price Protection rules, the Exchange believes that the proposed rule change will clarify how this system protection applies to Limit Complex Orders to sell. As explained above, the proposed rule text more accurately describes how the Exchange calculates the boundary prices used to determine when Limit Complex Orders to sell will be rejected.

The Exchange also believes that codifying the Trade Value Allowance process in Supplementary Material .09 to Rule 722 will more accurately describe how complex strategies are executed. The Chicago Board Options Exchange ("CBOE") also has similar rules for trading complex orders in open outcry.[72] Due to the rounding process, an order or quote for a Stock-Option Strategy or Stock-Complex Strategy can trade through its net price by an insignificant amount relative to the value of the trade. Members generally

[72] See Interpretations and Policies .01 to CBOE Rule 6.41, which requires members to resolve similar trade value differences in favor of the customer.

prefer not to forgo an execution for their Stock Option Strategies and Stock-Complex Strategies when there is a Trade Value Allowance, as the amount of the rounding is miniscule compared to the value of the trade. As explained earlier, the Trade Value Allowance feature allows members to receive an expeditious execution, and trade the stock and options components of a Stock-Option Strategy or Stock-Complex Strategy in a moving market without introducing legging risk. Without this functionality members would be forced to resubmit their orders and potentially receive a much worse price or miss an execution. While the Exchange believes that the majority of members want their Stock-Option Strategies and Stock-Complex Strategies to be handled this way, this functionality is optional, giving members the ability to require strict enforcement of the net price marked on the order; provided that any Trade Value Allowance is permitted for auction orders pursuant to Supplementary Material .08 to Rule 722 that do not trade solely with their contra-side order in order to facilitate executions in these mechanisms. Permitting any amount of Trade Value Allowance in these limited circumstances ensures that an auction order that cannot trade with its contra-side order due to better priced Responses or interest on the Exchange's order books is not thereafter prohibited from executing due to an economically insignificant amount of trade value difference.

The Exchange also believes that the codifying the Complex Opening Process, Complex Opening Price Determination, and Complex Uncrossing Process is designed to promote just and equitable principles of trade because it will increase transparency with respect to the Exchange's processes for opening and uncrossing complex strategies. The proposed rules describe the Exchange's current process for opening complex strategies, including provisions that describe eligible interest, the calculation of an appropriate

Opening Price at which such interest will be executed, and allocation of contracts between market participants. The Complex Opening Price Determination is designed to provide an opportunity for members to trade complex strategies in a transparent opening rotation at a price that is within the NBBO prices of the individual legs prior to uncrossing the complex strategy in the Complex Uncrossing Process to allow additional interest to participate. The Exchange believes that codifying this process in the Exchange's rulebook will be helpful to members and other market participants that participate in the Complex Opening Price Determination. The proposed rules also detail the Exchange's process for uncrossing the complex order book when resting Complex Orders and quotes become executable during regular trading or as part of the Complex Opening Process. The Exchange believes that describing this process in its rules is helpful to members and other market participants as it adds additional information about how Complex Orders and quotes are executed when the complex order book becomes executable, for example, due to updated prices in market for the individual legs of the complex strategy. The Exchange believes that the Complex Opening Process, Complex Opening Price Determination, and Complex Uncrossing Process are each designed to perfect the mechanism of a free and open market and a national market system, and protect investors and the public interest.

In addition, the Exchange further believes that the proposal removes impediments to and perfects the mechanism of a free and open market by ensuring that members, regulators and the public can more easily navigate the Exchange's rulebook and better understand the types of complex strategies available for trading on the Exchange and the manner in which such strategies are traded. The Exchange believes the proposed changes to the rules will benefit investors as they improve the readability of and further simplify the Exchange's rules regarding complex strategies. Similarly, the Exchange believes that the updates to the rule references in Rule 722 to reflect the proposed renumbering and expansion of rules will add further clarification to the Exchange's rulebook, and will also alleviate potential confusion as to the applicability of its rules, which will protect investors and the public interest.

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 that is not necessary or appropriate in furtherance of the purposes of the Act. The proposed rule change provides greater clarity regarding how complex strategies are processed on the Exchange and expands upon various existing provisions within the Exchange's rules. The Exchange notes that it operates in a highly competitive market in which market participants can readily direct order flow to competing venues who offer similar functionality. The Exchange believes the proposed rule change will enhance competition among the various markets for Complex Order execution, potentially resulting in more active Complex Order trading on all exchanges. The Exchange notes that as to intramarket competition, the proposed rule change treats all Exchange participants equally, as fully described above.

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)

Not applicable.

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

The proposed rule change is not based on the rules of another self-regulatory organization.

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-2018-56)

June __, 2018

Self-Regulatory Organizations; Nasdaq ISE, LLC; Notice of Filing of Proposed Rule Change to Amend Its Rules Related to Complex Orders

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 22, 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 amend its rules related to Complex Orders.

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.

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

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

2 17 CFR 240.19b-4.

the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

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

1. Purpose

The Exchange first adopted Rule 722 for complex orders in October 2001 and has amended and expanded Rule 722 and other Exchange rules to provide for the handling of complex orders over the years. Although the Exchange has always handled complex orders on an automated basis, the Exchange's rules related to complex orders have largely remained principle based. As a result, the Exchange's rules do not fully describe how complex orders are processed in the level of detail that is now the standard for automated exchanges. Accordingly, the Exchange believes it is necessary and appropriate to revise its rules related to complex orders to provide greater clarity regarding how complex orders are processed on the Exchange. In this respect, the proposed rule change consolidates within Rule 722 provisions that have been added to various other Exchange rules over the years and adds cross references within Rule 722 to other applicable rules to provide a single point of reference for how complex orders are handled on the Exchange. The proposal also expands upon and clarifies various existing provisions, and provides greater detail regarding complex order types, the application of Exchange rules regarding internalization, and complex order crossing transactions. Furthermore, the proposal also adds provisions related to the exposure of complex orders for price improvement and the process for opening complex strategies. The Exchange notes that it is simply including additional detail in its rules on the existing process. No changes to the process are being contemplated by this rule change filing.

Definitions

The Exchange proposes to amend Rule 722(a) to adopt the terms "Complex Options Strategy" for complex strategies that have only options components, "Stock-Option Strategy" for complex strategies that have a stock component and a single options component, and "Stock-Complex Strategy" for complex strategies that have a stock component and multiple options components. The proposed definitions would also include language that explains that only those Complex Options Strategies and Stock-Complex Strategies with no more than the applicable number of legs are eligible for processing.[3] The applicable number of legs will be determined by the Exchange on a class-by-class basis independently for Complex Options Strategies and Stock-Complex Strategies.[4] In addition, the Exchange proposes to adopt separate definitions for the terms "Complex Options Order," "Stock-Option Order," and "Stock-Complex Order," which refer to orders for a Complex Options Strategy, Stock-Option Strategy, and Stock-Complex Strategy, respectively. Finally, the Exchange proposes to state that the term "Complex Order" includes Complex Options Orders, Stock-Option Orders, and Stock-Complex Orders. Currently, Rule 722(a) does not contain a definition of complex strategies (as opposed to orders) and refers to options only complex orders as "complex orders" and separately defines "stock-option orders." As a result, it may not be clear

3 By definition, Stock-Option Strategies will have only one option leg and one stock leg.

4 Currently, the Exchange accepts Complex Options Strategies with up to 10 options legs, and Stock-Option Strategies and Stock-Complex Strategies with up to 9 options legs in addition to one stock leg. Chicago Board Options Exchange ("CBOE") Rule 6.53C(a)(1)-(2) provides similar flexibility in determining the maximum number of legs. The Exchange will inform members of any change to the number of legs accepted via Options Trader Alert.

under the current definitions whether references in the rules to "complex orders" apply to stock-option orders, or whether references are to orders or to the complex instrument. Under the proposal, the term "complex strategy" is used to refer to Complex Options Strategies, Stock-Option Strategies and Stock-Complex Strategies. Accordingly, this proposed change will bring clarity to the Exchange's rules with respect to whether certain provisions apply only to Complex Options Strategies, only to Stock-Options Strategies, only to Stock-Complex Strategies or to all three. In this respect, the Exchange has reviewed all of its rules related to the handling of complex strategies to apply the newly defined terms appropriately.[5]

The Exchange also proposes to delete from Rule 722 the definition of SSF-option order, which is a complex order that has a single stock future component, and to delete Supplementary Material .01 to Rule 722 regarding entry and execution of SSF-option orders. Certain aspects of Supplementary Material .01 to Rule 722 also relate to Stock-Option Orders and Stock-Complex Orders. These parts of the rule contain outdated language that is not relevant to the trading of automated Stock-Option Orders and Stock-Complex Orders where all components are traded through the Exchange at a single net price. The Exchange therefore proposes to delete these parts of the rule as well. The

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[5] As discussed more fully later in the filing, the Exchange proposes to substitute the term "complex order" with "Complex Options Order" in Rule 715(k) and current Rule 722(b)(3)(ii) to clarify that legging orders are not created for Stock-Options Orders and Stock-Complex Orders, and in current Supplementary Material .04 to Rule 722 to clarify that market maker spread quotation adjustment functionality applies only to Complex Option Order strategies. The Exchange also proposes to amend the use of the term "complex order" in current Rule 722(b)(1) to clarify the increments for Complex Options Orders, Stock-Option Orders and Stock-Complex Orders, and in current Rule 722(b)(2) to clarify the applicable priority rules for Complex Options Orders, Stock-Option Orders and Stock-Complex Orders.

Exchange provided for the potential to handle SSF-option orders in anticipation of the launch of exchange-traded single stock futures in 2002. However, the single stock future product has not gained sufficient popularity among investors to support a SSF-option product, and the Exchange has never received a SSF-option order. Therefore, the Exchange proposes to remove the order type from its rules. The Exchange will file a proposal with the Commission should it determine to offer SSF-option orders in the future.

Order Types

The Exchange proposes to delete current paragraph 722(b)(4) and add new paragraph 722(b), which specifies which of the order types contained in Rule 715 apply to complex orders and identifies any unique aspects with respect to complex orders. All orders and designations the Exchange proposes to codify in Rule 722(b) for complex orders are currently available in the complex order book and are based on order types and designations currently provided in ISE Rule 715 for regular orders. The Exchange also proposes to specify that members may designate complex orders for participation in the complex order exposure process discussed below (i.e., "Exposure Orders" and "Exposure Only Orders").

Specifically, the proposed rule provides that, unless otherwise specified, the definitions used in paragraph 722(b) have the same meaning contained in Rule 715 and that complex orders may be entered using the orders and designations provided in paragraph 722(b). The orders and designations identified in the proposed rule are:[6]

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6 In connection with this change, Exchange proposes to use these definitions where applicable in Rule 722 (i.e., the complex order rule) and certain other rules that specify application to particular complex order types (e.g., Rule 702(d)(2)).

(1) Market Complex Order. A Market Complex Order is a Complex Order to buy or sell a complex strategy that is to be executed at the best price obtainable. If not executable upon entry, such orders will rest on the complex order book unless designated as fill-or-kill or immediate-or-cancel.

(2) Limit Complex Order. A Limit Complex Order is a Complex Order to buy or sell a complex strategy that is entered with a limit price expressed as a net purchase or sale price for the components of the order.

(3) All-Or-None Complex Order. A Complex Order may be designated as an All-or-None Order that is to be executed in its entirety or not at all. An All-Or-None Order may only be entered as an Immediate-or-Cancel Order.

(4) Reserve Complex Order. A Limit Complex Order may be designated as a Reserve Order that contains both a displayed portion and a non-displayed portion.

(i) Both the displayed and non-displayed portions of a Reserve Complex Order are available for potential execution against incoming marketable orders or quotes. A non-marketable Reserve Complex Order will rest on the complex order book.

(ii) The displayed portion of a Reserve Complex Order shall be ranked at the specified limit price and the time of order entry.

(iii) The displayed portion of a Reserve Complex Order will trade in accordance with Rule 722(d).

(iv) When the displayed portion of a Reserve Complex Order is decremented, either in full or in part, it shall be refreshed from the non-displayed portion of the resting Reserve Complex Order. If the displayed portion is refreshed in part, the new displayed portion shall include the previously displayed portion. Upon any refresh, the entire displayed portion shall be ranked at the specified limit price and obtain a new time stamp, i.e., the time that the new displayed portion of the order was refreshed. The new displayed portion will trade in accordance with Rule 722(d).

(v) The initial non-displayed portion of a Reserve Complex Order rests on the complex order book and is ranked based on the specified limit price and time of order entry. Thereafter, non-displayed portions, if any, always obtain the same time stamp as that of the new displayed portion in subparagraph (iv) above. The non-displayed portion of any Reserve Complex Order is available for execution only after all displayed interest on the complex order book has been executed.[7] Thereafter, the non-displayed portion of any Reserve Complex Order will trade in accordance with Rule 722(d).

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[7] The non-displayed portion of a Reserve Complex Order is available for execution after displayed interest on the complex order book but prior to interest on the regular order book. Under the Exchange's current priority rules, at each price, executable interest on the complex order book has priority over bids and offers for the individual options legs. See Rule 722(b)(2) (renumbered to Rule 722(c)(2)). These rules will remain in the proposed rules with only non-substantive changes that do impact the priority given to Complex Orders (including Reserve Complex Orders) entered on the Exchange.

During the last three months, non-displayed Complex Reserve Order interest made up a very small fraction (0.28%) of the total volume executed on the Exchange. In addition, the vast majority (82%) of that non-displayed interest was for the account of a Priority Customer. Institutional customers in particular use Reserve Complex Orders to represent the full size of their interest on the complex order book while mitigating information leakage by displaying only a portion of such interest to the market. While the Exchange typically prioritizes displayed interest over non-displayed interest on the same order book, the Exchange believes that it is important to allow these participants to source ample liquidity on the complex order book by continuing to execute the non-displayed portion of their Reserve Complex Orders prior to any interest on the regular order book.

Furthermore, because the current rules already prioritize Priority Customer orders notwithstanding the general principle that Complex Orders have priority ahead of the regular order book, the Exchange believes that this priority scheme appropriately incentivizes Complex Order interest while maintaining priority of customer orders in the regular market. See Securities and Exchange Act Release

(vi) Only the displayed portion of a Reserve Complex Order is eligible to be exposed for price improvement pursuant to Rule 722(d)(1) and Supplementary Material .01 to this Rule 722.

(5) Attributable Complex Order. A Market or Limit Complex Order may be designated as an Attributable Order as provided in Rule 715(h).

(6) Customer Cross Complex Order. A Customer Cross Complex Order is comprised of a Priority Customer Complex Order to buy and a Priority Customer Complex Order to sell at the same price and for the same quantity. Such orders will trade in accordance with Supplementary Material .08(d) to this Rule 722.

(7) Qualified Contingent Cross Complex Order. A Complex Options Order may be entered as a Qualified Contingent Cross Order, as defined in Rule 715(j). Qualified Contingent Cross Complex Orders will trade in accordance with Supplementary Material .08(e) to this Rule 722.

(8) Day Complex Order. A Complex Order may be designated as a Day Order that if not executed, expires at the end of the day on which it was entered.

(9) Fill-or-Kill Complex Orders. A Complex Order may be designated as a Fill-or-Kill Order that is to be executed in its entirety as soon as it is received and, if not so executed, cancelled.

(10) Immediate-or-Cancel Complex Orders. A Complex Order may be designated as an Immediate-or-Cancel Order that is to be executed in whole or in part upon receipt. Any portion not so executed is cancelled.

No. 44955 (October 18, 2001), 66 FR 53819 (October 24, 2001) (Complex Order Priority Approval Order).

(11) Opening Only Complex Order. An Opening Only Complex Order is a Limit Complex Order that may be entered for execution during the Complex Opening Process described in Supplementary Material .10 to Rule 722. Any portion of the order that is not executed during the Complex Opening Process is cancelled.

(12) Good-Till-Date Complex Order. A Good-Till-Date Complex Order is an order to buy or sell which, if not executed, will be cancelled at the sooner of the end of the expiration date assigned to the Complex Order, or the expiration of any individual series comprising the order.

(13) Good-Till-Cancel Complex Order. A Good-Till-Cancel Complex Order is an order to buy or sell that remains in force until the order is filled, canceled or any series of the order expires; provided, however, that a Good-Till-Cancel Complex Order will be cancelled in the event of a corporate action that results in an adjustment to the terms of any series underlying the Complex Order.

(14) Exposure Complex Order. An Exposure Complex Order is an order that will be exposed upon entry as provided in Supplementary Material .01 to this Rule 722 if eligible, or entered on the complex order book if not eligible. Any unexecuted balance of an Exposure Complex Order remaining upon the completion of the exposure process will be entered on the complex order book.

(15) Exposure Only Complex Order. An Exposure Only Complex Order is an order that will be exposed upon entry as provided in Supplementary Material .01 to this Rule 722 if eligible, or cancelled if not eligible. Any unexecuted balance of an Exposure Only Complex Order remaining upon the completion of the exposure process will be cancelled.

(16) Complex QCC with Stock Orders. A Complex QCC with Stock Order is a Qualified Contingent Cross Complex Order, as defined in Rule 722(b)(7), entered with a stock component to be communicated to a designated broker-dealer for execution pursuant to Supplementary Material .08(f) to Rule 722.

Legging Orders

Separately, Rule 715(k) contains a definition of legging orders, which are orders that represent a Complex Options Order on the regular order book. A "legging order" is defined as a limit order on the regular limit order book that represents one side of a complex order that is to buy or sell an equal quantity of two options series resting on the Exchange's complex order book.[8] The Exchange proposes to clarify that legging orders are not created for Stock-Options Orders and Stock-Complex Orders by stating that a legging order represents one side of a "Complex Options Order," and by referencing Complex Options Orders in other parts of the rule. The Exchange also proposes to indicate that a legging order is only generated from the displayed portion of a Complex Options order that is designated as a Reserve Complex Order. The non-displayed portion of such orders are not eligible to create legging orders as generation of a legging order would indicate to market participants that there is additional undisplayed size on the complex order book even though the member entering such Reserve Complex Order has determined not to display that interest.

[8] Legging orders are firm orders that are included in the Exchange's displayed best bid or offer, and are disseminated over OPRA and the Nasdaq ISE Top Quote Feed. Legging orders are not disseminated over the Nasdaq ISE Order Feed since these orders represent a component leg of Complex Options Orders entered on the complex order book that have already been disseminated over the Nasdaq ISE Spread Feed.

Trading Increments

Currently, Rule 722 specifies that complex orders may be expressed in any decimal price, and that the legs of a complex order may be executed in one cent increments, regardless of the minimum increments otherwise applicable to the individual options legs of the order. The current language in the current Rule 722(b)(1) (renumbered Rule 722(c)(1) under the proposal), which mirrors the rules of other options exchanges,[9] reflects a combination of the increments applicable to Complex Options Strategies, Stock-Options Strategies and Stock-Complex Strategies. For clarity, the Exchange proposes to amend the Rule to specify that bids and offers for Complex Options Strategies may be expressed in one cent ($0.01) increments, and the options legs of Complex Options Strategies may be executed in one cent ($0.01) increments, regardless of the minimum increments otherwise applicable to the individual options legs of the order. The Exchange also proposes to amend the Rule to specify that bids and offers for Stock-Option Strategies and Stock-Complex Strategies may be expressed in any decimal price determined by the Exchange,[10] and the stock leg of a Stock-Option Strategy and Stock-Complex Strategy may be executed in any decimal price permitted in the equity market. Although the Exchange's current rule states that bids and offers entered on the complex order book can be entered in "any decimal increment" similar to language in the rules of other options markets,[11] the Exchange determines appropriate minimum increments for Stock-Option Strategies and Stock-Complex Strategies, and will not

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9 See e.g. Commentary .01 to NYSE Amex Rule 980NY.

10 The minimum increment for Stock-Option Strategies and Stock-Complex Strategies will be communicated to members via Options Trader Alert.

