

Required fields are shown with yellow backgrounds and asterisks.

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

File No. \* SR 2023 - \* 06

Amendment No. (req. for Amendments \*)

Filing by Nasdaq ISE, LLC

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

Initial * <input checked="" type="checkbox"/>	Amendment * <input type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) * <input type="checkbox"/>	Section 19(b)(3)(A) * <input checked="" type="checkbox"/>	Section 19(b)(3)(B) * <input type="checkbox"/>
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Pilot <input type="checkbox"/>	Extension of Time Period for Commission Action * <input type="checkbox"/>	Date Expires * <input type="text"/>	Rule		
			<input type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)	
			<input type="checkbox"/> 19b-4(f)(2)	<input type="checkbox"/> 19b-4(f)(5)	
			<input type="checkbox"/> 19b-4(f)(3)	<input checked="" type="checkbox"/> 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 rules in connection with the technology migration to enhanced Nasdaq functionality

**Contact Information**

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

First Name \* Sun Last Name \* Kim

Title \* Associate General Counsel

E-mail \* Sun.Kim@nasdaq.com

Telephone \* (646) 420-7816 Fax


**Signature**

Pursuant to the requirements of the Securities Exchange of 1934, Nasdaq ISE, LLC has duty caused this filing to be signed on its behalf by the undersigned thereunto duty authorized.

Date 02/03/2023 (Title \*)

By John Zecca EVP and Chief Legal Officer  
(Name \*)

NOTE: Clicking the signature block at right will initiate digitally signing the form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.

 Date: 2023.02.03 13:07:11 -05'00'

Required fields are shown with yellow backgrounds and astericks.

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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

**Form 19b-4 Information \***

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SR-ISE-2023-06 19b-4.doc

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 \***

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SR-ISE-2023-06 Exhibit 1.doc

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 Advanced Notice by Clearing Agencies \***

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The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

**Exhibit 2- Notices, Written Comments, Transcripts, Other Communications**

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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 Sent As Paper Document

**Exhibit 3 - Form, Report, or Questionnaire**

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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 Sent As Paper Document

**Exhibit 4 - Marked Copies**

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The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.

**Exhibit 5 - Proposed Rule Text**

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SR-ISE-2023-06 Exhibit 5.doc

The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change

**Partial Amendment**

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If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

1. Text of the Proposed Rule Change

(a) Nasdaq ISE, LLC (“Nasdaq ISE” or “Exchange”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> is filing with the Securities and Exchange Commission (“SEC” or “Commission”) a proposal to amend its rules in connection with a technology migration to enhanced Nasdaq, Inc. (“Nasdaq”) functionality.

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

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

The proposed rule change was approved by senior management of the Exchange pursuant to authority delegated by the Board of Directors (the “Board”). Exchange staff will advise the Board of any action taken pursuant to delegated authority. No other action is necessary for the filing of the rule change.

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

Sun Kim  
Associate General Counsel  
Nasdaq, Inc.  
646-420-7816

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

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

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

a. Purpose

In connection with a technology migration to enhanced Nasdaq functionality that will result in higher performance, scalability, and more robust architecture, the Exchange proposes to amend its rules to adopt certain trading functionality currently utilized at Nasdaq affiliate options exchanges. As further discussed below, the Exchange is proposing to adopt such functionality substantially in the same form as currently on the Nasdaq affiliated options exchanges, while retaining certain intended differences between it and its affiliates. The Exchange also proposes a number of changes to memorialize existing functionality, add more granularity in its rules to describe how existing functionality operates today, and to harmonize the Exchange's rules where appropriate with the rules of its affiliated options exchanges by using consistent language to describe identical functionality.

The Exchange intends to begin implementation of the proposed rule change by Q4 2023. The Exchange would commence its implementation with a limited symbol migration and continue to migrate symbols over several weeks. The Exchange will issue an Options Trader Alert to Members to provide notification of the symbols that will migrate and the relevant dates.

**Bulk Message**

The Exchange proposes to codify existing functionality that allows Market Makers to submit their quotes to the Exchange in block quantities as a single bulk message. In other words, a Market Maker may submit a single message to the Exchange, which may contain bids and offers in multiple series. The Exchange does not permit bulk

messaging for orders today. The Exchange has historically provided Market Makers with information regarding bulk messaging in its publicly available technical specifications.<sup>3</sup> To promote greater transparency, the Exchange is seeking to codify this functionality in its Rulebook. Specifically, the Exchange proposes to amend Options 3, Section 4(b)(3) to memorialize that quotes may be submitted as a bulk message. The Exchange also proposes to add a definition of “bulk message” in new subparagraph (i) of Options 3, Section 4(b)(3), which will provide that a bulk message means a single electronic message submitted by a Market Maker to the Exchange which may contain a specified number of quotations as designated by the Exchange.<sup>4</sup> The bulk message, submitted via SQF,<sup>5</sup> may enter, modify, or cancel quotes. Bulk messages are handled by the System in the same manner as it handles a single quote message.