11 See NYSE Arca Options Commentary .01 to Rule 6.91.

accept orders or quotes that do not abide by the selected minimum increment. Smaller minimum increments are appropriate for complex orders that contain a stock component as the stock component can trade at finer decimal increments permitted by the equity market. Furthermore, the Exchange notes that even with the flexibility provided in the rule, the individual options and stock legs must trade at increments allowed by the Commission in the options and equities markets. For clarity, the Exchange further proposes to add Supplementary Material .04 to Rule 710 (Minimum Trading Increments) to reference Rule 722 and specify the minimum trading increments applicable to the options leg(s) of a complex strategy.

Finally, the Exchange proposes to amend Supplementary Material .07 to Rule 722 to reflect the different increments applicable to the options and stock legs of complex strategies traded on the Exchange. In particular, the Exchange proposes to amend this rule to state that the system will reject complex strategies where are legs are to buy if entered at a price that is less than the minimum net price, which is calculated as the sum of the ratio on each leg of the complex strategy multiplied by the minimum increment applicable to that leg pursuant to Rule 722(c)(1). Currently, this rule states that the minimum price is calculated by multiplying the sum of the ratio on each leg by $0.01 per leg (i.e., the minimum increment for options legs). While this calculation is accurate for Complex Options Strategies, it does not reflect the treatment of Stock-Option Strategies or Stock-Complex Strategies where the stock leg(s) can be entered in any decimal price determined by the Exchange. For example, an order to buy a share of stock and two call options would have a minimum price of $0.0201 – i.e., $0.02 for two options legs and $0.0001 for the stock leg.

<u>Complex Order Priority</u>

The Exchange proposes to make minor non-substantive changes to the existing text of current Rule 722(b)(2) (renumbered Rule 722(c)(2) under the proposal) for clarity. Rule 722(b)(2) provides that the legs of a complex strategy with multiple options legs (i.e., Complex Options Strategies and the options legs of Stock-Complex Strategies where there are more than one options component) may not be executed at worse prices than are available on the Exchange for the individual series, but may be executed at the same price as bids and offers on the Exchange for the individual series so long as there are no Priority Customer Orders on the Exchange at those prices (provided however that for complex strategy with multiple options legs, if one of the options legs improves upon the best price available on the Exchange then the other leg is permitted to trade at the same price as a Priority Customer).[12] Rule 722(b)(2) further provides that the option leg of a Stock-Option Strategy may be executed at the same price as bids and offers on the Exchange for the individual series but not at the same price as Priority Customer Orders for the individual series. For clarity, the Exchange proposes to re-format Rule 722(b)(2) into three paragraphs and to replace certain cross references with the defined terms "Complex Options Strategy," "Stock-Options Strategy" and "Stock-Complex Strategy" discussed above. The Exchange also proposes to replace references to bids and offers established "in the marketplace" with "on the Exchange" as the reference to "in the marketplace" may create confusion as to whether "marketplace" refers to the Exchange or the broader market. The Exchange also proposes to delete references to SSF-option

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[12] Pursuant to ISE Rule 100(a)(49) and (50), a Priority Customer Order is an order for the account of a person or entity that (i) is not a broker or dealer in securities, and (ii) does not place more than 390 orders in listed options per day on average during a calendar month for its own beneficial account(s).

orders in the text of current Rule 722(b)(2), and to delete related Supplementary Material .01 to Rule 722. As discussed above, the Exchange is proposing to remove all references to SSF-option orders from the Rules. Furthermore, with the proposed elimination of this type of complex strategy from the rulebook, Supplementary Material .01 to Rule 722 is no longer necessary as it contains requirements related to the execution of SSF-option orders, as well as outdated language that no longer applies to the automated execution of complex strategies that contain a stock component. Finally, the Exchange proposes in Proposed Rule 722(c)(2)(iv) to add a new reference to the treatment of Reserve Orders that clarifies that a complex strategy may be executed at a net credit or debit price with one other Member without giving priority to the non-displayed portion of Reserve Orders on the bids or offers on the Exchange for the individual legs of the complex strategy. The non-displayed portion of a Reserve Order has no priority on the book because it is hidden from other market participants, and is therefore only available for execution after all displayed interest has been executed.[13] Furthermore, to the extent that members entering orders in the regular market wish to have their orders protected they can use a number of order types that are displayed to the market and therefore retain their regular priority on the order book. Thus, complex strategies may be executed without giving priority to the non-displayed portion of such interest in the regular market. While this is consistent with the general treatment of non-displayed interest in the regular market, the Exchange believes that it is important to add this reference here for additional clarity.

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[13] See Rule 715(g)(5).

Execution of Orders

For clarity, the Exchanges proposes to specify that complex strategies are not executable unless all of the terms of the strategy can be satisfied and the options legs can be executed at prices that comply with the provisions of current Rule 722(b)(2) (renumbered Rule 722(c)(2) under the proposal).[14] The Exchange also proposes to add new language under proposed Rule 722(d)(4) to clarify that, similar to treatment of orders in the regular market, complex strategies that are not executable may rest on the complex order book until they become executable. Furthermore, the Exchange proposes to amend the text of current Rule 722(b)(3) (renumbered Rule 722(d) under the proposal) to more clearly reflect the sequence in which complex strategies are processed: (i) first complex orders are exposed for price improvement (if eligible) for a period of up to one second (quotes in complex strategies are not eligible for exposure),[15] (ii) then complex strategies are matched against other interest in the complex order book if possible,[16] and (iii) then

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14 For example, assume the ISE BBO for series A is $1.00 x $1.10 and the ISE BBO for series B is $0.95 x $1.05. A resting Complex Order to sell series A and sell series B at a net price of $2.16 is not executable because one of the legs of the complex order would need to be executed at a price that is above the best offer available for the individual series (i.e., $1.10 for series A and $1.06 for series B; or $1.11 for series A and $1.05 for series B). Nor would such a complex order be executable at a net price of $2.15 if there were Priority Customer orders on the Exchange to sell series A and/or series B at the ISE best offer; however, assuming the individual legs trade in penny increments, the complex order would be executable at a price of $2.14 pursuant to Rule 722(c)(2).

15 Although quotes in complex strategies are not eligible for exposure pursuant to Supplementary Material .01 to Rule 722, the Exchange notes that market makers that have interest that they wish to go through the exposure process have the option of submitting complex orders instead of quotes to be exposed.

16 As described in proposed language being added to Supplementary Material .02 to Rule 722, the full size of Stock-Option Orders and Stock-Complex Orders that are being processed by the stock execution venue pursuant to Supplementary Material .02 to Rule 722 will be unavailable for trading while the order is being processed.

complex strategies are executed against bids and offers on the Exchange for the individual series if possible.[17] Furthermore, as clarification, the amended Rule 722(d)(2) will explicitly reference that complex strategies will be executed at the best net price available from executable Complex Orders and quotes on the complex order book, and bids and offers for the individual options series. Certain complex strategies are not available to leg in to the regular market;[18] complex orders for those strategies remain eligible for the complex order exposure process, and may also trade with other interest on the complex order book in accordance with the terms of the complex order. Finally, the

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For example, if a Stock-Option Order to buy 100 contracts at a net price of $1.00 is matched with a sell order for 20 contracts in the same complex strategy, the whole 100 contract Stock-Option Order will be unavailable for trading with other interest while the stock portion of the order is being processed for potential execution by the stock execution venue.

17 The Exchange proposes to move the sub-paragraph regarding order exposure from current Rule 722(b)(3)(iii) to proposed Rule 722(d)(1) (and Supplementary Material .01 to Rule 722) so that the rule more clearly indicates that eligible orders are exposed before they are matched against other interest in the complex order book. The Exchange also proposes to add text to current Rule 722(b)(3)(ii) (renumbered to be Rule 722(d)(3) under the proposal) to expressly state that if there are no executable contra-side complex orders on the complex order book, executable Complex Options Orders and the options legs of a Stock-Option Order or Stock-Complex Order (up to a maximum number of options legs) may be executed against bids and offers on the Exchange for the individual options legs if possible. The Exchange will continue to manage and curtail attempts to trade against the individual options legs so as to not negatively impact system capacity and performance. See Securities Exchange Act Release No. 66234 (January 24, 2012), 77 FR 4852 (January 31, 2012) (SR-ISE-2011-82) (Approval Order). The Exchange will curtail the number of legging orders on an objective basis, such as limiting the number of orders generated in a particular class. The Exchange will not limit the generation of legging orders on the basis of the entering participant or the participant category of the order (e.g., Priority Customer, Professional Order, etc.). See id.

18 See Rule 722(b)(3)(ii) (renumbered Rule 722(d)(3)); see also Securities Exchange Act Release No. 74004 (January 6, 2015), 80 FR 1565 (January 12, 2015) (SR-ISE-2014-56).

Exchange proposes to add reference to "executable" complex strategies throughout this section to re-enforce that complex strategies cannot be executed unless the restrictions of current Rule 722(b)(2) (renumbered Rule 722(c)(2) under the proposal) are satisfied.[19]

Incoming Complex Order Exposure Process

The Exchange proposes to amend Rule 722 with respect to the exposure of complex orders upon entry. Rule 722 currently provides that members can choose to have complex orders that are marketable upon entry exposed for up to one second before being automatically executed. Similar to rules adopted by other options exchanges that trade complex orders,[20] the proposal will amend the rule to provide for an auction process. Specifically, the proposed rules would describe an auction process whereby complex orders that improve upon the best price for the same complex strategy on the complex order book upon entry may be exposed for up to one second, as described in more detail in the following paragraphs.[21]

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19 The Exchange proposes to add clarifying language to proposed Rule 722(d)(3) to separately identify that Complex Options Orders and the options legs of a Stock-Option Order or Stock-Complex Order (up to a maximum number of legs) may be executed against bids and offers on the Exchange for the individual options series. This change is consistent with the proposal to clarify the complex order definitions as discussed in supra note 5 and accompanying text.

20 See Phlx Rule 1098(e); EDGX Rule 21.20(d); CBOE Rule 6.53(d), each of which describe different processes for auctioning complex orders entered on those markets.

21 A complex order improves upon the best price for the same complex strategy on the complex order book if it is a limit order to buy priced higher than the best bid, a limit order to sell priced lower than the best offer, or a market order to buy or sell.

Proposed Supplementary Material .01 to Rule 722[22] specifies that upon entry of an eligible complex order designated for exposure, a broadcast message containing the details of the complex order (i.e., net price or at market, size, and side) is sent to all members,[23] who are then given up to one second to enter responses with the prices and sizes at which they are willing to participate in the execution of the complex order. The proposed rule change also specifies that such responses are only executable against the Complex Order with respect to which they are entered,[24] can be modified or withdrawn at any time prior to the end of the exposure period, and will be considered up to the size of the Complex Order being exposed. During the exposure period, the Exchange will broadcast the best Response price and the aggregate size of Responses available at that price.

22 As proposed, the complex order exposure process will be described in Supplementary Material .01 to Rule 722. The Exchange therefore proposes to amend rules that cite to this process (e.g., Rule 722(d)(2)) to point to this rule instead of Rule 722(b)(3)(iii).

23 Prices for complex orders are not eligible to be reported to the Options Price Reporting Authority ("OPRA") for inclusion in consolidated quotation data but trade prices on the individual legs are reported to OPRA as a part of last sale data with an identifier noting that the trade was part of a complex transaction. Accordingly, the Exchange does not provide information regarding the complex orders being exposed and responses entered during the process to OPRA. Instead, a broadcast message is sent to subscribers of the Exchange's order feed. The Exchange notes that it previously operated another auction mechanism, namely the Price Improvement Mechanism, without blind responses. See Securities Exchange Act Release No. 50819 (December 8, 2004), 69 FR 75093 (December 15, 2004) (SR-ISE-2003-06).

24 At the conclusion of the exposure period, any unexecuted balance of a Response is automatically cancelled. In addition, since any Responses are only available to trade against the order being exposed, only contra-side Responses are eligible to be executed in an exposure auction.

In addition, the proposed rule change specifies that the exposure period is automatically terminated due to the receipt of certain unrelated complex orders for the same complex order strategy,[25] or if a trading halt is initiated during the exposure period.[26] At the end of the exposure period complex orders are automatically executed to the greatest extent possible pursuant to Rule 722(d)(2)-(3) taking into consideration (i) bids and offers on the complex order book, (ii) bids and offers on the Exchange for the individual options series, and (iii) Responses received during the exposure period, provided that when allocating pursuant to 722(d)(2)(ii), Responses are allocated pro-rata based on size.[27] Thereafter, any unexecuted balance of the complex order at the end of the exposure period is placed on the complex order book.

An Exposure Only Order, on the other hand, is a complex order that will be exposed upon entry as provided in Supplementary Material .01 to Rule 722 if eligible, but

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25 The exposure period will end immediately upon: (i) the receipt of a Complex Order or quote for the same complex strategy on either side of the market that is marketable against the complex order book or bids and offers for the individual legs; or (ii) the receipt of a non-marketable Complex Order or quote for the same complex strategy on the same side of the market that would cause the price of the exposed Complex Order to be outside of the best bid or offer for the same complex strategy on the complex order book.

26 If a trading halt is initiated during the exposure period, the Complex Order exposure process will be automatically terminated without execution.

27 Pursuant to Rule 722(d)(2), complex orders are executed against bids and offers on the complex order book in price priority. The Exchange designates on a class-by-class basis whether bids and offers at the same price on the complex order book are executed: (i) in time priority; or (ii) pursuant to an algorithm whereby priority customers are given priority and professional orders and market maker quotes are executed pro-rata based on size after certain allocation preferences are satisfied; or (iii) pro-rata based on size (i.e., without any special priority for Priority Customer Orders or allocation preferences). Pursuant to Rule 722(d)(3), complex order are also automatically executed against bids and offers on the Exchange for the individual legs of the complex order if possible.

is cancelled if not eligible. Any unexecuted balance of an eligible Exposure Only Order upon the completion of the exposure process is also cancelled. Similar to Immediate-or-Cancel Orders, the Exposure Only order type is designed to assist members in achieving a speedy execution by exposing eligible Complex Orders to potential price improvement before cancelling any unexecuted balance.

Example:

Suppose the following market in complex strategy ABC:

ISE Complex BBO: 10 @ 1.00 x 10 @ 1.05

An Exposure Only Order is entered to buy 20 @ 1.03:

A broadcast message is sent announcing the start of an exposure auction. During the exposure period, the following responses are received:

Response 1: Sell 10 @ 1.03

Response 2: Sell 5 @ 1.02

At the end of the exposure period, the Exposure Only Order trades against:

Response 2: 5 @ 1.02

Response 1: 10 @ 1.03

The remaining quantity of 5 contracts is then cancelled.

Market Maker Quotes

Supplementary Material .03 to Rule 722, which is currently subject to delayed implementation in conjunction with the Exchange's recent transition to the Nasdaq INET platform as described in the rule, provides that Market makers may enter quotes on the complex order book in their appointed options classes. Prior to the INET transition, quoting in the complex order book was available in a subset of the options classes. The Exchange therefore proposes to amend Supplementary Material .03 to Rule 722 to clarify that complex quoting will only be available in options classes selected by the Exchange and announced to members via Options Trader Alert.[28] In addition, market makers that quote in the complex order book must enter certain risk parameters pursuant to Supplementary Material .04 to Rule 722 ("Market Maker Speed Bump"). In connection with changes described in the "Definitions" section above, the Exchange proposes to amend Supplementary Material .04 to Rule 722 to clarify that the Market Maker Speed Bump applies to Complex Options Strategies and not to Stock-Option Strategies or Stock-Complex Strategies.

Internalization and Crossing

The Exchange proposes to add text to Rule 722 to provide clarity regarding the application of Rule 717(d) and (e) (regarding facilitation and solicitation), Rule 716 (regarding the Facilitation and Solicited Order Mechanisms), Rule 721 (regarding crossing orders), and Rule 723 (regarding the Price Improvement Mechanism) to complex orders.[29] In this respect, the Exchange proposes to re-organize and clarify certain existing rule text, and to add additional provision into Rule 722 and proposed Supplementary Material .08 thereto.

Rule 717(d) requires members to expose orders they represent as agent to other market participants before they execute them as principal, and Rule 717(e) requires members to expose orders they represent as agent to other market participants before they

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28 Market makers that wish to trade in complex strategies where quoting is not available may do so by entering Complex Orders. Market makers are not prohibited from entering Complex Orders in any options classes. See Rule 805.

29 With the addition of language on complex auctions in Rule 722, the Exchange also proposes to delete the current language addressing these auctions in Rules 716 and 723.

execute them against orders that they solicit from other members of the Exchange or non-member broker-dealers. Rule 717(d) and (e) provide a number of ways in which members may comply with this exposure requirement: (i) members can expose orders on the Exchange for at least one second (i.e., entering them on the limit order book and waiting at least one second before entering a contra-side proprietary or solicited order), or (ii) members can enter the orders into one of the specified crossing mechanisms.[30] The purpose of this Rule is to assure that all market participants have adequate opportunity to trade with orders executed on the Exchange and to provide an opportunity for price improvement through the various crossing mechanisms. The Exchange has consistently applied the exposure requirement contained in Rule 717(d) and (e) to the execution of complex orders on the complex order book,[31] and has provided for the execution of complex orders using the specified mechanisms.[32]

For clarity, the Exchange proposes to specify in Rule 722 that the requirements of Rule 717(d) and (e) apply to the execution of Complex Orders. In particular, the Exchange proposes to specify that Complex Orders represented as agent may be executed (i) as principal as provided in Rule 717(d), or against orders solicited from members and non-member broker-dealers as provided in Rule 717(e). The exposure requirements of Rule 717(d) or (e) must be met on the complex order book unless the order is executed in

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[30] Rule 717(d) also specifies that the exposure requirement is satisfied if the member was already bidding or offering on the Exchange for at least one second prior to receiving an agency order that is executable against such bid or offer.

[31] See, e.g., Securities Exchange Act Release No. 57706 (April 24, 2008), 73 FR 23517 (April 30, 2008) (SR-ISE-2007-77).

[32] ISE Rule 716, Supplementary Material .08 (regarding Facilitation and Solicited Order Mechanisms); and ISE Rule 723 Supplementary Material .10 (regarding Price Improvement Mechanism).

one of the mechanisms described in Supplementary Material .08 to this Rule 722. For example, an Electronic Access Member would meet its exposure requirement under Rule 717(d)(i) by exposing the agency order on the complex order book for at least one (1) second, or could enter the order into one of the Exchange's Complex Order crossing mechanisms described below.

The Exchange also proposes to move into Supplementary Material .08 to Rule 722 the rule text regarding the execution of complex orders using the Facilitation and Solicited Order Mechanisms from Rule 716, and the rule text regarding the execution of complex orders using the Price Improvement Mechanism from Rule 723. The Exchange also proposes to make non-substantive changes to the text to: (i) re-enforce that complex orders cannot be executed unless they satisfy the requirements of current Rule 722(b)(2) (renumbered Rule 722(c)(2) under the proposal), (ii) clarify that Stock-Options Orders and Stock-Complex Orders cannot leg-into the market when they are executed using one of the mechanisms, (iii) specify that each options leg of a complex order must meet the minimum contract size requirement contained in paragraphs (d) and (e) of Rule 716, and (iv) add additional detail regarding how the Exchange processes complex orders entered into these mechanisms.[33] These changes reflect the current operation of the Facilitation Mechanism, Solicited Order Mechanism, and Price Improvement Mechanism for Complex Orders, and are intended to provide greater clarity to Members with respect to treatment of their complex crossing orders. The proposed language also specifies that the

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33 With respect to the Complex Facilitation Mechanism, the entry check pursuant to proposed Supplementary Material .08(a)(1) to Rule 722 is different for Complex Options Orders and Complex Orders that have a stock component (i.e., Stock-Option Orders and Stock-Complex Orders) since Stock-Option Orders and Stock-Complex Orders entered in the Complex Facilitation Mechanism are not eligible to trade with bids and offers for the individual legs.

application of current Rule 722(b)(2) (renumbered Rule 722(c)(2) under the proposal) may prevent the execution of orders entered into a mechanism, in which case, the transaction will be cancelled.

The Exchange also proposes to consolidate certain other provisions related to the auction mechanisms for Complex Orders and include relevant information in Rule 722 and the Supplementary Material thereto. For example, Proposed Supplementary Material .08(g) to Rule 722 contains a reference to the minimum contract threshold for Mini Options, which merely restates requirements contained in Supplementary Material .13 to Rule 504. In addition, Proposed Rule 722(c)(3) reaffirms that the requirements of existing Rules 717(d) (Principal Transactions) and (e) (Solicitation Orders) apply to Complex Orders represented as agent, and that the exposure requirements of those rules must be met on the complex order book unless the order is executed in one of the mechanisms described in Supplementary Material .08 to this Rule 722. Although these requirements are located in other parts of the rulebook, the Exchange believes that including them in Complex Order rule will reinforce their applicability and aid members in navigating the Exchange's rulebook.

The following examples illustrate how complex orders are transacted in the Exchange's crossing mechanisms and their interaction with individual bids and offers (while the examples below are for complex orders entered into the Facilitation Mechanism, these orders would interact similarly with individual bids and offers when entered into the Solicited Order Mechanism and the Price Improvement Mechanism):

Example 1:

Suppose the following market in option class A:

ISE BBO: 10 @ 1.00 x 10 @ 1.05

Suppose further the following market in option class B:

ISE BBO: 10 @ 2.00 x 10 @ 2.05

A complex order is entered into the Complex Facilitation Mechanism in the complex order book for a strategy buying 1 option class A and buying 1 option class B:

Agency Complex Order: Buy 50 @ 3.05

Contra Side Complex Order: Sell 50 @ 3.05

A broadcast message is sent announcing the start of the auction. During the exposure period, the following orders and quotes are received:

Priority Customer 1 Complex Order: Sell 5 @ 3.05

Non-Customer 1 Complex Response: Sell 50 @ 3.05

Non-Customer 2 Complex Response: Sell 50 @ 3.05

At the end of the exposure period, the following orders/responses trade with the Complex Agency Order:

Priority Customer 1 Complex Order: 5 @ 3.05

Contra Side Complex Order: 20 @ 3.05 (40% of 50)[34]

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[34] Pursuant to the proposed rules, Electronic Access Members that enter orders into the Facilitation or Price Improvement Mechanisms may also elect to receive a percentage allocation that is less than 40%. If the member includes such an instruction, the contra-side order would receive an allocation consistent with the percentage requested by the member. To ensure that all members have an opportunity to trade with the agency order, however, the allocation received would be limited to a maximum equal to the 40% allocation ordinarily given to the contra-side order. Furthermore, the contra-side order would still be responsible for executing up to the full size of the agency order if there is not enough interest to execute the agency order at a particular price. Other options exchanges such as Nasdaq BX, Inc. ("BX") provide similar functionality that allows members using an auction mechanism to give up allocation priority. See

Non-Customer 1 Complex Response: 13 @ 3.05 (Pro-Rata)

Non-Customer 2 Complex Response: 12 @ 3.05 (Pro-Rata)

Example 2:

Suppose the following market in option class A:

ISE BBO: 10 @ 1.00 x 10 @ 1.05

Suppose further the following market in option class B:

ISE BBO: 10 @ 2.00 x 10 @ 2.05.

A complex order is entered into the Complex Facilitation Mechanism in the complex order book for a strategy buying 1 option class A and buying 1 option class B:

Agency Complex Order: Buy 50 @ 3.05

Contra Side Complex Order: Sell 50 @ 3.05

A broadcast message is sent announcing the start of the auction. During the exposure period, the following orders and quotes are received:

Priority Customer 1 Complex Order: Sell 5 @ 3.05

Non-Customer 1 Complex Response: Sell 50 @ 3.05

Non-Customer 2 Complex Response: Sell 50 @ 3.05

Priority Customer 2 Regular Order: Sell 5 Option Class A @ 1.02

Priority Customer 3 Regular Order: Sell 5 Option Class B @ 2.03

At the end of the exposure period, the Complex Facilitation transaction is canceled since a trade at 3.05 with counter side orders/responses will violate the priority rules for Priority Customer 2 and Priority Customer 3 Regular Orders.

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e.g. BX Options Rules, Chapter VI, Sec. 9, which provides a similar feature for the BX Options Price Improvement Auction ("PRISM").

<u>Example 3:</u>

Suppose the following market in option class A:

ISE BBO: 10 @ 1.00 x 10 @ 1.05

Suppose further the following market in option class B:

ISE BBO: 10 @ 2.00 x 10 @ 2.05.

A complex order is entered into the Complex Facilitation Mechanism in the complex order book for a strategy buying 1 option class A and buying 1 option class B:

Agency Complex Order: Buy 50 @ 3.05

Contra Side Complex Order: Sell 50 @ 3.05

A broadcast message is sent announcing the start of the auction. During the exposure period, the following orders and quotes are received:

Priority Customer 1 Complex Order: Sell 5 @ 3.05

Non-Customer 1 Complex Response: Sell 50 @ 3.05

Non-Customer 2 Complex Response: Sell 50 @ 3.05

Non-Customer 3 Regular Order: Sell 40 Option Class A @ 1.02

Non-Customer 4 Regular Order: Sell 40 Option Class 5 @ 2.02

Non-Customer 5 Complex Response: Sell 10 @ 3.03

At the end of the exposure period, the following orders/responses trade with the Complex Agency Order:

Non-Customer 5 Complex Response: Sell 10 @ 3.03

Non-Customer 3 Regular Order: Sell 40 Option Class A @ 1.02

Non-Customer 4 Regular Order: Sell 40 Option Class 5 @ 2.02

In above example, the response and bids and offers on the individual legs can provide price improvement for the full size, hence the Complex Agency Order trades at improved price(s).

The Exchange also proposes to adopt text in Supplementary Material .08 to Rule 722 addressing how Customer Cross Orders apply to Complex Orders. As discussed above, Rule 717(d) and (e) apply when a member seeks to execute an order it represents as agent against a proprietary order (i.e., a facilitation transaction) or an order the member has solicited from another broker-dealer (i.e., a solicited transaction). Accordingly, transactions where neither side is for the account of a broker-dealer are not within the scope of Rule 717(d) and (e), and members can enter the buy and sell orders on the limit order book nearly simultaneously.[35] To make the execution of such customer orders more efficient, the Exchange developed a way to enter opposing customer orders using a single order type ("Customer Cross Orders").[36] Customer Cross Orders were limited to Priority Customer Orders in February 2010 after the Exchange adopted this sub-category of non-broker-dealer investors.[37]

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[35] Supplementary Material .01 to Rule 717 prohibits members from entering into arrangements designed to circumvent the exposure require for facilitation transactions. Accordingly, it would be a violation of Rule 717(d) for a member to effectively facilitate an order by providing an opportunity for a customer or other person (including affiliates) to regularly execute against agency orders handled by the member immediately upon their entry on the Exchange.

[36] Securities Exchange Act Release No. 60253 (July 7, 2009), 74 FR 34063 (July 14, 2009) (SR-ISE-2009-34).

[37] Securities Exchange Act Release No. 61433 (January 27, 2010), 75 FR 5824 (February 4, 2010) (SR-ISE-2010-04). See also, supra note 12 (definition of Priority Customer Order).

Pursuant to Rule 721, Customer Cross Orders are automatically executed upon entry provided that the execution: (i) is at or between the best bid and offer on the Exchange, (ii) is not at the same price as a Priority Customer Order on the book, and (iii) will not trade through the NBBO.[38] Customer Cross Orders are rejected if they cannot be executed. Rule 721 also provides that Customer Cross Orders may only be entered in the trading increments applicable to the options class under Rule 710, and that Supplemental Material .01 to Rule 717, which prohibits a member from being a party to any arrangement designed to circumvent the requirements applicable to executing agency orders as principal, applies to Complex Customer Cross Orders.

Just as the Exchange has applied the exposure requirements of Rule 717(d) and (e) for facilitation and solicitation transactions involving Complex Orders, it has also provided for Complex Customer Cross Orders for the execution of off-setting complex Priority Customer Orders, which are not required to be exposed under Rule 717(d) and (e). The Exchange processes Complex Customer Cross Orders consistent with all of the applicable rules. Specifically, Rule 722(b) provides that "[e]xcept as otherwise provided in this Rule, Complex Orders shall be subject to all other Exchange Rules that pertain to orders generally." As discussed above, current Rule 722(b)(1) provides that Complex Orders may be traded in any decimal increment "regardless of the minimum increments otherwise applicable to the individual legs of the orders," Rule 722(b)(2) (renumbered Rule 722(c)(2) under the proposal) provides that a Complex Order may not trade at prices that are worse than the best bids and offers on the Exchange in the individual series (nor in most circumstances at the same price as a Priority Customer Order), and current Rule

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38 ISE Rule 1901 (Order Protection) prohibits members from trading through Protected Bids and Protected Offers from other options exchanges.

722(b)(3) provides that "[c]omplex orders will be executed without consideration of any prices that might be available on other exchanges trading the same options contract." [39] Accordingly, when executing Complex Customer Cross Orders, the Exchange permits the execution of a Complex Customer Cross Order so long as it is at or better than the best price available for the same complex strategy on the complex order book and there are no Priority Customer Orders at that price on the complex order book as required by Rule 721(a). The Exchange also applies the regular trading increments for complex orders and Supplementary Material .01 to Rule 717 as specified in Rule 721(a). Pursuant to Rule 722(b)(3), the Exchange does not take into consideration prices available at other exchanges (i.e., there is no NBBO for Complex Orders or trade-through protection),[40] and applies instead the priority rules for Complex Orders contained in Rule 722(b)(2), which prevents a Complex Order from trading at prices that are worse than the best bids and offers on the Exchange in the individual series (and in most circumstances at the same price as a Priority Customer Order).

The Exchange believes that its application of the Customer Cross Order for Complex Orders is consistent with all applicable existing Exchange rules and with the purpose underlying Customer Cross Orders. Specifically, the Complex Customer Cross Order protects Priority Customer Orders on the complex order book just as Priority Customer Orders are protected in the regular market pursuant to Rule 721(a). Furthermore, by applying the priority rules for Complex Orders contained in Rule 722(b)(2) (renumbered Rule 722(c)(2) under the proposal), Priority Customer Orders on

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39 A transaction that is effected as a portion of a Complex Trade is exempted from the order protection rule. ISE Rule 1901(b)(7).

40 Id.

the Exchange for the individual series are protected to the same extent as when any other Complex Orders are executed on the complex order book, and in particular when two off-setting Priority Customer Orders are entered on the complex order book nearly simultaneously rather than as a single Customer Cross Order.

The Exchange also proposes to adopt text in Supplementary Material .08 to Rule 722 addressing how Qualified Contingent Cross Orders ("QCCs"), including QCC with Stock Orders, apply to Complex Options Orders. Pursuant to Rule 715(j), QCCs are orders to buy or sell at least 1000 contracts that are identified as being part of a qualified contingent trade, as that term is defined in Supplementary Material .01 to Rule 715.[41] QCCs are not limited to Priority Customers. QCCs are executed upon entry without being exposed provided that the execution is at or between the NBBO and is not at the same price as a Priority Customer Order on the Exchange's limit order book. QCCs were adopted in 2011 following the elimination of the trade-through exemption for block

[41] The definition of QCC trade is substantively identical to the Commission's definition of a Qualified Contingent Transaction ("QCT") for which the Commission, by order, has provided trade-through relief in the equities market. Securities Exchange Act Release No. 57620 (April 4, 2008), 73 FR 19271 (April 9, 2008) (the "QCT Release"). Pursuant to Supplementary Material .01 to ISE Rule 715, a QCC trade must meet the following conditions: (i) at least one component must be an NMS Stock; (ii) all the components must be effected with a product price contingency that either has been agreed to by all the respective counterparties or arranged for by a broker-dealer as principal or agent; (iii) the execution of one component must be contingent upon the execution of all other components at or near the same time; (iv) the specific relationship between the component orders (e.g., the spread between the prices of the component orders) must be determined by the time the contingent order is placed; (v) the component orders must bear a derivative relationship to one another, represent different classes of shares of the same issuer, or involve the securities of participants in mergers or with intentions to merge that have been announced or cancelled; and (iv) the transaction must be fully hedged (without regard to any prior existing position) as a result of other components of the contingent trade. Consistent with the QCT Release members must demonstrate that the transaction is fully hedged using reasonable risk-valuation methodologies.

trades in the options market,[42] as the Exchange recognized that the loss of the block trade exemption would adversely affect the ability of ISE members to effect large trades that are tied to stock (i.e., Stock Options Orders and Stock-Complex Orders). The QCC addresses the dislocation resulting from elimination of the block trade exemption by permitting members to provide their customers a net price for the entire trade, and then allowing the members to execute the options leg of the trade on the ISE at a price at least equal to the NBBO while using the Qualified Contingent Trade ("QCT") exemption[43] to effect the trade in the equities leg at a price necessary to achieve the net price. Pursuant to Rule 721(b), a QCC must be executed at a price that is at or between the NBBO. Furthermore, a QCC may not be executed at the same price as a Priority Customer Order in the series on the Exchange.

Qualified Contingent Transactions may have multiple options components, in which case members may enter QCCs with multiple options legs (i.e., a Complex Options Order), and the Exchange applies the same principles contained in Rule 721(b) when executing such orders. For clarity, the Exchange proposes to specify in Supplementary Material .08 to Rule 722 that Complex Options Orders entered as QCCs are automatically executed upon entry so long as: (i) the price of the transaction is at or within the best bid

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42 Securities Exchange Act Release No. 63955 (File No. SR-ISE-2010-73), 76 FR 11533 (March 2, 2011) ("QCC Release"). The Distributive Linkage Plan replaced the Plan for the Purpose of Creating and Operating an Intermarket Option Linkage ("Old Linkage Plan"), and the Exchange's Linkage Rules replaced the existing ISE rules implementing the Old Plan (the "Old Linkage Rules"). The Old Linkage Plan and the Old Linkage Rules provided a limited Trade-Through exemption for "Block Trades," defined to be trades of 500 or more contracts with a premium value of at least $150,000. However, as with Regulation NMS, the Distributive Linkage Plan did not provide a Block Trade exemption.

43 See QCT Release, supra note 41.

and offer for the same complex options strategy on the complex order book; (ii) there are no Priority Customer Complex Options Orders for the same strategy at the same price on the complex order book; and (iii) the individual options legs can be executed at prices that are at or between the NBBO for the individual series, and comply with the provisions of Rule 722(c)(2)(i), provided that no legs of the Complex Options Order can be executed at the same price as a Priority Customer Order on the Exchange in the individual options series. The proposed text also specifies that Complex Qualified Contingent Cross Orders are automatically canceled if they cannot be executed. In addition, Complex Qualified Contingent Cross Orders may only be entered in the regular trading increments applicable pursuant to Rule 722(c)(1), and each leg of a Complex Options Order must meet the 1000 contract minimum size requirement for Qualified Contingent Cross Orders.

The Exchange further believes that the proposed text is consistent with the requirements of Rule 721(b) and Rule 722, and that adding the proposed text to Rule 722 will provide clarity with respect to the execution of complex QCCs. In particular, the Exchange notes that in executing complex QCCs, Priority Customer Orders on the complex order book and Priority Customer Orders on the Exchange for the individual options series are protected. The purpose of allowing QCCs to be executed without exposure is to facilitate the execution of the options component of a QCT in the Exchange's electronic market. As such, the Exchange's initial QCC proposal did not provide for Priority Customer protection. However, the Exchange amended the proposal to provide for Priority Customer protection to alleviate concerns that adoption of the QCC, which is not limited to Priority Customers, would deprive Priority Customers of executions of their resting orders, which might also create a disincentive to placing

Priority Customer limit orders on the Exchange.[44] In its approval order, the Commission noted that the QCC proposal was consistent with the NMS QCT Exemption, which found that QCTs are of benefit to the market as a whole and a contribution to the efficient functioning of the securities markets and the price discovery process, but also noted that the ISE's QCC proposal was narrowly drawn to provide a limited exception to the general principle of exposure, and that it retained the general principle of customer priority.[45] Accordingly, when implementing complex QCCs, the Exchange believed it was necessary and appropriate to protect Priority Customer Orders for the individual series in addition to Priority Customer Orders on the complex order book when executing complex QCCs. Similarly, the Exchange believed it was necessary and appropriate to execute the individual legs of complex QCCs only at prices that are at or between the NBBO for the individual series.

The proposed rules also explain how QCC with Stock Complex Orders are handled on the Exchange.[46] The QCC with Stock Order is a piece of functionality that facilitates the execution of stock component of qualified contingent trades.[47] In particular, a QCC with Stock Order is a QCC Order entered with a stock component to be communicated to a designated broker-dealer for execution. Since QCC Orders represent one component of a qualified contingent trade, each QCC Order must be paired with a stock transaction. Whereas members are required to separately execute the stock

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44 QCC Release, supra note 42 at 11541.

45 Id.

46 See Proposed Rule 722(b)(16) and Supplementary Material .08(f) to Rule 722.

47 See Securities Exchange Act Release No. 80090 (February 22, 2017), 82 FR 12150 (February 28, 2017) (SR-ISE-2017-12) ("QCC with Stock Notice").

component of a regular Qualified Contingent Cross Complex Order, with a QCC with Stock Complex Order, the Exchange will attempt to facilitate the execution of the stock component in addition to the options component. When a member enters a QCC with Stock Complex Order, a Qualified Contingent Cross Complex Order is entered on the Exchange pursuant to Supplementary Material .08(e) to Rule 722. If the Qualified Contingent Cross Complex Order is executed, the Exchange will automatically communicate the stock component to the member's designated broker-dealer for execution. Alternatively, if the Qualified Contingent Cross Complex Order cannot be executed, the entire Complex QCC with Stock Order, including both the stock and options components, is cancelled.[48] Supplementary Material .01 – .03 to Rule 721 apply to the entry and execution of Complex QCC with Stock Orders. As explained in more detail in the QCC with Stock Notice,[49] QCC with Stock Orders assist members in maintaining compliance with Exchange rules regarding the execution of the stock component of qualified contingent trades, and help maintain an audit trail for surveillance of members for compliance with such rules.

Simultaneous Auctions

In addition to other language describing the Exchange's processes for auctioning eligible Complex Orders as described above, the Exchange proposes to add language to Proposed Supplementary Material .01(b)(iii) and Proposed Supplementary Material

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[48] Members that execute the options component of a qualified contingent trade entered as a QCC with Stock Order remain responsible for the execution of the stock component if they do not receive an execution from their designated broker-dealer. The Exchange conducts surveillance to ensure that members execute the stock component of their qualified contingent trades. See id.

[49] Id.

.08(c)(4)(vi) regarding the processing of simultaneous auctions. The Complex Order Exposure and Price Improvement Mechanisms are eligible for termination before the end of the exposure period pursuant to Supplementary Material .01(b)(ii) and .08(c)(4)(v) to Rule 722. Specifically, these auctions are subject to early termination on the receipt of a Complex Order or quote for the same complex strategy on either side of the market that is marketable against the complex order book or bids and offers for the individual legs (including when the system receives a marketable Complex Order though the Complex Uncrossing Process described in Supplementary Material .12 to Rule 722); or the receipt of a non-marketable Complex Order or quote for the same complex strategy on the same side of the market that would cause the price of the Complex Order being auctioned to be outside of the best bid or offer for the same complex strategy on the complex order book.

In the event auctions are early terminated, the auctions will be processed in the sequence in which they were started. Furthermore, if an early termination condition occurs on a component leg of a complex strategy, the component leg auctions are early terminated first. If the event also affects a complex strategy, then auctions in the complex strategy will be evaluated for early termination and processing after auctions for the component legs have been processed. Eligible interest remaining on the Exchange's order books after an auction trades may trade with subsequent auctions as those are processed. The Exchange notes that except as provided in Supplementary Material .08(a)(2), (b)(2) to Rule 722 with respect to trading halts, the Complex Facilitation Mechanism and Complex Solicitation Mechanism do not terminate prior to the end of the period given for the entry of Responses.