The Exchange notes that other exchanges like Cboe Options Exchange (“Cboe”)

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<sup>3</sup> See [https://www.nasdaq.com/docs/2022/05/17/SQF\\_8.2b.pdf](https://www.nasdaq.com/docs/2022/05/17/SQF_8.2b.pdf) (specifying for bulk quoting of up to 200 quotes per quote block message). The specifications note in other places the manner in which a Member can send such quote block messages.

<sup>4</sup> See *id.* As noted above, quote bulk messages can presently contain up to 200 quotes per message. This is the maximum amount that is permitted in a bulk message. The Exchange would announce any change to these specifications in an Options Technical Update distributed to all Members.

<sup>5</sup> "Specialized Quote Feed" or "SQF" is an interface that allows Market Makers to connect, send, and receive messages related to quotes, Immediate-or-Cancel Orders, and auction responses to the Exchange. Features include the following: (1) options symbol directory messages (e.g., underlying and complex instruments); (2) System event messages (e.g., start of trading hours messages and start of opening); (3) trading action messages (e.g., halts and resumes); (4) execution messages; (5) quote messages; (6) Immediate-or-Cancel Order messages; (7) risk protection triggers and purge notifications; (8) opening imbalance messages; (9) auction notifications; and (10) auction responses. The SQF Purge Interface only receives and notifies of purge requests from the Market Maker. Market Makers may only enter interest into SQF in their assigned options series. See Supplementary Material .03(c) to Options 3, Section 7.

currently offer similar bulk messaging functionality that allow their market participants to submit block quantity quotes in a single electronic message.<sup>6</sup>

### **Order Types**

The Exchange proposes to make several enhancements to certain order types in Options 3, Section 7 in connection with the technology migration to Nasdaq enhanced functionality. Specifically in connection with the migration, the Exchange proposes to: (1) introduce an intra-day cancel timer feature for Market Orders,<sup>7</sup> (2) eliminate non-Immediate-or-Cancel (“IOC”)<sup>8</sup> Intermarket Sweep Orders (“ISOs”),<sup>9</sup> (3) introduce BX-like re-pricing to Add Liquidity Orders (“ALOs”),<sup>10</sup> and (4) allow Market Orders to be

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<sup>6</sup> See definition of “bulk message” in Cboe Rule 1.1. Unlike Cboe, which also allows bulk messaging for orders, the Exchange’s bulk message functionality only applies to quotes as discussed above.

<sup>7</sup> A market order is an order to buy or sell a stated number of options contracts that is to be executed at the best price obtainable when the order reaches the Exchange. See Options 3, Section 7(a).

<sup>8</sup> An IOC order must be executed in whole or in part upon receipt. Any portion not so executed is to be treated as cancelled. See Options 3, Section 7(b)(3). As discussed later in this filing, the Exchange will relocate the IOC rule into Supplementary Material .02 to Options 3, Section 7.

<sup>9</sup> An ISO is a limit order that meets the requirements of Options 5, Section 1(h). See Options 3, Section 7(b)(5).

<sup>10</sup> An Add Liquidity Order is a limit order that is to be executed in whole or in part on the Exchange (i) only after being displayed on the Exchange's limit order book; and (ii) without routing any portion of the order to another market center. Members may specify whether an Add Liquidity Order shall be cancelled or re-priced to the minimum price variation above the national best bid price (for sell orders) or below the national best offer price (for buy orders) if, at the time of entry, the order (i) is executable on the Exchange; or (ii) the order is not executable on the Exchange, but would lock or cross the national best bid or offer. If at the time of entry, an Add Liquidity Order would lock or cross one or more non-displayed orders on the Exchange, the Add Liquidity Order shall be cancelled or re-priced to the minimum price variation above the best non-displayed bid

entered as Opening Only (“OPG”)<sup>11</sup> orders (currently only allowed for Limit Orders).<sup>12</sup> As discussed below, the proposed enhancements are intended to align with existing BX functionality. The Exchange also proposes to add more granularity on how certain order types currently operate on the Exchange today, codify existing order type functionality, and to relocate related rule text within Options 3, Section 7 for better readability. Except with respect to the order type enhancements specified above, none of the proposed order type rule changes will amend current functionality. Rather, these changes are designed to bring greater transparency as to the applicability of certain order types currently available on the Exchange, and to provide greater consistency between the rules of the Exchange and its affiliates.