Price Limits for Complex Orders and Quotes

Current Rule 722(b)(3) (renumbered Rule 722(d) under the proposal) provides that complex strategies may be executed without consideration of any prices that might be available on other exchanges trading the same options contracts: (i) by trading on the complex order book, (ii) by legging to access liquidity on the regular order book, or (iii) through a process whereby Complex Orders are marked for price improvement (i.e., a Complex Order Exposure, as detailed in other parts of this rule change). Nevertheless, the Exchange believes that members may not want complex strategies to trade at prices that are significantly outside the market for the individual legs. Supplementary Material .07(a) to Rule 722 therefore establishes a risk protection that limits the amount that the legs of a complex strategy may be executed at prices inferior to the prices available on other exchanges trading the same options series.[50] The Exchange proposes to include a reference in this rule to the stock leg of Stock-Option Strategies and Stock-Complex Strategies as well for clarity. In particular, the legs of a complex strategy cannot trade through the national best bid or offer for the series or any stock component 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, series, or underlying basis.[51]

In addition, the Exchange proposes to amend this rule to state that, unless the applicable rule states otherwise, when calculating the best net price achievable from the

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50 Other options exchanges have similar rules for trading the legs of a complex order at prices at inferior prices. See e.g., BOX Rule 7240(b)(3)(iii)(A).

51 Supplementary Material .07 to Rule 722 also allows members to include an instruction on their Complex Orders that each leg is to be executed at a price that is equal to or better than the national best bid or offer.

best ISE bids and offers for the individual legs, the price of the stock leg is the national best bid or offer price calculated pursuant to this Supplementary Material .07(a) to Rule 722. In connection with this change, the Exchange also proposes to amend its rules for the Limit Order Price Protection pursuant to Supplementary Material .07(d) to Rule 722 to clarify that the national best bid or offer price is used for any stock leg. The Exchange believes that these two changes will increase transparency about the prices used by the Exchange for various purposes where the Exchange must derive a best bid or offer price from the prices available in the regular market.

Furthermore, Supplementary Material .07(d) to Rule 722 provides that the Exchange will reject Limit Complex Orders to buy (sell) if the net price of the Limit Complex Order exceeds (is below) the net price available from the individual options series on the Exchange by a specified amount. Currently, the Exchange's rule states that this limit is established for Complex Orders to buy (sell) as *the greater of* the net price available from the individual options series on the Exchange plus (minus) an absolute or percentage amount determined by the Exchange. While this reflects the limit order price protection for Limit Complex Orders to buy, it suggests that the Exchange will reject Limit Complex Orders to sell based on whether the Limit Complex Order is priced below the greater (rather than lesser) of (1) the net price available from the individual options series minus the applicable absolute amount, or (2) the net price available from the individual options series minus the percentage amount. To adequately describe the rule for Limit Complex Orders to sell, the Exchange proposes to amend this rule text to state that the limit is established for Complex Orders to buy (sell) as the net price available from the individual options series on the Exchange plus (minus) the *greater of the absolute or percentage values described in the rule*.

Trade Value Allowance

The Exchange proposes to adopt text in proposed Supplementary Material .09 to Rule 722 that clarifies how the Exchange handles Stock-Option Strategies and Stock Complex Strategies when different minimum trading increments are allowed for the stock and options legs of such trades. Members enter Stock-Option Strategies and Stock Complex Strategies on the complex order book with a single net price that includes all stock and option legs of the order. As the stock leg is eligible for execution at finer increments permitted by the equity market responsible for executing the stock portion of such orders,[52] Members can submit Stock Option Strategies and Stock Complex Strategies with up to a number of decimal places determined by the Exchange. The options leg(s), however, must be executed in one cent increments, in keeping with the minimum increment permitted for options executions.[53] After calculating the appropriate options match price expressed in a valid one cent increment, the trading system will calculate the corresponding stock match price. This stock match price must be rounded to the increment supported by the equity market. In a small subset of cases, this rounding may result in a small difference between the expected notional value of the trade and the actual trade value (i.e., a "Trade Value Allowance").[54] Members generally prefer not to

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52 See Rule 722(c)(1).

53 Id.

54 Proposed Supplementary Material .09 to Rule 722 defines "Trade Value Allowance" as the percentage difference between the expected notional value of a trade and the actual notional value of the trade.

forgo an execution for their Stock-Option Strategies and Stock-Complex Strategies when there is a Trade Value Allowance, as the amount of the rounding is miniscule compared to the total value of the trade. Therefore, the Exchange offers to members functionality that allows Stock-Option Strategies and Stock-Complex Strategies to trade outside of their specified net prices so long as the amount of any Trade Value Allowance does not exceed a value determined by the member. Members have the option of opting out of this functionality if they do not want their orders to be executed when there is a Trade Value Allowance of any amount. In such cases, the Exchange will strictly enforce the net price marked on the order. For members that do not supply their own values, default values determined by the Exchange and announced to members will be applied instead. Any amount of Trade Value Allowance is permitted for auction orders pursuant to Supplementary Material .08 to Rule 722 that do not trade solely with their contra-side order.

Example:

- Member has set a Trade Value Allowance of 0.05% of the expected trade value.
- Member enters order to Sell 57 shares of ABC stock and Buy a Jan 80 ABC call with a net price of $43.746 and a quantity of 77.
- Order matched with corresponding contra order on the complex order book.
- The expected trade value based on the order’s limit price / quantity and a contract multiplier of 100 is $336844.20 – i.e., $43.746 x 77 x 100.
- Calculated options match price is $2.39 based on market prices and the stock match price is $80.940351 (rounded to six decimals).

- The rounding of the stock match price results in a total notional trade value of $336844.200539 – i.e., 77 x (($80.940351 x 57) - ($2.39 x 100)).
- The total notional Trade Value Allowance is approximately $0.000539 – i.e., less than one cent.
- Order is executed as the Trade Value Allowance is less than 0.05% of the expected trade value of $336,844.20.

Trade Value Allowance is helpful as this feature allows members to receive an expeditious execution, and trade the stock and options components of a Stock-Option Strategy or Stock-Complex Strategy in a moving market without introducing legging risk. Without this functionality members would be forced to resubmit their orders and potentially receive a much worse price or miss an execution.

Complex Opening Process

Options series traded on the Exchange are opened pursuant to Rule 701 at the opening of the Exchange each business day, or during the reopening of the market after a trading halt.[55] Proposed Supplementary Material .10 describes the Exchange's Complex Opening Process, and provides that after each of the individual component legs have opened, or reopened following a trading halt, Complex Options Strategies will be opened pursuant to the Complex Opening Price Determination described in Supplementary Material .11 to Rule 722, and Stock-Option Strategies and Stock-Complex Strategies will

55 Complex orders and quotes are disseminated to subscribers of the Exchange's market data feeds prior to the commencement of the Complex Opening Process. When the complex strategy has opened the Exchange disseminates a trading state indicating that regular trading has begun.

be opened pursuant to the Complex Uncrossing Process described in Supplementary Material .12(b) to Rule 722.[56] Each of these processes is described in more detail below.

Complex Opening Price Determination

Complex Options Strategies are opened pursuant to an opening process that attempts to execute Complex Orders and quotes on the complex order book at a single price that is within Boundary Prices that are constrained by the NBBO for the individual legs, thereby serving an important price discovery function.

Proposed Supplementary Material .11(b) to Rule 722 provides that eligible interest during the Complex Opening Price Determination includes Complex Orders and quotes on the complex order book except the non-displayed portion of Reserve Complex Orders. The non-displayed portion of a Reserve Complex Order is contingent, non-displayed interest, and therefore not eligible for the Complex Opening Process. Allowing only the displayed portion of Reserve Complex Orders to participate in the Complex Opening Price Determination encourages members to enter displayed interest to participate in the opening auction, and ensures that the price discovery that occurs in the Complex Opening Price Determination is not skewed by interest that is not displayed to market participants. The non-displayed portion of a Reserve Complex Order may participate in the Complex Uncrossing Process pursuant to Proposed Supplementary Material .12(b) and thereby receive an execution during the Complex Opening Process. In addition, only interest on the complex order book is considered for the Complex Opening Price Determination as this part of the process is designed to promote price

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56 The Complex Uncrossing Process is also used during regular trading when a resting Complex Order or quote that is locked or crossed with other interest becomes executable.

discovery for the complex strategy, and therefore bids and offers for the individual legs of the Complex Strategy are not eligible to participate in the Complex Opening Price Determination but will participate in the Complex Uncrossing Process.

Proposed Supplementary Material .11(c) to Rule 722 describes the Exchange's process for opening when the best bid for a complex strategy does not lock or cross the best offer. In particular, if the best bid for a complex strategy does not lock or cross the best offer, there will be no trade in the Complex Opening Price Determination and the complex strategy will open pursuant to the Complex Uncrossing Process described in Supplementary Material .12(b) to Rule 722. The Exchange believes that it is appropriate to open with a Complex Order Uncrossing when the complex order book is not executable in the Complex Opening Price Determination as the uncrossing process supports the trading of additional interest and will thereby provide another opportunity for Complex Orders and quotes to be executed in the Complex Opening Process.

Proposed Supplementary Material .11(d) to Rule 722 describes the Exchange's process for opening a Complex Strategy when a trade may be possible – i.e., if the best bid for the complex strategy locks or crosses the best offer.

First, the system calculates Boundary Prices[57] at or within which Complex Orders and quotes may be executed during the Complex Opening Price Determination. Boundary prices are calculated to ensure that the opening price is at or within the individual bids and offers established in the market. In particular, the Boundary Prices are calculated based on the NBBO for the individual legs; provided that, if the NBBO for any leg

57 See Proposed Supplementary Material .11(d)(i) to Rule 722.

includes a Priority Customer order on the Exchange, the system adjusts the Boundary Prices according to Rule 722(c)(2).

Example 1:

- Complex strategy to buy 1 contract of Series A and 1 contract of Series B
- ABBO for Series A is $1.00 x $1.03
- ISE BBO for Series A is $1.01 x 1.04
- ABBO for Series B is $0.98 x $1.01
- ISE BBO for Series B is $0.98 x $1.02
- *Boundary price is $1.99 x $2.04*

Example 2:

- Market is the same as described in Example 1 above except that the ISE BBO for Series B includes a Priority Customer order on the bid
- *Boundary price is $2.00 x $2.04 as the bid boundary is adjusted according to Rule 722(c)(2)*

Next, the Exchange will calculate the Potential Opening Price[58] and Opening Price[59] pursuant to Proposed Supplementary Material .11(d)(ii)-(iv) to Rule 722.

The Potential Opening Price is first calculated pursuant to Proposed Supplementary Material .11(d)(ii) to Rule 722 by identifying the price(s) at which the maximum number of contracts can trade ("maximum quantity criterion") taking into consideration all eligible interest pursuant to Supplementary Material .11(b) to Rule 722. Proposed Supplementary Material .11(d)(iii) to Rule 722 also outlines additional

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58 See Supplementary Material .11(d)(ii)-(iii) to Rule 722.

59 See Supplementary Material .11(d)(iv) to Rule 722.

considerations for calculating the Potential Opening Price when multiple prices would satisfy the maximum quantity criterion. Generally, when two or more Potential Opening Prices would satisfy the maximum quantity criterion: (A) without leaving unexecuted contracts on the bid or offer side of the market at those prices, the system takes the highest and lowest of those prices and takes the mid-point; provided that (1) if the highest and/or lowest price described above is through the price of a bid or offer that is priced to not allocate in the Complex Opening Price Determination, the highest and/or lowest price will be rounded to the price of such bid or offer that is priced to not allocate before taking the mid-point, and (2) if the mid-point is not expressed as a permitted minimum trading increment, it will be rounded down to the nearest permissible minimum trading increment; or (B) leaving unexecuted contracts on the bid (offer) side of the market at those prices, the Potential Opening Price is the highest (lowest) executable bid (offer) price. Notwithstanding the foregoing: (C) if there are Market Complex Orders on the bid (offer) side of the market that would equal the full quantity of Complex Orders and quotes on offer (bid) side of the market, the limit price of the highest (lowest) priced Limit Complex Order or quote is the Potential Opening Price; and (D) if there are only Market Complex Orders on both sides of the market, or if there are Market Complex Orders on the bid (offer) side of the market for greater than the total size of Complex Orders and quotes on the offer (bid) side of the market, there will be no trade in the Complex Opening Price Determination and the complex strategy will open pursuant to the Complex Uncrossing Process described in Supplementary Material .12(b) to Rule 722. The examples below illustrate the scenarios discussed above, opening a complex strategy to buy 1 contract of Series A and 1 contract of Series B.

<u>Example 3</u>:

- The following Complex Orders are on the complex order book:
  - Buy Complex Order for 10 contracts at $0.42
  - Buy Complex Order for 10 contracts at $0.41
  - Sell Complex Order for 10 contracts at $0.32
  - Sell Complex Order for 10 contracts at $0.35
- 20 contracts can be allocated at prices between $0.35 and $0.41 without leaving unexecuted contracts on the bid or offer side of the market of Complex Orders and quotes to be traded at those prices.
- The system therefore takes the mid-point of these prices (i.e., $0.38) as the Preliminary Opening Price pursuant to paragraph (A) above.

<u>Example 4:</u>

- The following Complex Orders are on the complex order book:
  - Buy Complex Order for 10 contracts at $0.42
  - Buy Complex Order for 10 contracts at $0.41
  - Buy Complex Order for 10 contracts at $0.33
  - Sell Complex Order for 20 contracts at $0.32
  - Sell Complex Order for 10 contracts at $0.35
- 20 contracts can be allocated at prices between $0.32 and $0.41 without leaving unexecuted contracts on the bid or offer side of the market of Complex Orders and quotes to be traded at those prices; however, both of those prices are through the price of a bid or offer that is priced not to allocate – i.e., the Buy Complex Order at $0.33 and the Sell Complex Order at $0.35.

- The system therefore rounds these prices to the price of interest priced not to allocate (i.e., $0.33 and $0.35) before taking the mid-point of these prices (i.e., $0.34) as the Preliminary Opening Price pursuant to paragraph (A) above.

Example 5:

- The following Complex Orders are on the complex order book:
    - Buy Complex Order for 20 contracts at $0.41
    - Sell Complex Order for 10 contracts at $0.35
- 10 contracts can be allocated at prices between $0.35 and $0.41 leaving unexecuted contracts on the bid side of the market of Complex Orders and quotes to be traded at those prices (i.e., 10 contracts to buy).
- The system therefore takes the highest executable bid (i.e., $0.41) as the Preliminary Opening Price pursuant to paragraph (B) above.

Example 6:

- The following Complex Orders are on the complex order book:
    - Buy Market Complex Order for 20 contracts
    - Sell Complex Order for 10 contracts at $0.35
    - Sell Complex Order for 10 contracts at $0.40
- The 20 contracts of Market Complex Order quantity on the bid side of the market equals the full 20 contracts available on the offer side of the market.
- The system therefore takes limit price of the highest priced Limit Complex Order (i.e., the Sell Complex Order priced at $0.40) as the Preliminary Opening Price pursuant to paragraph (C) above.

<u>Example 7:</u>

- The following Complex Orders are on the complex order book:
  - Buy Market Complex Order for 30 contracts
  - Sell Complex Order for 10 contracts at $0.35
  - Sell Complex Order for 10 contracts at $0.40
- The 30 contracts of Market Complex Order quantity on the bid side of the market exceeds the full 20 contracts available on the offer side of the market.
- There is no Potential Opening Price and no trade is possible in the Opening Price Determination pursuant to paragraph (D) above. The Complex Opening Process continues to the Complex Uncrossing Process.

Pursuant to Proposed Supplementary Material .11(d)(iv) to Rule 722, if the Potential Opening Price is at or within the Boundary Prices, the Potential Opening Price becomes the Opening Price. If the Potential Opening Price is not at or within the Boundary Prices, the Opening Price will be the price closest to the Potential Opening Price that satisfies the maximum quantity criteria without leaving unexecuted contracts on the bid or offer side of the market at that price and is at or within the Boundary Prices. If the bid Boundary Price is higher than the offer Boundary Price, or if no valid Opening Price can be found at or within the Boundary Prices, there will be no trade in the Complex Opening Price Determination and the complex strategy will open pursuant to the Complex Uncrossing Process described in Supplementary Material .12(b) to Rule 722.

<u>Example 8:</u>

- Individual leg prices are the same as Example 1 in this opening section. In addition, the following Complex Orders are on the book:
  - Buy Complex Order 1 for 10 contracts at $2.02
  - Buy Complex Order 2 for 15 contracts at $2.03
  - Sell Complex Order 3 for 30 contracts at $2.02
- $2.02 is the Preliminary Opening Price as this is the price at which the maximum size of 25 contracts can be allocated. Since $2.02 is at or within the Boundary Prices (see Example 1) it is also the Opening Price.
- Buy Complex Order 1 and Buy Complex Order 2 are executed in full; Sell Complex Order 3 executes 25 contracts.
- The remaining 5 contracts of Sell Complex Order 3 will rest on the complex order book as there is no locked/crossed interest to participate in the Complex Uncrossing Process.

<u>Example 9:</u>

- Individual leg prices are the same as Example 1 in this opening section. In addition, the following Complex Orders are on the book:
  - Buy Complex Order 1 for 20 contracts at $2.06
  - Sell Complex Order 1 for 20 contracts at $2.04
- 20 contracts can be allocated at prices between $2.04 and $2.06 without leaving unexecuted contracts on the bid or offer side of the market of Complex Orders and quotes to be traded at those prices.

- The system therefore takes the mid-point of these prices (i.e., \$2.05) as the Preliminary Opening Price pursuant to paragraph (A) above.
- Since \$2.05 is outside the Boundary Prices (see Example 1) the Opening Price will be \$2.04 – i.e., the price closest to the Potential Opening Price that satisfies the maximum quantity criteria without leaving unexecuted contracts on the bid or offer side of the market at that price and is at or within the Boundary Prices.

Finally, the Exchange will allocate contracts to trade during the Complex Opening Process. In particular, where there is an execution possible, the system will give priority to Market Complex Orders first, then to resting Limit Complex Orders and quotes on the complex order book. The allocation provisions of Rule 722(d)(2) apply with respect to Complex Orders and quotes with the same price with priority given first to better priced interest.

Proposed Supplementary Material .11(vi) to Rule 722 provides that the system will refresh Reserve Complex Orders pursuant to Rule 722(b)(4)(iv) following the execution of the displayed portion of Reserve Complex Orders in the process described above.

Proposed Supplementary Material .11(vii) to Rule 722 describes the Exchange's process for uncrossing the complex order book following the Complex Opening Price Determination described above. In particular, if the complex order book remains locked or crossed following the steps described above, the system will process any remaining Complex Orders and quotes, including Opening Only Complex Orders and the non-displayed portion of Reserve Complex Orders, in accordance with the Complex

Uncrossing Process described in Supplementary Material .12(b) to Rule 722. Bids and offers for the individual legs of the complex strategy will be eligible to participate in the Complex Uncrossing Process.

Complex Uncrossing Process

Proposed Supplementary Material .12(b) to Rule 722 describes the Exchange's process for uncrossing the complex order book when a resting Complex Order or quote that is locked or crossed with other interest becomes executable during regular trading or as part of the Complex Opening Process. The Complex Uncrossing Process applies to Complex Options Strategies, Stock-Option Strategies, and Stock-Complex Strategies. Complex strategies are uncrossed using the following procedure: First, the system identifies the oldest Complex Order or quote among the best priced bids and offers on the complex order book – i.e., based on the limit or market price of Complex orders and quotes on the complex order book. When determining which bids and offers are at the best price, all Complex Orders and quotes are considered at their limit or market price. A Complex Order entered with an instruction that it must be executed at a price that is equal to or better than the national best bid or offer pursuant to Supplementary Material .07(a) to Rule 722 is also considered based on its actual limit or market price and not the price of the national best bid or offer for the component legs at which the order would be executed, as would otherwise be the case. Then, the selected Complex Order or quote is matched pursuant to Rule 722(d)(2)-(3) with resting contra-side interest on the complex order book and, for Complex Orders, bids and offers for the individual legs of the complex strategy. This process is repeated until the complex order book is no longer executable.[60]

Example 10:

- Individual leg prices are the same as Example 1 above. In addition, the following Complex Orders and quotes are on the book:
  - Sell Complex Order 1 at $2.02 submitted at time T1
  - Sell Complex Order 2 at $2.02 submitted at time T2
- ISE Bid on Series B improves to $1.01 such that the leg markets are now executable with the resting Sell Complex Orders.
- Complex Uncrossing Process will occur. Complex Order 1 is the oldest Complex Order at the best price and is selected and trades with the leg markets first – i.e. Complex Order 1 will trade with the ISE Best Bid on Series A at 1.01 and the ISE Best Bid on Series B at 1.01. After Complex Order 1, Complex Order 2 will be selected and can trade with the remaining quantity on the leg markets.

The Complex Uncrossing Process serves an important function when used in the Complex Opening Process and during regular trading. The Complex Opening Price Determination described in the section above is designed to permit interest residing on the complex order book to trade at a single price pursuant to a price discovery process within Boundary Prices that are constrained by the NBBO for the individual legs. There may be additional interest on the complex order book that could trade, for example, by legging to access liquidity on the regular order book. In addition, trades during the

[60] The Exchange will manage and curtail repetition of the Complex Uncrossing Process so as to not negatively impact system capacity and performance.

Complex Uncrossing Process are not constrained by the NBBO for the individual legs and can instead trade at prices permitted under Supplementary Material .07 to Rule 722, which allows the legs of a complex strategy to trade through the NBBO for the individual legs by a configurable amount. The Exchange therefore continues the Complex Opening Process by performing an uncrossing if the Complex Opening Price determination fails to discover an appropriate execution price (for example, if no valid Opening Price can be found at or within the Boundary Prices) or where there continues to be interest that is locked or crossed after Complex Orders and quotes are executed in the Complex Opening Price Determination. Furthermore, the Complex Uncrossing Process provides an efficient and fair way of determining how to execute Complex orders and quotes when interest that is locked or crossed becomes executable during regular trading. During the trading day there may be Complex Orders and quotes on the complex order book that are locked or crossed with other interest but that are not executable, for example, because the legs cannot be printed at permissible prices. When market conditions change and these Complex Orders or quotes become executable, the Exchange uses the Complex Uncrossing Process to execute Complex Orders or quotes against resting contra-side interest.

Updates to Rule 722

The first two paragraphs of Rule 722 currently provide for the delay of re-introduction for certain complex functionality until specified dates, namely the legging functionality for Stock-Option Orders and functionality which permits concurrent complex order auctions, as further described in this Rule. The Exchange now proposes to update the rule references presently contained in these provisions to reflect the proposed renumbering and expansion of rules described above.[61]

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Securities Exchange Act of 1934 (the "Act")[62] in general, and furthers the objectives of Section 6(b)(5) of the Act[63] in particular, in that it is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism for a free and open market and a national market system, and, in general, to protect investors and the public interest. The proposed rule change provides greater clarity regarding how Complex Orders are processed on the Exchange and expands upon various existing provisions within the Exchange's rules, including by adopting a rule that addresses the Exchange's process for opening complex strategies. The Exchange therefore believes that the proposed rule change will better enable members and investors to make informed decisions regarding the use of Complex Orders on the Exchange.

Specifically, with respect to the proposed changes to the definitions contained in Rule 722, the Exchange believes it is consistent with Section 6(b)(5) of the Act to more clearly identify Complex Options Strategies, Stock-Option Strategies and Stock-Complex Strategies (collectively complex strategies), including by indicating that the Exchange

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61 Specifically: current Rule 722(b)(3)(ii) (proposed Rule 722(d)(3)), current Rule 722(b)(3)(iii) (proposed Rule 722(d)(1) and Supplementary Material .01 to Rule 722), current Supplementary Material .08 to Rule 716 (proposed Supplementary Material .08(a) and .08(b) to Rule 722), and current Supplementary Material .09 to Rule 723 (proposed Supplementary Material .08(c) to Rule 722).

62 15 U.S.C. 78f(b).

63 15 U.S.C. 78f(b)(5).

may limit the applicable number of legs accepted for each of these types of complex strategies, and to adopt separate definitions for orders in those strategies (as opposed to quotes) so that differences in processing are reflected more clearly in the Exchange's Rules. Similarly, the Exchange believes specifying which order types and designations contained in Rule 715 for regular orders on the Exchange apply to Complex Orders and specifying any differences with respect to the processing of Complex Orders within proposed Rule 722(b) will bring clarity to the available Complex Order types. The added clarity will also assist investors with determining which types of Complex Orders they can trade on the Exchange in order to fully realize their trading and hedging potential. With respect to Exposure Orders and Exposure Only Orders, the Exchange believes it is reasonable to provide an opportunity for investors to seek to have their orders exposed for an opportunity for price improvement. Furthermore, the Exchange believes that it is appropriate to give members the option to have such orders canceled if they are not eligible for exposure (i.e., for Exposure Only Orders) or have those orders entered on the complex order book (i.e., for Exposure Orders) based on their trading needs. With respect to legging orders,[64] the Exchange believes that the proposed rule amendments will more clearly articulate that only Complex Options Order strategies can generate legging orders, and that a Reserve Complex Order will only generate a legging order from its displayed quantity to avoid exposing non-displayed size to market participants.

The Exchange also believes that specifying that bids and offers for Complex Options Strategies may be expressed in $0.01 increments,[65] and that the options legs of

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64 See Rule 715(k).

65 See Rule 722(c)(1).

complex strategies may be executed in $0.01 increments and not in "any decimal price" will remove any confusion regarding the applicable increment that may have existed with the current language that applied to all complex strategies. The rule will continue to state that Stock-Option Strategies and Stock-Complex Strategies are accepted in decimal increments, but the Exchange is clarifying the permitted increments will be determined by the Exchange with notice to its members.[66] The Exchange believes that smaller increments are appropriate for complex strategies that have a stock component since the stock leg of such strategies are permitted to trade in finer increments than permitted in the options market. The proposed rule therefore gives the Exchange flexibility to adopt minimum increments that are appropriate for the trading of these strategies. Moreover, specifying the minimum trading increments for complex strategies in the Supplementary Material to Rule 710 will remove any potential confusion as to the application of Rule 710 to Complex Orders.

The Exchange further believes that is it consistent with Section 6(b)(5) of the Act to provide greater clarity to the priority of complex strategies with respect to bids and offers for the individual component series on the Exchange by re-formatting Rule 722(b)(2) (renumbered Rule 722(c)(2) under the proposal) and replacing certain references with defined terms. The Exchange also believes that it is consistent with the protection of investors and the public interest to add language in Proposed Rule 722(c)(2)(iv) that explains that complex strategies may be executed on the complex order book without giving priority to the non-displayed portion of Reserve Orders on the bids or offers for the individual legs of the complex strategy. As explained in the purpose

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66 The stock leg may be executed in any decimal price permitted in the equity market.

section of this proposed rule change, complex strategies may be executed without giving priority to the non-displayed portion of a Reserve Order in the regular market as this non-displayed interest has no priority on the book, and is only available for execution after all displayed interest has been executed. The Exchange believes that the proposed changes to Rule 722(b)(3) (renumbered Rule 722(d) under the proposal) regarding the execution of complex strategies will also bring clarity to how complex strategies are executed. In particular, the proposal specifies that complex strategies are not executable unless the requirements of Rule 722(b)(2) (renumbered Rule 722(c)(2) under the proposal), regarding the protection of Priority Customer orders in the regular market, are satisfied, and more clearly identifies the sequence of complex strategy processing.

The Exchange also believes that providing for an auction process whereby Complex Orders that improve upon the best price for the same options strategy on the complex order book benefits such Complex Orders by giving them an opportunity for price improvement, and that the exposure process specified in the proposed rule change is consistent with the requirements of Section 6(b)(5) of the Act.[67] The proposed rule provides a fair opportunity for all members to participate in the execution of such Complex Orders according to the existing execution priority rules for Complex Orders. In particular, the Exchange notes that the proposed rule does not exclude any market participants from initiating or participating in the Complex Order auction and that all of the material terms of the order are included in the broadcast message. Additionally, the proposed rule assures that the exposure process will not interrupt the processing of Complex Orders by terminating the auction upon the receipt of certain Complex Orders

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[67] See Supplementary Material .01 to Rule 722.

for the same complex strategy. Specifically, the exposure period for a Complex Order will end immediately upon the receipt of a Complex Order or quote for the same options strategy on either side of the market that is marketable against the complex order book or bids and offers for the individual legs, which assures that incoming orders are not delayed by the exposure process. The exposure period for a Complex Order will also be terminated upon the receipt of a non-marketable Complex Order or quote for the same complex strategy on the same side of the market that would cause the price of the Complex Order to be outside of the best bid or offer for the same complex strategy on the complex order book, which protects the Complex Order being exposed from missing an execution opportunity. The Exchange further notes that investors are given the ability to designate whether or not their Complex Orders should be exposed for price improvement if eligible. Thus, the proposed rule specifies a process designed to balance the needs of investors that prefer an immediate execution and those that prefer an opportunity for price improvement.

The Exchange believes that specifying in Supplementary Material .03 to Rule 722 that market makers can enter quotes in classes selected by the Exchange will enhance clarity for members and investors as the Exchange has traditionally offered complex quoting functionality in only a limited number of symbols. Although complex quoting functionality has not yet been implemented on INET,[68] the Exchange intends to continue this practice when complex quoting is re-enabled. Any classes selected by the Exchange for complex quoting are announced to the membership via Options Trader Alert, and market makers can enter Complex Orders in all classes regardless of whether quoting is

68 See Securities Exchange Act Release No. 80613 (April 26, 2017), 82 FR 22022 (May 11, 2017) (SR-ISE-2017-37).

permitted. In addition, the Exchange believes that it is appropriate to remove references to "complex order strategies" in the Market Maker Speed Bump rule (i.e., Supplementary Material .04 to Rule 722) as the proposed rules now contain a more specific definition of "Complex Options Strategies." Due to the nature of the Market Maker Speed Bump, which is based exclusively on options contracts executed, this protection applies only to Complex Options Strategies and not to complex strategies that have a stock component – i.e., Stock-Option Strategies and Stock-Complex Strategies. The Exchange does not believe that the stock and options components of a Stock-Option Strategy or Stock-Complex Strategy can be combined in a way that provides a meaningful measure of risk exposure for members, and has therefore determined not to provide the Market Maker Speed Bump for these complex strategies.

The Exchange believes that specifying in Rule 722(c)(3) that the requirements of Rule 717(d) and (e) apply to the execution of Complex Orders will provide clarity to members. The Exchange further believes that moving the text related to the execution of Complex Orders in the various crossing mechanisms into Supplementary Material .08 to Rule 722 will better enable members to understand how Complex Orders may be executed in compliance with the requirements of Rule 717(d) and (e), and that the proposed non-substantive changes to the existing text will provided greater detail and clarity regarding how Complex Orders are processed by the mechanisms. The Exchange also proposes to add additional detail to the Supplementary Material .08 to Rule 722 to more fully describe the operation of the Exchange's crossing mechanisms, including but not limited to the prices at which Complex Orders can be entered into the Complex Facilitation, Solicited Order, and Price Improvement Mechanisms. These proposed changes reflect the current operation of the Exchange's crossing mechanisms for Complex Orders, and are intended to provide additional details as are customary for rules today.

As discussed in detail above, the Exchange also believes that the proposed rule changes related to complex Customer Cross Orders[69] and complex QCCs – including Complex QCC Orders[70] and Complex QCC with Stock Orders[71] where the Exchange attempts to facilitate the execution of the stock component of the transaction to aid members in meeting their compliance obligations – is consistent with all applicable rules and with Section 6(b)(5) of the Act. Specifically, with respect to complex Customer Cross Orders which are not subject to the general principle of exposure, Priority Customer Orders on the Exchange for the individual series are protected to the same extent as when any other Complex Orders are executed on the complex order book. The Exchange believes that in this context, where two Priority Customer Complex Orders are being executed, it is reasonable and consistent with existing rules to apply the requirements of Rule 722(b)(2) and (b)(3) (renumbered Rule 722(c)(2) and 722(d) respectively). Indeed, it would be contrary to investor expectations if entering a complex Customer Cross Order reduced the opportunity for execution as compared to entering two separate Priority Customer Orders on the complex order book nearly simultaneously. In contrast, with respect to complex QCCs, which are not limited to Priority Customer Orders and were narrowly drawn to provide a limited exception to the general principle

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[69] See Supplementary Material .08(d) to Rule 722.

[70] See Supplementary Material .08(e) to Rule 722.

[71] See Supplementary Material .08(f) to Rule 722.

of exposure, the Exchange believes it is necessary and appropriate to restrict the execution if there are Priority Customer Orders on the Exchange in the individual options series at the same price or if the net price cannot be achieved at or within the NBBO for the individual series. The Exchange further believes that the proposed rule change to specify how complex Customer Cross Orders and complex QCCs are processed in Supplementary Material .08 to Rule 722 will provide clarity to members and investors.

Furthermore, the Exchange believes that it is consistent with the protection of investors and the public interest to update its rules to clarify in Supplementary Material .07(a) to Rule 722 how the stock leg is considered when determining the best net price achievable from the ISE bids and offers for the individual legs. Although it is clear what this language means with respect to Complex Options Orders when the bids and offers for the individual legs refer to interest on the Exchange's regular order book, it is not currently clear with respect to the stock leg of Stock-Option Orders and Stock-Complex Orders. The stock leg of Stock-Option Orders and Stock-Complex Orders are permitted to trade through the national best bid or offer pursuant to the QCT exemption under Regulation NMS. To reinforce that these complex strategies benefit from the QCT Exemption, the Exchange proposes in Supplementary Material .13 to Rule 722 to provide that Members may only submit Complex Orders and quotes in Stock-Option Strategies and Stock-Complex Strategies if such Complex Orders and quotes comply with the QCT exemption. Members submitting Complex Orders and quotes in Stock-Option Strategies and Stock-Complex Strategies represent that they comply with the QCT exemption. The Exchange believes that explaining this in its rules will increase transparency around the operation of the Exchange to the benefit of members and other market participants that trade on the Exchange.

With respect to Supplementary Material .07(d) to Rule 722, the Limit Order Price Protection is designed to ensure that orders are entered at prices that are reasonably related to the market. The Exchange therefore believes that it is appropriate to use the national best bid or offer price for this purpose, and is making it clear that the national best bid or offer price of the stock leg is used for this system protection.

In addition, with respect to the other change to the Limit Order Price Protection rules, the Exchange believes that the proposed rule change will clarify how this system protection applies to Limit Complex Orders to sell. As explained above, the proposed rule text more accurately describes how the Exchange calculates the boundary prices used to determine when Limit Complex Orders to sell will be rejected.

The Exchange also believes that codifying the Trade Value Allowance process in Supplementary Material .09 to Rule 722 will more accurately describe how complex strategies are executed. The Chicago Board Options Exchange ("CBOE") also has similar rules for trading complex orders in open outcry.[72] Due to the rounding process, an order or quote for a Stock-Option Strategy or Stock-Complex Strategy can trade through its net price by an insignificant amount relative to the value of the trade. Members generally prefer not to forgo an execution for their Stock Option Strategies and Stock-Complex Strategies when there is a Trade Value Allowance, as the amount of the rounding is miniscule compared to the value of the trade. As explained earlier, the Trade Value Allowance feature allows members to receive an expeditious execution, and trade the

[72] See Interpretations and Policies .01 to CBOE Rule 6.41, which requires members to resolve similar trade value differences in favor of the customer.

stock and options components of a Stock-Option Strategy or Stock-Complex Strategy in a moving market without introducing legging risk. Without this functionality members would be forced to resubmit their orders and potentially receive a much worse price or miss an execution. While the Exchange believes that the majority of members want their Stock-Option Strategies and Stock-Complex Strategies to be handled this way, this functionality is optional, giving members the ability to require strict enforcement of the net price marked on the order; provided that any Trade Value Allowance is permitted for auction orders pursuant to Supplementary Material .08 to Rule 722 that do not trade solely with their contra-side order in order to facilitate executions in these mechanisms. Permitting any amount of Trade Value Allowance in these limited circumstances ensures that an auction order that cannot trade with its contra-side order due to better priced Responses or interest on the Exchange's order books is not thereafter prohibited from executing due to an economically insignificant amount of trade value difference.

The Exchange also believes that the codifying the Complex Opening Process, Complex Opening Price Determination, and Complex Uncrossing Process is designed to promote just and equitable principles of trade because it will increase transparency with respect to the Exchange's processes for opening and uncrossing complex strategies. The proposed rules describe the Exchange's current process for opening complex strategies, including provisions that describe eligible interest, the calculation of an appropriate Opening Price at which such interest will be executed, and allocation of contracts between market participants. The Complex Opening Price Determination is designed to provide an opportunity for members to trade complex strategies in a transparent opening rotation at a price that is within the NBBO prices of the individual legs prior to uncrossing the complex strategy in the Complex Uncrossing Process to allow additional interest to participate. The Exchange believes that codifying this process in the Exchange's rulebook will be helpful to members and other market participants that participate in the Complex Opening Price Determination. The proposed rules also detail the Exchange's process for uncrossing the complex order book when resting Complex Orders and quotes become executable during regular trading or as part of the Complex Opening Process. The Exchange believes that describing this process in its rules is helpful to members and other market participants as it adds additional information about how Complex Orders and quotes are executed when the complex order book becomes executable, for example, due to updated prices in market for the individual legs of the complex strategy. The Exchange believes that the Complex Opening Process, Complex Opening Price Determination, and Complex Uncrossing Process are each designed to perfect the mechanism of a free and open market and a national market system, and protect investors and the public interest.

In addition, the Exchange further believes that the proposal removes impediments to and perfects the mechanism of a free and open market by ensuring that members, regulators and the public can more easily navigate the Exchange's rulebook and better understand the types of complex strategies available for trading on the Exchange and the manner in which such strategies are traded. The Exchange believes the proposed changes to the rules will benefit investors as they improve the readability of and further simplify the Exchange's rules regarding complex strategies. Similarly, the Exchange believes that the updates to the rule references in Rule 722 to reflect the proposed renumbering and expansion of rules will add further clarification to the Exchange's rulebook, and will also alleviate potential confusion as to the applicability of its rules, which will protect investors and the public interest.

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 that is not necessary or appropriate in furtherance of the purposes of the Act. The proposed rule change provides greater clarity regarding how complex strategies are processed on the Exchange and expands upon various existing provisions within the Exchange's rules. The Exchange notes that it operates in a highly competitive market in which market participants can readily direct order flow to competing venues who offer similar functionality. The Exchange believes the proposed rule change will enhance competition among the various markets for Complex Order execution, potentially resulting in more active Complex Order trading on all exchanges. The Exchange notes that as to intramarket competition, the proposed rule change treats all Exchange participants equally, as fully described above.

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

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the Exchange consents, the Commission shall: (a) by order approve or disapprove such proposed rule change, or (b) institute proceedings to determine whether the proposed rule change should be 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-2018-56 on the subject line.

Paper comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-ISE-2018-56. 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-2018-56 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.[73]

Eduardo A. Aleman
Assistant Secretary

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[73] 17 CFR 200.30-3(a)(12).

EXHIBIT 5

Deleted text is [bracketed]. New text is underlined.

Nasdaq ISE Rules

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Rule 702. Trading Halts

(a) – (c) No change.

(d) This paragraph shall be in effect during a pilot period to coincide with the pilot period for the Plan to Address Extraordinary Market Volatility Pursuant to Rule 608 of Regulation NMS, as it may be amended from time to time ("LULD Plan"). Capitalized terms used in this paragraph shall have the same meaning as provided for in the LULD Plan. During a Limit State and Straddle State in the Underlying NMS stock:

(1) No change.

(2) Provided the Exchange has opened an affected option for trading, the Exchange shall reject Market Orders, as defined in Rule 715(a) , and Market Complex Orders as defined in Rule 722(b), [(including complex Market Orders)]and shall notify Members of the reason for such rejection. The Exchange shall cancel [c]Complex [o]Orders that are Market Orders residing in the System, if the complex Market Order becomes marketable while the affected underlying is in a Limit or Straddle State. Market Orders exposed at the NBBO pursuant to Supplementary Material. 02 to ISE Rule 1901 or complex Market Orders exposed for price improvement pursuant to [ISE Rule 722(b)(3)(iii)]Supplementary Material .01 to Rule 722, pending in the System, will continue to be processed. If at the end of the exposure period the affected underlying is in a Limit or Straddle State, the Market Order or the complex Market Order will be cancelled. If the affected underlying is no longer in a Limit or Straddle State after the exposure period, the Market Order or the complex Market Order will be processed with normal handling.

(3) – (4) No change.

Supplementary Material to Rule 702

No change.

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Rule 710. Minimum Trading Increments

(a) – (c) No change.

Supplementary Material to Rule 710

.01 Notwithstanding any other provision of this Rule 710, the Exchange will operate a pilot program, scheduled to expire on June 30, 2018, to permit options classes to be quoted and traded in increments as low as one cent ($0.01). The Exchange will specify which options trade in such pilot, and in what increments, in [Market Information Circulars]Options Trader Alerts distributed to Members.

The Exchange may replace any penny pilot issues that have been delisted with the next most actively traded multiply listed options classes that are not yet included in the penny pilot, based on trading activity in the previous six months. The replacement issues may be added to the penny pilot on the second trading day following January 1, 2018.

.02 Notwithstanding any other provision of this Rule 710, the Exchange will permit foreign currency options and options on a Foreign Currency Index to be quoted and traded in one-cent increments.

.03 Notwithstanding any other provision of this Rule 710, the minimum trading increment for Mini Options shall be determined in accordance with Supplementary Material .13(d) to Nasdaq ISE Rule 504.

.04 Notwithstanding any other provision of this Rule 710, complex strategies may be quoted and traded in the increments described in Rule 722(c)(1).

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Rule 715. Types of Orders

(a) – (j) No change.

(k) *Legging Orders.* A legging order is a limit order on the regular limit order book that represents one side of a [complex order]Complex Options Order that is to buy or sell an equal quantity of two options series resting on the Exchange's complex order book. Legging orders are firm orders that are included in the Exchange's displayed best bid or offer.

(1) A legging order may be automatically generated for one leg of a [complex order]Complex Options Order at a price: (i) that matches or improves upon the best displayed bid or offer on the regular limit order book; and (ii) at which the net price can be achieved when the other leg is executed against the best displayed bid or offer on the regular limit order book. A legging order will not be created at a price that locks or crosses the best bid or offer of another exchange. A Reserve Complex Order will only generate a legging order from its displayed quantity.

(2) A legging order is executed only after all other executable orders (including any non-displayed size) and quotes at the same price are executed in full. When a legging order is executed, the other portion of the [complex order]Complex Options Order will be automatically executed against the displayed best bid or offer on the Exchange.

(3) A legging order is automatically removed from the regular limit order book if: (i) the price of the legging order is no longer at the displayed best bid or offer on the regular limit order book, (ii) execution of the legging order would no longer achieve the net price of the [complex order]Complex Options Order when the other leg is executed against the best displayed bid or offer on the regular limit order book, (iii) the [complex order]Complex Options Order is executed in full or in part [against another complex order]on the complex order book, or (iv) the [complex order]Complex Options Order is cancelled or modified.

(l) – (u) No change.

Supplementary Material to Rule 715

No change.

Rule 716. Block Trades

(a) – (e) No change.

Supplementary Material to Rule 716

.01 - .07 No change.

.08 Reserved[Complex Orders. Electronic Access Members may use the Facilitation Mechanism and the Solicited Order Mechanism according to paragraphs (d) and (e) of this Rule 716 to execute block-size complex orders (as defined in Rule 722) at a net price. Members may enter Responses for complex orders at net prices, and bids and offers for complex orders will participate in the execution of an order being executed as provided in paragraphs (d) and (e) of this Rule 716. With respect to bids and offers for the individual legs of a complex order entered into the mechanisms, the priority rules for complex orders contained in Rule 722(b)(2) will continue to be applicable. If an improved net price for the complex order being executed can be achieved from bids and offers for the individual legs of the complex order in the Exchange's auction market, the order being executed will receive an execution at the better net price, except that for complex orders listed in Rule 722(b)(3)(ii)(A) and (B), if an improved net price for such complex orders being executed can be achieved from bids and offers for the individual legs of the complex order, the auction will be cancelled at the end of the exposure period].

.09 No change.

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Rule 722. Complex Orders and Quotes

Stock-Option Orders will not be automatically executed against bids and offers on the Exchange for the individual legs ("legging") pursuant to subparagraphs (d)(1) and (d)(3) of Rule 722[(b)(3)(ii)-(iii)] and Supplementary Material .01 and .02 to Rule 722. Stock-Option Orders will continue to execute against other Stock-Option Orders in the complex order book. The Exchange will recommence legging for Stock-Option Orders on ISE on or before March 21, 2019. The Exchange will issue an Options Trader Alert notifying Members when this functionality will be available.

Only one complex order auction pursuant to Supplementary Material .01 and Supplementary Material .08(a) - (c) to Rule 722[.08 to Rule 716, Rule 722(b)(3)(iii), and Supplementary Material .09 to Rule 723] may be ongoing at any given time in a complex strategy. Such complex order auctions will not queue or overlap in any manner. The Exchange will reject a complex order auction of the same or different auction type submitted pursuant to Supplementary Material .08(a) –(c) to Rule 722[to Rule 716 or Supplementary Material .09 to Rule 723] while another complex order auction is ongoing in that complex strategy. When there is an ongoing auction in a complex strategy, a subsequent complex order for that strategy will not initiate an auction pursuant to Supplementary Material .01 to Rule 722[Rule 722(b)(3)(iii)] and will be processed as a complex order that is not marked for price improvement, unless the member requested the order to be cancelled after the exposure period, in which case the complex order will be cancelled back to the member. The Exchange will recommence concurrent complex order auctions on or before April 17, 2019, to be announced in a separate Options Trader Alert.

(a) Definitions.

(1) *Complex Options[Order] Strategy*. A [complex order]Complex Options Strategy 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. Only those Complex Options Strategies with no more than the applicable number of legs, as determined by the Exchange on a class-by-class basis, are eligible for processing.

(2) *Stock-Option [Order]Strategy*. A [stock-option order]Stock-Option Strategy is [an order to buy or sell]the purchase or sale of a stated number of units of an underlying stock or a security convertible into the underlying stock ("convertible security") coupled with the purchase or sale of options contract(s) on the opposite side of the market representing either (A) the same number of units of the underlying stock or convertible security, or (B) the number of units of the underlying stock necessary to create a delta neutral position, but in no case in a ratio greater than eight-to-one (8.00), where the ratio represents the total number of units of the underlying stock or convertible security in the option leg to the total number of units of the underlying stock or convertible security in the stock leg.

(3) *Stock-Complex Strategy*. A Stock-Complex Strategy is the purchase or sale of a stated number of units of an underlying stock or a security convertible into the underlying stock (“convertible security”) coupled with the purchase or sale of a Complex Options Strategy on the opposite side of the market representing either (A) the same number of units of the underlying stock or convertible security, or (B) the number of units of the underlying stock necessary to create a delta neutral position, but in no case in a ratio greater than eight-to-one (8.00), where the ratio represents the total number of units of the underlying stock or convertible security in the option legs to the total number of units of the underlying stock or convertible security in the stock leg. Only those Stock-Complex Strategies with no more than the applicable number of legs, as determined by the Exchange on a class-by-class basis, are eligible for processing.[*SSF-Option Order*. A SSF-option order is an order to buy or sell a stated number of units of a single stock future or a security convertible into a single stock future ("convertible SSF") coupled with either (A) the purchase or sale of option contracts(s) on the opposite side of the market representing either the same number of units of stock underlying the single stock future or convertible SSF, or the number of units of stock underlying the single stock future or convertible SSF necessary to create a delta neutral position; or (B) the purchase or sale of an equal number of put and call option contracts, each having the same exercise price, expiration date, and each representing the same number of units of underlying stock, as and on the opposite side of the market from, the stock underlying the single stock future or convertible SSF portion of the order.]

(4) The term “complex strategy” includes Complex Options Strategies, Stock-Option Strategies, and Stock-Complex Strategies.

(5) The terms “Complex Options Order,” “Stock-Option Order,” and “Stock-Complex Order” refer to orders for a Complex Options Strategy, Stock-Option Strategy, and Stock-Complex Strategy, respectively. The term “Complex Order” includes Complex Options Orders, Stock-Option Orders, and Stock-Complex Orders.

(b) *Types of Complex Orders*. Unless otherwise specified, the definitions used below have the same meaning contained in Rule 715. Complex Orders may be entered using the following orders or designations:

(1) Market Complex Order. A Market Complex Order is a Complex Order to buy or sell a complex strategy that is to be executed at the best price obtainable. If not executable upon entry, such orders will rest on the complex order book unless designated as fill-or-kill or immediate-or-cancel.

(2) Limit Complex Order. A Limit Complex Order is a Complex Order to buy or sell a complex strategy that is entered with a limit price expressed as a net purchase or sale price for the components of the order.

(3) All-Or-None Complex Order. A Complex Order may be designated as an All-or-None Order that is to be executed in its entirety or not at all. An All-Or-None Order may only be entered as an Immediate-or-Cancel Order.

(4) Reserve Complex Order. A Limit Complex Order may be designated as a Reserve Order that contains both a displayed portion and a non-displayed portion.

(i) Both the displayed and non-displayed portions of a Reserve Complex Order are available for potential execution against incoming marketable orders or quotes. A non-marketable Reserve Complex Order will rest on the complex order book.

(ii) The displayed portion of a Reserve Complex Order shall be ranked at the specified limit price and the time of order entry.

(iii) The displayed portion of a Reserve Complex Order will trade in accordance with Rule 722(d).

(iv) When the displayed portion of a Reserve Complex Order is decremented, either in full or in part, it shall be refreshed from the non-displayed portion of the resting Reserve Complex Order. If the displayed portion is refreshed in part, the new displayed portion shall include the previously displayed portion. Upon any refresh, the entire displayed portion shall be ranked at the specified limit price and obtain a new time stamp, i.e., the time that the new displayed portion of the order was refreshed. The new displayed portion will trade in accordance with Rule 722(d).

(v) The initial non-displayed portion of a Reserve Complex Order rests on the complex order book and is ranked based on the specified limit price and time of order entry. Thereafter, non-displayed portions, if any, always obtain the same time stamp as that of the new displayed portion in subparagraph (iv) above. The non-displayed portion of any Reserve Complex Order is available for execution only after all displayed interest on the complex order book has been executed. Thereafter, the non-displayed portion of any Reserve Complex Order will trade in accordance with Rule 722(d).

(vi) Only the displayed portion of a Reserve Complex Order is eligible to be exposed for price improvement pursuant to Rule 722(d)(1) and Supplementary Material .01 to this Rule 722.

(5) Attributable Complex Order. A Market or Limit Complex Order may be designated as an Attributable Order as provided in Rule 715(h).

(6) Customer Cross Complex Order. A Customer Cross Complex Order is comprised of a Priority Customer Complex Order to buy and a Priority Customer Complex Order to sell at the same price and for the same quantity. Such orders will trade in accordance with Supplementary Material .08(d) to this Rule 722.

(7) Qualified Contingent Cross Complex Order. A Complex Options Order may be entered as a Qualified Contingent Cross Order, as defined in Rule 715(j). Qualified Contingent Cross Complex Orders will trade in accordance with Supplementary Material .08(e) to this Rule 722.

(8) Day Complex Order. A Complex Order may be designated as a Day Order that if not executed, expires at the end of the day on which it was entered.

(9) Fill-or-Kill Complex Orders. A Complex Order may be designated as a Fill-or-Kill Order that is to be executed in its entirety as soon as it is received and, if not so executed, cancelled.

(10) Immediate-or-Cancel Complex Orders. A Complex Order may be designated as an Immediate-or-Cancel Order that is to be executed in whole or in part upon receipt. Any portion not so executed is cancelled.

(11) Opening Only Complex Order. An Opening Only Complex Order is a Limit Complex Order that may be entered for execution during the Complex Opening Process described in Supplementary Material .10 to Rule 722. Any portion of the order that is not executed during the Complex Opening Process is cancelled.

(12) Good-Till-Date Complex Order. A Good-Till-Date Complex Order is an order to buy or sell which, if not executed, will be cancelled at the sooner of the end of the expiration date assigned to the Complex Order, or the expiration of any individual series comprising the order.

(13) Good-Till-Cancel Complex Order. A Good-Till-Cancel Complex Order is an order to buy or sell that remains in force until the order is filled, canceled or any series of the order expires; provided, however, that a Good-Till-Cancel Complex Order will be cancelled in the event of a corporate action that results in an adjustment to the terms of any series underlying the Complex Order.

(14) Exposure Complex Order. An Exposure Complex Order is an order that will be exposed upon entry as provided in Supplementary Material .01 to this Rule 722 if eligible, or entered on the complex order book if not eligible. Any unexecuted balance of an Exposure Complex Order remaining upon the completion of the exposure process will be entered on the complex order book.

(15) Exposure Only Complex Order. An Exposure Only Complex Order is an order that will be exposed upon entry as provided in Supplementary Material .01 to this Rule 722 if eligible, or cancelled if not eligible. Any unexecuted balance of an Exposure Only Complex Order remaining upon the completion of the exposure process will be cancelled.

(16) Complex QCC with Stock Orders. A Complex QCC with Stock Order is a Qualified Contingent Cross Complex Order, as defined in Rule 722(b)(7), entered with a stock component to be communicated to a designated broker-dealer for execution pursuant to Supplementary Material .08(f) to Rule 722.

[**(b)**]**(c)** *Applicability of Exchange Rules*. Except as otherwise provided in this Rule 722, [complex orders]complex strategies shall be subject to all other Exchange Rules that pertain to orders and quotes generally.

(1) *Minimum Increments*. Bids and offers [on complex orders]for Complex Options Strategies may be expressed in [any decimal price]one cent ($0.01) increments, and the options leg[(s)] of [a complex order]Complex Options Strategies may be executed in one cent ($0.01) increments, regardless of the minimum increments otherwise applicable to the individual options legs of the order. Bids and offers for Stock-Option Strategies or Stock-Complex Strategies may be expressed in any decimal price determined by the Exchange, and the stock leg of a Stock-Option Strategy or Stock-Complex Strategy may be executed in any decimal price permitted in the equity market. The options leg of a Stock-Option Strategy or Stock-Complex Strategy may be executed in one cent ($0.01) increments, regardless of the minimum increments otherwise applicable to the individual options legs of the order.

(2) *Complex Order Priority*. Notwithstanding the provisions of Rule 713[,]:

(i) a [complex order, as defined in paragraph (a)(1) of this Rule,]Complex Options Strategies may be executed at a total credit or debit price with one other Member without giving priority to bids or offers established [in the marketplace]on the Exchange that are no better than the bids or offers in the individual options series comprising such total credit or debit; provided, however, that if any of the bids or offers established [in the marketplace]on the Exchange consist of a Priority Customer Order, the price of at least one leg of the complex [order]strategy must trade at a price that is better than the corresponding bid or offer [in the marketplace]on the Exchange by at least one minimum trading increment for the series as defined in Rule 710.

(ii) [Under the circumstances described above, if a stock-option order, as defined in subparagraph (a)(2) of this Rule, or SSF-option order as defined in subparagraph (a)(3) of this Rule,]The option leg of a Stock-Option Strategy [has one option leg, such option leg]has priority over bids and offers for the individual options series established [in the marketplace]on the Exchange by Professional Orders and market maker quotes that are no better than the price of the options leg, but not over such bids and offers established by Priority Customer Orders.

(iii) The options legs of[If] a Stock-Complex Strategy[stock-option order as defined in subparagraph - (a)(2), or SSF-option order as defined in subparagraph (a)(3), consisting of a combination order with stock or single stock futures, as the case may be, has more than one option leg, such option legs may be] are executed in accordance with [the first sentence of this]subparagraph [(b)(2)](c)(2)(i) above.

(iv) Notwithstanding Rule 722(c)(2)(i)-(iii) above, a complex strategy may be executed at a net credit or debit price with one other Member without giving priority to the non-displayed portion of Reserve Orders on the bids or offers on the Exchange for the individual legs of the complex strategy.

(3) *Internalization*. Complex Orders represented as agent may be executed (i) as principal as provided in Rule 717(d), or (ii) against orders solicited from Members and non-member broker-dealers as provided in Rule 717(e). The exposure requirements of Rules 717(d) or (e) must be met on the complex order book unless the order is executed in one of the mechanisms described in Supplementary Material .08 to this Rule 722.

[**(3)**](d) *Execution of [Orders]Complex Strategies*. Complex [orders]strategies will be executed without consideration of any prices that might be available on other exchanges trading the same options contracts. Complex strategies are not executable unless all of the terms of the strategy can be satisfied and the options legs can be executed at prices that comply with the provisions of paragraph (c)(2) above. Complex strategies, other than those that are executed as crossing transactions pursuant to Supplementary Material .08 to this Rule 722, are automatically executed as follows:

(1) Each Complex Order must specify upon entry whether it should be exposed upon entry if eligible, or whether such Complex Order should be processed without being exposed. Eligible incoming Complex Orders that are designated for exposure will be exposed for price improvement pursuant to Supplementary Material .01 to this Rule 722.

[(i)](2) Complex strategies will be executed at the best net price available from executable Complex Orders and quotes on the complex order book, and bids and offers for the individual options series; provided that at each price, executable c[C]omplex [orders]strategies will be automatically executed first against executable bids and offers on the complex order book in price priority. The Exchange may designate on a class basis whether bids and offers at the same price on the complex order book will be executed:

[(A)](i) in time priority;

[(B)](ii) pursuant to Nasdaq ISE Rule 713(e) and Supplementary Material .01(a) to Nasdaq ISE Rule 713 except that there shall be no participation rights for the Primary Market Maker as provided in Supplementary Material to Rule 713, paragraph .01(b) and (c); or

[(C)](iii) pro-rata based on size.

[(ii)](3) If there is no executable contra-side complex interest on the complex order book at a particular price, executable Complex Options O[o]rders up to a maximum number of legs (determined by the Exchange on a class basis as either two legs, three legs or four legs) and the options leg(s) of executable Stock-Option Orders or executable Stock-Complex Orders with up to a maximum number of options legs (determined by the Exchange as either two legs, three legs or four legs) [will]may be automatically executed against bids and offers on the Exchange for the individual options series[legs of the complex order] provided the [c]Complex [o]Order can be executed in full or in a permissible ratio by such bids and offers. Legging orders may be automatically generated on behalf of [c]Complex Options O[o]rders so that they are represented at the best bid and/or offer on the Exchange for the individual legs of the Complex Options Order as provided in Rule 715(k). Notwithstanding the foregoing:

(A) Complex [o]Orders with 2 option legs where both legs are buying or both legs are selling and both legs are calls or both legs are puts may only trade against other [c]Complex [o]Orders in the complex order book. The trading system will not generate legging orders for these [c]Complex [o]Orders.

(B) Complex [o]Orders with 3 or 4 option legs where all legs are buying or all legs are selling may only trade against other [c]Complex [o]Orders in the complex order book.

[(iii) Complex orders may be marked for price improvement. If so marked, a complex order that is executable upon entry will be exposed on the complex order book for a period of up to one-second before being automatically executed against pre-existing complex orders, or bids and offers for the individual legs, to provide an opportunity for market participants to enter contra-side complex orders that provide price improvement. At the end of the display period, contra-side orders will be executed in price priority and in time priority at the same price.]

(4) Complex strategies that are not executable may rest on the complex order book until they become executable.

[**(4)** *Types of Complex Orders*. Complex orders may be entered as fill-or-kill or immediate-or-cancel orders, as defined in Rule 715(b), or as all-or-none orders, which are resting limit orders to be executed in their entirety or not at all.]

Supplementary Material to Rule 722

[.01 A bid or offer made as part of a stock-option order (as defined in (a)(2) above) or a SSF-option order (as defined in (a)(3) above) is made and accepted subject to the following conditions: (1) the order must disclose all legs of the order and must identify the security (which in the case of a single stock future requires sufficient identification to determine the market(s) on which the single stock future trades) and the price at which the non-option leg(s) of the order is to be filled; and (2) with respect to a SSF-option order, concurrent with the execution of the options leg of the order, the initiating member and each member that agrees to be a contra-party on the non-option leg(s) of the order must take steps immediately to transmit the non-option leg(s) to a non-Exchange market(s) for execution. Failure to observe these requirements will be considered conduct inconsistent with just and equitable principles of trade and a violation of Rule 400.

A trade representing the execution of the options leg of a SSF-option order may be cancelled at the request of any member that is a party to that trade only if market conditions in any of the non-Exchange market(s) prevent the execution of the non- option leg(s) at the price(s) agreed upon.]

.01 Complex Order Exposure. If designated by a member for exposure, eligible Complex Orders are exposed upon entry for a period of up to one (1) second pursuant to Rule 722(d)(1) as follows:

(a) A Complex Order that improves upon the best price for the same complex strategy on the complex order book (i.e., a limit order to buy priced higher than the best bid, a limit order to sell priced lower than the best offer, and a market order to buy or sell) is eligible to be exposed upon entry for a period of up to one (1) second as provided in Supplementary Material .01 to this Rule 722. Incoming orders will not be eligible to be exposed if there are market orders on the complex order book on the same side of the market for the same complex strategy.

(b) Upon entry of an eligible Complex Order, a broadcast message that includes net price or at market, size, and side will be sent and Members will be given an opportunity to enter Responses with the prices and sizes at which they are willing to participate in the execution of the Complex Order.

(i) Responses are only executable against the Complex Order with respect to which they are entered, can be modified or withdrawn at any time prior to the end of the exposure period, and will be considered up to the size of the Complex Order being exposed. During the exposure period, the Exchange will broadcast the best Response price, and the aggregate size of Responses available at that price. At the conclusion of the exposure period, any unexecuted balance of a Response is automatically cancelled.

(ii) The exposure period for a Complex Order will end immediately upon: (A) the receipt of a Complex Order or quote for the same complex strategy on either side of the market that is marketable against the complex order book or bids and offers for the individual legs; or (B) the receipt of a non-marketable Complex Order or quote for the same complex strategy on the same side of the market that would cause the price of the exposed Complex Order to be outside of the best bid or offer for the same complex strategy on the complex order book.

(iii) If a Complex Order Exposure is early terminated pursuant to paragraph (ii) above, and multiple early terminable complex auctions (i.e., Complex Order Exposure or Complex Price Improvement Mechanism) are ongoing in the complex strategy, all such auctions will be early terminated and processed in the sequence in which they were started. If the early termination condition occurs on a component leg of a complex strategy, the component leg auctions are early terminated and processed first.

(c) At the end of the exposure period, if the Complex Order still improves upon the best price for the complex strategy on the same side of the market, it is automatically executed to the greatest extent possible pursuant to Rule 722(d)(2)-(3), taking into consideration: (i) bids and offers on the complex order book, (ii) bids and offers on the Exchange for the individual options series, and (iii) Responses received during the exposure period, provided that when allocating pursuant to 722(d)(2)(ii), Responses are allocated pro-rata based on size. Thereafter, any unexecuted balance will be placed on the complex order book (or cancelled in the case of an Exposure Only Complex Order).

(d) If a trading halt is initiated during the exposure period, the Complex Order exposure process will be automatically terminated without execution.

.02 [Automated]Stock[ ]-Option and Stock-Complex Orders. The Exchange will electronically communicate the stock leg[(s)] of [a stock-option order]an executable Stock-Option Order and Stock-Complex Order to a broker-dealer for execution. To execute [stock-options orders]Stock-Option Orders and Stock-Complex Orders on the Exchange, Members must enter into a brokerage agreement with a broker-dealer designated by the Exchange. The Member may also enter into a brokerage agreement with one or more other broker-dealers to which the Exchange is able to route stock orders. The Exchange will automatically transmit the stock leg[(s)] of a trade to one-or-more broker-dealer(s) with which a Member has an agreement for execution on behalf of the Member using routing logic that takes into consideration objective factors such as execution cost, speed of execution and fill-rates. The Exchange will have no financial arrangements with the brokers with respect to routing stock orders to them. Members may also indicate preferred execution brokers, and such preferences will determine order routing priority whenever possible. A trade of a [stock-option order]Stock-Option Order or a Stock-Complex Order will be automatically cancelled if market conditions prevent the execution of the stock or option leg(s) at the prices necessary to achieve the agreed upon net price. The full size of Stock-Option Orders and Stock-Complex Orders that are being processed by the stock execution venue will be unavailable for trading while the order is being processed.

.03 *Market Maker Quotes.*

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Market makers may enter quotes for complex [order]strategies on the complex order book in their appointed options classes. The Exchange will announce via Options Trader Alert which options classes are available for quoting on the complex order book. Market Maker quotes for complex [order]strategies are executed in the same manner as orders as provided in paragraph [(b)(3)(i)](d)(2) above, but will not be automatically executed against bids and offers on the Exchange for the individual legs as provided in paragraph [(b)(3)(ii)](d)(3) nor can they be marked for price improvement as provided in paragraph [(b)(3)(iii)](d)(1). Market makers are not required to enter quotes on the complex order book. Quotes for complex [orders]strategies are not subject to any quotation requirements that are applicable to market maker quotes in the regular market for individual options series or classes, nor is any volume executed in complex [orders]strategies taken into consideration when determining whether market makers are meeting quotation obligations applicable to market maker quotes in the regular market for individual options series.

.04 *Automated Spread Quotation Adjustments.* A market maker quoting Complex Options Strategies must provide parameters by which the Exchange will automatically remove a market maker's quotations in all [complex order strategies]Complex Option Strategies in an options class. The Exchange will automatically remove a market maker's quotation when, during a time period established by the market maker, the market maker exceeds in execution of quotes in Complex Option Strategies: (i) the specified number of total contracts in the class, (ii) the specified percentage of the total size of the market maker's quotes in the class, (iii) the specified absolute value of the net between contracts bought and contracts sold in the class, or (iv) the specified absolute value of the net between (a) calls purchased plus puts sold in the class, and (b) calls sold plus puts purchased in the class.

.05 *Preferencing.* For options allocated pursuant to [(b)(3)(i)(B)]subparagraph (d)(2)(ii), a market maker with a quote at the best price on the complex order book that is designated as a "Preferred Market Maker" by the Electronic Access Member entering the [c]Complex [o]Order will receive an enhanced allocation (after all Priority Customer Orders on the complex order book at the same price have been executed in full) that is equal to the greater of:

(i) the proportion of the total size at the best price represented by the size of its quote, or

(ii) sixty percent (60%) of the contracts to be allocated if there is only one (1) other Professional Order or market maker quotation at the best price and forty percent (40%) if there are two (2) or more other Professional Orders and/or market maker quotes at the best price.

Preferred Market Makers on the complex order book must satisfy their quotation obligations in the options class in the regular market, including the requirements in Rule 804(e)(2)(ii) applicable to Competitive Market Makers that receive Preferenced Orders.

.06 If any leg of a complex strategy[complex order or stock-option order] is a Mini Option contract as provided in Supplementary Material .13 to Rule 504, all options legs of such [order] complex strategy must also be Mini Option contracts.

.07 Price limits for [c]Complex [o]Orders and quotes.

(a) As provided in paragraph [(b)(3)](d) above, the legs of a complex [order]strategy 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 complex [order]strategy to trade through the NBBO for the series or any stock component 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 Complex Order[complex order entered on the complex 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. Unless the applicable rule states otherwise, when calculating the best net price achievable from the best ISE bids and offers for the individual legs, the price of the stock leg is the national best bid or offer price as modified by this Supplementary Material .07(a) to Rule 722.

(b) The System will reject [any complex order strategy]orders and quotes for a complex strategy where all legs are to buy if [it is]entered at a price that is less than the minimum net price, which is calculated as the sum of the ratio on each leg of the complex [order]strategy multiplied by the minimum increment applicable to that leg pursuant to Rule 722(c)(1)[$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) Other than for [c]Complex [o]Orders entered pursuant to Supplementary Material .08 to this Rule 722[executed in the Facilitation Mechanism, Solicited Order Mechanism and Price Improvement Mechanism], the System will:

(1) reject a vertical spread order or quote (i.e., an order or quote 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 vertical spread order at a price that is less than zero (minus a pre-set value) when entered as a market order to sell.

(2) reject a vertical spread order or quote 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 vertical 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 market order to buy. The pre-set value is the lesser of an absolute amount and a percentage of the difference between the strike prices.

(3) reject a calendar spread order or quote (i.e., an order or quote 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 calendar spread order at a price that is less than zero (minus a pre-set value) when entered as a market order to sell.

(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.

(d) Limit Order Price Protection. There is a limit on the amount by which the net price of an incoming Limit Complex Order[complex limit order] to buy may exceed the net price available from the individual options series on the Exchange and the national best bid or offer for any stock leg, and by which the net price of an incoming Limit Complex Order[complex limit order] to sell may be below the net price available from the individual options series on the Exchange and the national best bid or offer for any stock leg. Limit Complex O[o]rders that exceed the pricing limit are rejected. The limit is established by the Exchange from time-to-time for Limit C[c]omplex O[o]rders to buy (sell) as the [greater of the]net price available from the individual options series on the Exchange and the national best bid or offer for any stock leg plus (minus) the greater of: (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 and the national best bid or offer for any stock leg not to exceed 10%. This limit order price protection applies only to orders and does not apply to quotes.

(e) Size Limitation. There is a limit on the number of contracts (and shares in the case of a [s]Stock-[o]Option Strategy[order] or Stock-Complex Strategy) any single leg of an incoming [c]Complex [o]Order or quote 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.

.08 Complex Orders Crossing Transactions.

(a) *Complex Facilitation Mechanism.* Electronic Access Members may use the Facilitation Mechanism according to paragraph (d) of Rule 716 to execute block-size Complex Orders at a net price. Each options leg of a Complex Order entered into the Complex Facilitation Mechanism must meet the minimum contract size requirement contained in paragraph (d) of Rule 716. The Complex Facilitation Mechanism is a process by which an Electronic Access Member can execute a transaction wherein the Electronic Access Member seeks to facilitate a block-size Complex Order it represents as agent, and/or a transaction wherein the Electronic Access Member solicited interest to execute against a block-size Complex Order it represents as agent. Electronic Access Members must be willing to execute the entire size of Complex Orders entered into the Complex Facilitation Mechanism.

(1) Complex Orders entered into the Complex Facilitation Mechanism must be priced within the parameters described below. Complex Orders that do not meet these requirements are not eligible for the Complex Facilitation Mechanism and will be rejected.

(i) Complex Options Orders must be entered into the Complex Facilitation Mechanism at a price that is (A) equal to or better than the best bid or offer on the complex order book on the same side of the market as the Agency Order; and (B) equal to or better than the best net price achievable from the best ISE bids and offers for the individual legs on the same side of the market as the Agency Order; provided that, if there is a Priority Customer order on the best bid or offer for any leg, the order must be entered at an improved price consistent with Rule 722(c)(2).

(ii) Stock-Option Orders and Stock-Complex Orders must be entered into the Complex Facilitation Mechanism at a price that is (A) equal to or better than the best bid or offer on the complex order book on the same side of the market as the Agency Order; and (B) equal to or better than the best net price achievable from the best ISE bids and offers for the individual legs on both sides of the market; provided that, if there is a Priority Customer order on the best bid or offer for any leg, the order must be entered at an improved price consistent with Rule 722(c)(2).

(2) A Complex Order entered into the Complex Facilitation Mechanism will be rejected if any component of the Complex Order has not opened for trading, or if there is a trading halt in any series underlying the Complex Order. If a trading halt is initiated after the order is entered into the Complex Facilitation Mechanism, such auction will be automatically terminated without execution.

(3) Upon the entry of a Complex Order into the Complex Facilitation Mechanism, a broadcast message that includes the net price, side and size of the Agency Complex Order will be sent and Members will be given an opportunity to enter Responses with the net prices and sizes at which they want to participate in the facilitation of the Agency Complex Order. The time given to Members to enter Responses shall be designated by the Exchange via Options Trader Alert, but will be no less than 100 milliseconds and no more than 1 second.

(4) Responses are only executable against the Complex Order with respect to which they are entered, and will only be considered up to the size of the Complex Order to be facilitated. Responses must be entered in the increments provided in Rule 722(c)(1) at the facilitation price or at a price that is at least one cent better for the Agency Order.

(5) Responses submitted by Members shall not be visible to other auction participants during the exposure period and can be modified or deleted before the exposure period has ended. At the end of the period given for the entry of Responses, the facilitation order will be automatically executed.

(i) Unless there is sufficient size to execute the entire facilitation order at a better net price, Priority Customer Complex Orders and Responses to buy (sell) at the time the facilitation order is executed that are priced higher (lower) than the facilitation price will be executed at the facilitation price. Professional Complex Orders and Responses, and quotes to buy (sell) at the time the facilitation order is executed that are priced higher (lower) than the facilitation price will be executed at their stated price, thereby providing the Complex Order being facilitated a better price for the number of contracts associated with such higher bids (lower offers).

(ii) The facilitating Electronic Access Member will execute at least forty percent (40%) (or such lower percentage requested by the member) of the original size of the facilitation order, but only after better-priced Responses, Complex Orders and quotes, as well as Priority Customer Complex Orders and Responses at the facilitation price, are executed in full. Thereafter, Professional Complex Orders and Responses, and quotes at the facilitation price will participate in the execution of the facilitation order based upon the percentage of the total number of contracts available at the facilitation price that is represented by the size of the Professional Complex Order or Response, or quote.

(iii) Upon entry of a Complex Order into the Complex Facilitation Mechanism, the facilitating Electronic Access Member can elect to automatically match the net price and size of Complex Orders, Responses and quotes received during the exposure period up to a specified limit price or without specifying a limit price. This election will also automatically match the net price available from the ISE best bids and offers on the individual legs for the full size of the order; provided that with notice to members the Exchange may determine whether to offer this option only for Complex Options Orders, Stock-Option Orders, and/or Stock Complex Orders. If a member elects to auto-match, the facilitating Electronic Access Member will be allocated its full size at each price point, or at each price point within its limit price if a limit is specified, until a price point is reached where the balance of the order can be fully executed. At such price point, the facilitating Member will be allocated at least forty percent (40%) (or such lower percentage requested by the member) of the original size of the facilitation order, but only after Priority Customer Orders and Responses at such price point. Thereafter, Professional Complex Orders and Responses, and quotes at the price point will participate in the execution of the facilitation order based upon the percentage of the total number of contracts available at the facilitation price that is represented by the size of the Professional Complex Order or Response, or quote. An election to automatically match better prices cannot be cancelled or altered during the exposure period.

(iv) With respect to bids and offers for the individual legs of a Complex Order entered into the Complex Facilitation Mechanism, the priority rules applicable to the execution of Complex Orders contained in Rule 722(c)(2) will continue to be applicable and may prevent the execution of a Complex Order entered into the Facilitation Mechanism, in which case the transaction will be cancelled. If an improved net price for the Complex Order being executed can be achieved from Complex Orders, Responses, and quotes on the complex order book and, for Complex Options Orders, the ISE best bids and offers on the individual legs, the facilitation order will be executed against such interest.

(b) Complex Solicited Order Mechanism. The Complex Solicited Order Mechanism is a process by which an Electronic Access Member can attempt to execute Complex Orders it represents as agent (the “Agency Complex Order”) against contra orders that it solicited according to paragraph (e) of Rule 716. Each Complex Order entered into the Solicited Order Mechanism shall be designated as all-or-none, and each options leg must meet the minimum contract size requirement contained in paragraph (e) of Rule 716.

(1) Complex Orders must be entered into the Complex Solicited Order Mechanism at a price that is (A) equal to or better than the best bid or offer on the complex order book on both sides of the market; and (B) equal to or better than the best net price achievable from the best ISE bids and offers for the individual legs on both sides of the market; provided that, if there is a Priority Customer order on the best bid or offer for any leg, the order must be entered at an improved price consistent with Rule 722(c)(2). Complex Orders

that do not meet these requirements are not eligible for the Complex Solicited Order Mechanism and will be rejected.

(2) A Complex Order entered into the Complex Solicited Order Mechanism will be rejected if any component of the Complex Order has not opened for trading, or if there is a trading halt in any series underlying the Complex Order. If a trading halt is initiated after the order is entered into the Complex Solicited Order Mechanism, such auction will be automatically terminated without execution.

(3) Upon entry of both orders into the Complex Solicited Order Mechanism at a proposed execution net price, a broadcast message that includes the net price, side and size of the Agency Complex Order will be sent and Members will be given an opportunity to enter Responses with the net prices and sizes at which they would be willing to participate in the execution of the Agency Complex Order. The time given to Members to enter Responses shall be designated by the Exchange via Options Trader Alert, but will be no less than 100 milliseconds and no more than 1 second. Responses are only executable against the Complex Order with respect to which they are entered, and will only be considered up to the size of the Agency Complex Order. Responses must be entered in the increments provided in Rule 722(c)(1) at the proposed execution net price or at a price that is at least one cent better for the Agency Order.

(4) Responses submitted by Members shall not be visible to other auction participants during the exposure period and can be modified or deleted before the exposure period has ended. At the end of the period given for the entry of Responses, the Agency Complex Order will be automatically executed in full pursuant to paragraphs (i) through (iv) below, or cancelled.

(i) If at the time of execution there is insufficient size to execute the entire Agency Complex Order at an improved net price(s) pursuant to paragraph (b)(4)(iii) below, the Agency Complex Order will be executed against the solicited Complex Order at the proposed execution net price so long as, at the time of execution: (A) the execution net price is equal to or better than the best net price achievable from the best ISE bids and offers for the individual legs, (B) the Complex Order can be executed in accordance with Rule 722(c)(2) with respect to the individual legs, (C) the execution net price is equal to or better than the best bid or offer on the complex order book, and (D) there are no Priority Customer Complex Orders or Responses that are priced equal to the proposed execution price.

(ii) If there are Priority Customer Complex Orders or Responses on the opposite side of the Agency Complex Order at the proposed execution net price and there is sufficient size to execute the entire size of the Agency Complex Order, the Agency Complex Order will be executed against such interest, and the solicited Complex Order will be cancelled, provided that: (A) the execution net price is equal to or better than the best net price achievable from the best ISE bids and offers for the individual legs, and (B) the Complex

Order can be executed in accordance with Rule 722(c)(2) with respect to the individual legs. The aggregate size of all Complex Orders, Responses and quotes and, for Complex Options Orders, the aggregate size available from the best bids and offers for the individual legs, will be used to determine whether the entire Agency Complex Order can be executed pursuant to this paragraph.

(iii) If at the time of execution there is sufficient size to execute the entire Agency Complex Order at an improved net price(s), the Agency Complex Order will be executed at the improved net price(s), and the solicited Complex Order will be cancelled, provided that: (A) the execution net price is equal to or better than the best net price achievable from the best ISE bids and offers for the individual legs, and (B) the Complex Order can be executed in accordance with Rule 722(c)(2) with respect to the individual legs. The aggregate size of all Complex Orders, Responses, and quotes, and the aggregate size available from the best bids and offers for the individual legs for a Complex Options Order, will be used to determine whether the entire Agency Complex Order can be executed at an improved net price(s).

(iv) When executing the Agency Complex Order against other interest in accordance with paragraphs (b)(2)(ii)-(iii) above, Priority Customer Complex Orders and Responses will be executed first. Professional Complex Orders and Responses, and market maker quotes participate next in the execution of the Agency Complex Order based upon the percentage of the total number of contracts available at the best price that is represented by the size of the Professional Complex Order or Response, or market maker quote. Finally, for Complex Options Orders, bids and offers for the individual legs will be executed pursuant to Rule 713 and the Supplementary Material thereto.

(5) Prior to entering Agency Orders into the Complex Solicited Order Mechanism on behalf of a customer, EAMs must deliver to the customer a written notification informing the customer that its order may be executed using Nasdaq ISE’s Solicited Order Mechanism. Such written notification must disclose the terms and conditions contained in this Rule and must be in a form approved by the Exchange.

(c) Complex Price Improvement Mechanism. Electronic Access Members may use the Price Improvement Mechanism according to Rule 723 to execute Complex Orders at a net price. The Complex Price Improvement Mechanism is a process by which an Electronic Access Member can provide price improvement opportunities for a transaction wherein the Electronic Access Member seeks to facilitate a Complex Order it represents as agent, and/or a transaction wherein the Electronic Access Member solicited interest to execute against a Complex Order it represents as agent (a “Crossing Transaction”).

(1) Crossing Transaction Entry. A Crossing Transaction is comprised of the order the Electronic Access Member represents as agent (the “Agency Order”) and a counter-side order for the full size of the Agency Order (the “Counter-Side Order”). The Counter-Side Order may represent interest for the Member’s own account, or interest the Member has solicited from one or more other parties, or a combination of both.

(2) Complex Orders must be entered into the Complex Price Improvement Mechanism at a price that is better than the best net price (i) available on the complex order book on both sides of the market; and (ii) achievable from the best ISE bids and offers for the individual legs on both sides of the market (an "improved net price"). Complex Orders will be rejected unless they are entered at an improved net price.

(3) A Complex Order entered into the Complex Price Improvement Mechanism will be rejected if any component of the Complex Order has not opened for trading, or if there is a trading halt in any series underlying the Complex Order. If a trading halt is initiated after the order is entered into the Complex Price Improvement Mechanism, such auction will be automatically terminated without an execution.

(4) Exposure Period. Upon entry of a Complex Order into the Complex Price Improvement Mechanism, a broadcast message that includes the net price, side and size of the Agency Complex Order will be sent to Members.

(i) The Exchange will designate via Options Trader Alert a time of no less than 100 milliseconds and no more than 1 second for Members to indicate the size and net price at which they want to participate in the execution of the Agency Complex Order ("Improvement Complex Orders"). Improvement Complex Orders may be entered by all Members for their own account or for the account of a Public Customer. Improvement Complex Orders are only executable against the Complex Order with respect to which they are entered, and will only be considered up to the size of the Agency Complex Order. Improvement Complex Orders must be entered in the increments provided in Rule 722(c)(1) at the same price as the Crossing Transaction or at a price that is at least one cent better for the Agency Complex Order.

(ii) During the exposure period, Improvement Complex Orders may not be canceled, but may be modified to (1) increase the size at the same price, or (2) improve the price of the Improvement Complex Order for any size.

(iii) During the exposure period, responses (including the Counter-Side Order, Improvement Complex Orders, and any changes to either) submitted by Members shall not be visible to other auction participants.

(iv) The exposure period will automatically terminate (A) at the end of the time period designated by the Exchange pursuant to Supplementary Material .08(c)(4)(i) to Rule 722 above, (B) upon the receipt of a Complex Order or quote in the same complex strategy on either side of the market that is marketable against the complex order book or bids and offers for the individual legs, or (C) upon the receipt of a non-marketable Complex Order or quote in the same complex strategy on the same side of the market as the Agency Complex Order that would cause the execution of the Agency Complex Order to be outside of the best bid or offer on the complex order book.

(v) Pursuant to Supplementary Material .04 to Rule 723, only one Complex Price Improvement Mechanism may be ongoing at any given time in a given complex strategy.

However, a price improvement auction may be ongoing simultaneously in series of individual legs of a complex strategy.

(vi) If a Complex Price Improvement Mechanism is early terminated pursuant to paragraphs (iv)(B) or (C) above, and multiple early terminable complex auctions (i.e., Complex Order Exposure or Complex Price Improvement Mechanism) are ongoing in the complex strategy, all such auctions will be early terminated and processed in the sequence in which they were started. If the early termination condition occurs on a component leg of a complex strategy, the component leg auctions are early terminated and processed first.

(5) Execution. At the end of the exposure period the Agency Complex Order will be executed in full at the best prices available, taking into consideration Complex Orders and quotes in the complex order book, Improvement Complex Orders, the Counter-Side Order, and, for Complex Options Orders, the ISE best bids and offers on the individual legs. The Agency Complex Order will receive executions at multiple price levels if there is insufficient size to execute the entire order at the best price.

(i) At a given net price, Priority Customer interest on the complex order book (i.e., Priority Customer Complex Orders and Improvement Complex Orders) is executed in full before Professional interest (i.e., Professional Complex Orders and Improvement Complex Orders) and market maker quotes on the complex order book.

(ii) After Priority Customer interest on the complex order book at a given net price, Professional interest and market maker quotes on the complex order book will participate in the execution of the Agency Complex Order based upon the percentage of the total number of contracts available at the price that is represented by the size of such interest.

(iii) In the case where the Counter-Side Complex Order is at the same net price as Professional interest and market maker quotes on the complex order book in (3)(ii), the Counter-Side Complex Order will be allocated the greater of one (1) contract or forty percent (40%) (or such lower percentage requested by the member) of the initial size of the Agency Complex Order before other Professional interest and market maker quotes on the complex order book are executed. Upon entry of Counter-Side Complex Orders, Members can elect to automatically match the price and size of Complex Orders, Improvement Complex Orders and quotes received on the complex order book during the exposure period up to a specified limit net price or without specifying a limit net price. This election will also automatically match the net price available from the ISE best bids and offers on the individual legs for the full size of the order; provided that with notice to members the Exchange may determine whether to offer this option only for Complex Options Orders, Stock-Option Orders, and/or Stock Complex Orders. If a member elects to auto-match, the Counter-Side Complex Order will be allocated its full size at each price point, or at each price point within its limit net price if a limit is specified, until a price point is reached where the balance of the order can be fully executed. At such price point, the Counter-Side Complex Order shall be allocated the greater of one contract or forty percent (40%) (or such lower percentage requested by the member) of the original size of the Agency Complex Order, but only after Priority Customer Complex Orders and Improvement Complex Orders at such price point are executed in full. Thereafter, all Professional Complex Orders and Improvement Complex Orders, and quotes at the price point will participate in the execution of the Agency Complex Order based upon the percentage of the total number of contracts available at the price that is represented by the size of the Professional Complex Order or Improvement Complex Order, or quote on the complex order book.

(iv) When a marketable Complex Order on the opposite side of the Agency Complex Order ends the exposure period, it will participate in the execution of the Agency Complex Order at the price that is mid-way between the best counter-side interest and the same side best bid or offer on the complex order book or net price from ISE best bid or offer on individual legs, whichever is better, so that both the marketable Complex Order and the Agency Complex Order receive price improvement.

(v) With respect to bids and offers for the individual legs of a Complex Order entered into the Complex Price Improvement Mechanism, the priority rules applicable to the execution of Complex Orders contained in Rule 722(c)(2) will continue to be applicable and may prevent the execution of a Complex Order entered into the Complex Price Improvement Mechanism, in which case the transaction will be cancelled. If an improved net price for the Complex Order being executed can be achieved from Complex Orders, Improvement Complex Orders, and quotes on the complex order book and, for Complex Options Orders, the ISE best bids and offers on the individual legs, the Agency Complex Order will be executed against such interest.

(d) Complex Customer Cross Orders. Complex Orders may be entered as Customer Cross Orders, as defined in Rule 715(i). Such orders will be automatically executed upon entry so long as: (i) the price of the transaction is at or within the best bid and offer for the same complex strategy on the complex order book; (ii) there are no Priority Customer Complex Orders for the same strategy at the same price on the complex order book; and (iii) the options legs can be executed at prices that comply with the provisions of paragraph (c)(2) of this Rule 722. Complex Customer Cross Orders will be rejected if they cannot be executed. Supplementary Material .01 to Rule 717 applies to Complex Customer Cross Orders.

(e) Complex Qualified Contingent Cross Orders. Complex Options Orders may be entered as Qualified Contingent Cross Orders, as defined in Rule 715(j). Such orders will be automatically executed upon entry so long as: (i) the price of the transaction is at or within the best bid and offer for the same complex options strategy on the complex order book; (ii) there are no Priority Customer Complex Options Orders for the same strategy at the same price on the complex order book; and (iii) the options legs can be executed at prices that (A) are at or between the NBBO for the individual series, and (B) comply with the provisions of paragraph (c)(2)(i) of this Rule 722, provided that no legs of the Complex Options Order can be executed at the same price as a Priority Customer Order on the Exchange in the individual options series. Complex Qualified Contingent Cross Orders will be rejected if they cannot be executed. Complex Qualified Contingent Cross

Orders may only be entered in the regular trading increments applicable pursuant to Rule 722(c)(1). Each leg of a Complex Options Order must meet the 1,000 contract minimum size requirement for Qualified Contingent Cross Orders.

(f) Complex QCC with Stock Orders are processed as follows:

(1) When a member enters a Complex QCC with Stock Order, a Qualified Contingent Cross Complex Order is entered on the Exchange pursuant to Supplementary Material .08(e) to Rule 722.

(2) If the Qualified Contingent Cross Complex Order is executed, the Exchange will automatically communicate the stock component to the member's designated broker-dealer for execution.

(3) If the Qualified Contingent Cross Complex Order cannot be executed, the entire Complex QCC with Stock Order, including both the stock and options components, is cancelled.

(4) Supplementary Material .01 – .03 to Rule 721 apply to the entry and execution of Complex QCC with Stock Orders.

(g) The minimum contract threshold shall be adjusted for Mini Options by a multiple of ten (10) and shall be as follows: (i) each leg of a Complex Options Order executed in the Complex Facilitation Mechanism must be for 500 or more Mini Option contracts; (ii) each leg of a Complex Options Order executed in the Complex Solicited Order Mechanism must be for 5,000 or more Mini Option contracts; and (iii) each leg of a Complex Qualified Contingent Cross Order must be for 10,000 or more Mini Option contracts coupled with a contra-side order or orders totaling an equal number of Mini Option contracts.

.09 *Trade Value Allowance*. To facilitate the execution of the stock leg and options leg(s) of Stock-Option Strategies and Stock Complex Strategies at valid increments pursuant to Rule 722(c)(1), Stock-Option Strategies and Stock-Complex Strategies may trade outside of their expected notional trade value. "Trade Value Allowance" is the percentage difference between the expected notional value of a trade and the actual notional value of the trade. The amount of Trade Value Allowance permitted may be determined by the member, or a default value determined by the Exchange and announced to members; provided that any amount of Trade Value Allowance is permitted in mechanisms pursuant to Supplementary Material .08 to Rule 722 when auction orders do not trade solely with their contra-side order.

.10 *Complex Opening Process*. After each of the individual component legs have opened, or reopened following a trading halt, Complex Options Strategies will be opened pursuant to the Complex Opening Price Determination described in Supplementary Material .11 to Rule 722, and Stock-Option Strategies and Stock-Complex Strategies will be opened pursuant to the Complex Uncrossing Process described in Supplementary Material .12(b) to Rule 722.

.11 *Complex Opening Price Determination*.

(a) *Definitions*.

(i) “Boundary Price” is described herein in paragraph (d)(i).

(ii) “Opening Price” is described herein in paragraph (d)(iv).

(iii) “Potential Opening Price” is described herein in paragraph (d)(ii).

(b) *Eligible Interest*. Eligible interest during the Complex Opening Price Determination includes Complex Orders and quotes on the complex order book except the non-displayed portion of Reserve Complex Orders. Bids and offers for the individual legs of the complex strategy are not eligible to participate in the Complex Opening Price Determination.

(c) If the best bid for a complex strategy does not lock or cross the best offer, there will be no trade in the Complex Opening Price Determination and the complex strategy will open pursuant to the Complex Uncrossing Process described in Supplementary Material .12(b) to Rule 722.

(d) If the best bid for a complex strategy locks or crosses the best offer, the system will open the complex strategy as follows:

(i) *Boundary Prices*. The system calculates Boundary Prices at or within which Complex Orders and quotes may be executed during the Complex Opening Price Determination based on the NBBO for the individual legs; provided that, if the NBBO for any leg includes a Priority Customer order on the Exchange, the system adjusts the Boundary Prices according to Rule 722(c)(2).

(ii) *Potential Opening Price*. The system will calculate the Potential Opening Price by identifying the price(s) at which the maximum number of contracts can trade (“maximum quantity criterion”) taking into consideration all eligible interest pursuant to Supplementary Material .11(b) to Rule 722.

(iii) *More Than One Potential Opening Price*. When two or more Potential Opening Prices would satisfy the maximum quantity criterion: (A) without leaving unexecuted contracts on the bid or offer side of the market of Complex Orders and quotes to be traded at those prices, the system takes the highest and lowest of those prices and takes the mid-point; provided that (1) if the highest and/or lowest price described above is through the price of a bid or offer that is priced to not allocate in the Complex Opening Price Determination, the highest and/or lowest price will be rounded to the price of such bid or offer that is priced to not allocate before taking the mid-point, and (2) if the mid-point is not expressed as a permitted minimum trading increment, it will be rounded down to the nearest permissible minimum trading increment; or (B) leaving unexecuted contracts on the bid (offer) side of the market of Complex Orders and quotes to be traded at those prices, the Potential Opening Price is the highest (lowest) executable bid (offer) price. Notwithstanding the foregoing: (C) if there are Market Complex Orders on the bid (offer) side of the market that would equal the full quantity of Complex Orders and quotes on offer (bid) side of the market, the limit price of the highest (lowest) priced Limit Complex Order or quote is the Potential Opening Price; and (D) if there are only Market Complex Orders on both sides of the market, or if there are Market Complex Orders on the bid (offer) side of the market for greater than the total size of Complex Orders and quotes on the offer (bid) side of the market, there will be no trade in the Complex Opening Price Determination and the complex strategy will open pursuant to the Complex Uncrossing Process described in Supplementary Material .12(b) to Rule 722.

(iv) *Opening Price*. If the Potential Opening Price is at or within the Boundary Prices, the Potential Opening Price becomes the Opening Price. If the Potential Opening Price is not at or within the Boundary Prices, the Opening Price will be the price closest to the Potential Opening Price that satisfies the maximum quantity criteria without leaving unexecuted contracts on the bid or offer side of the market at that price and is at or within the Boundary Prices. If the bid Boundary Price is higher than the offer Boundary Price, or if no valid Opening Price can be found at or within the Boundary Prices, there will be no trade in the Complex Opening Price Determination and the complex strategy will open pursuant to the Complex Uncrossing Process described in Supplementary Material .12(b) to Rule 722.

(v) *Allocation*. During the Complex Opening Price Determination, where there is an execution possible, the system will give priority to Market Complex Orders first, then to resting Limit Complex Orders and quotes on the complex order book. The allocation provisions of Rule 722(d)(2) apply with respect to Complex Orders and quotes with the same price with priority given first to better priced interest.

(vi) *Reserve Complex Orders.* Following the execution of the displayed portion of Reserve Complex Orders in the process described above, the system will refresh Reserve Complex Orders pursuant to Rule 722(b)(4)(iv).

(vii) *Uncrossing.* If the complex order book remains locked or crossed following paragraphs (d)(i) - (vi), the system will process any remaining Complex Orders and quotes, including Opening Only Complex Orders and the non-displayed portion of Reserve Complex Orders, in accordance with the Complex Uncrossing Process described in Supplementary Material .12(b) to Rule 722. Bids and offers for the individual legs of the complex strategy will also be eligible to trade in the Complex Uncrossing Process.

.12 *Complex Uncrossing Process.*

(a) The complex order book will be uncrossed using the Complex Uncrossing Process described in Supplementary Material .12(b) to Rule 722 if a resting Complex Order or quote that is locked or crossed with other interest becomes executable during regular trading or as part of the Complex Opening Process.

(b) Complex Strategies are uncrossed using the following procedure:

(i) The system identifies the oldest Complex Order or quote among the best priced bids and offers on the complex order book. A Complex Order entered with an instruction that it must be executed at a price that is equal to or better than the national best bid or offer pursuant to Supplementary Material .07(a) to Rule 722 is considered based on its actual limit or market price and not the price of the national best bid or offer for the component legs.

(ii) The selected Complex Order or quote is matched pursuant to Rule 722(d)(2)-(3) with resting contra-side interest on the complex order book and, for Complex Orders, bids and offers for the individual legs of the complex strategy.

(iii) The process described in (i) through (ii) is repeated until the complex order book is no longer executable.

.13 Members may only submit Complex Orders and quotes in Stock-Option Strategies and Stock-Complex Strategies if such Complex Orders and quotes comply with the Qualified Contingent Trade Exemption from Rule 611(a) of Regulation NMS under the Exchange Act. Members submitting Complex Orders and quotes in Stock-Option Strategies and Stock-Complex Strategies represent that they comply with the Qualified Contingent Trade Exemption.

Rule 723. Price Improvement Mechanism for Crossing Transactions

(a) – (d) No change.

Supplementary Material to Rule 723

.01 - .08 No change.

.09 Reserved[Complex Orders. Electronic Access Members may use the Price Improvement Mechanism to execute complex orders (as defined in Rule 722) at a net price. Members may enter Improvement Orders for complex orders at net prices, and bids and offers for complex orders will participate in the execution of an order being executed as provided in this Rule 723. With respect to bids and offers for the individual legs of a complex order entered into the Price Improvement Mechanism, the priority rules for complex orders contained in Rule 722(b)(2) will continue to be applicable. If an improved net price for the complex order being executed can be achieved from bids and offers for the individual legs of the complex order in the Exchange's auction market, the order being executed will receive an execution at the better net price, except that for complex orders listed in Rule 722(b)(3)(ii)(A) and (B), if an improved net price for such complex orders being executed can be achieved from bids and offers for the individual legs of the complex order, the auction will be cancelled at the end of the exposure period. Complex orders must be entered at a price that is better than the best net price (i) available on the complex order book; and (ii) achievable from the best Nasdaq ISE bids and offers for the individual legs (an "improved net price"). Supplementary Material .08 is not applicable to the entry of complex orders; complex orders will be rejected unless they are entered at an improved net price. All references to the NBBO in Rule 723 and the Supplementary Material thereto are inapplicable. The provisions of Rule 723(c)(5) will apply with respect to receipt of orders for the same complex order, and not to the receipt of orders for the individual legs of the complex order].

.10 PIM ISO Order. A PIM ISO order (PIM ISO) is the transmission of two orders for crossing pursuant to Rule 723 without regard for better priced Protected Bids or Protected Offers (as defined in Rule 1900) because the Member transmitting the PIM ISO to the Exchange has, simultaneously with the routing of the PIM ISO, routed one or more ISOs, as necessary, to execute against the full displayed size of any Protected Bid or Protected Offer that is superior to the starting PIM auction price and has swept all interest in the Exchange's book priced better than the proposed auction starting price. Any execution(s) resulting from such sweeps shall accrue to the PIM order.

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