### ***Market Orders***

The Exchange proposes to amend the definition of Market Orders in Options 3, Section 7(a) to introduce a cancel timer feature, which will allow Members to designate Market Orders that do not execute after a certain period of time to be cancelled back to the Member. Specifically, the Exchange proposes to add that Members can designate their Market Orders not executed after a pre-established period of time, as established by

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price (for sell orders) or below the best non-displayed offer price (for buy orders). An Add Liquidity Order will only be re-priced once and will be executed at the re-priced price. An Add Liquidity Order will be ranked in the Exchange's limit order book in accordance with Options 3, Section 10. See Options 3, Section 7(n).

<sup>11</sup> An OPG order is a Limit Order that can be entered for the opening rotation only. See Options 3, Section 7(o). As discussed later in this filing, the Exchange will relocate the OPG rule into Supplementary Material .02 to Options 3, Section 7.

<sup>12</sup> A Limit Order is an order to buy or sell a stated number of options contracts at a specified price or better. See Options 3, Section 7(b).

the Exchange,<sup>13</sup> will be cancelled back to the Member, once an options series has opened for trading. BX currently has an identical timer feature for BX Market Orders.<sup>14</sup> Similar to BX, the proposed timer would be available once the intra-day trading session begins for an options series, as the Exchange already has a separate opening delay timer that provides protection to the market during the Opening Process. In particular, the Exchange would cancel or route orders (consistent with the Member's instructions) if an options series has not opened before the conclusion of the opening delay timer.<sup>15</sup> As such, the Exchange is proposing that the pre-established period of time for the proposed timer feature would commence once the intra-day trading session begins for that options series. In other words, while the opening process is on-going, and the intra-day trading session has not commenced, the pre-established period of time for the proposed timer feature would not commence. Further, the Exchange proposes to note that Market Orders on the order book would be immediately cancelled if an options series is halted, provided the Member designated the cancellation of Market Orders.<sup>16</sup> The proposed changes are intended to make clear that in the event there is a Market Order in a zero bid market with the Market Order was resting on the order book, the Member has an option to designate the cancellation of that Market Order pursuant to the proposed cancel timer feature. In

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<sup>13</sup> The Exchange will initially set the pre-established period of time at 4 seconds, identical to BX. This specification will be set out in the ISE System settings document on a publicly available website. The Exchange would issue an Options Trader Alert notifying all Members if it determined to amend that timeframe.

<sup>14</sup> See BX Options 3, Section 7(a)(5).

<sup>15</sup> See Options 3, Section 8(k).

<sup>16</sup> Members may make the designation to cancel their Market Orders through their FIX, OTTO, and Precise port settings.



this case, those Market Orders to sell, which were resting on the order book, would immediately cancel upon a trading halt instead of waiting until the end of the pre-established timer period. BX has identical language governing its Market Orders today.<sup>17</sup> Like BX, the Exchange believes that the proposed intra-day timer feature will provide additional flexibility for Members that wish to cancel unexecuted Market Orders after a certain period of time. Lastly, the Exchange proposes a non-substantive change to capitalize the term “market orders” in the first sentence of Options 3, Section 7(a) for consistency with the proposed rule text.

### ***Intermarket Sweep Orders***

The Exchange proposes to amend the ISO rule in Options 3, Section 7(b)(5), which currently provides that an ISO is limit order that meets the requirements of Options 5, Section 1(h).<sup>18</sup> As amended, the ISO rule will provide:

An Intermarket Sweep Order (“ISO”) is a limit order that meets the requirements of Options 5, Section 1(h). Orders submitted to the Exchange as ISO are not routable and will ignore the ABBO and trade at allowable prices on the Exchange. ISOs must have a

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<sup>17</sup> See BX Options 3, Section 7(a)(5).

<sup>18</sup> Options 5, Section 1(h) provides that an ISO is a limit order for an options series that, simultaneously with the routing of the ISO, one or more additional ISOs, as necessary, are routed to execute against the full displayed size of any Protected Bid, in the case of a limit order to sell, or any Protected Offer, in the case of a limit order to buy, for the options series with a price that is superior to the limit price of the ISO. A Member may submit an Intermarket Sweep Order to the Exchange only if it has simultaneously routed one or more additional Intermarket Sweep Orders to execute against the full displayed size of any Protected Bid, in the case of a limit order to sell, or Protected Offer, in the case of a limit order to buy, for an options series with a price that is superior to the limit price of the Intermarket Sweep Order. An ISO may be either an Immediate-Or-Cancel Order or an order that expires on the day it is entered.

TIF designation of IOC. ISOs may not be submitted during the Opening Process.

The proposed rule text is substantially similar to BX's ISO rule in BX Options 3, Section 7(a)(6).<sup>19</sup> The Exchange is also proposing to add that ISOs may not be submitted during the Opening Process to reflect current System handling. The Exchange notes that BX similarly prohibits the submission of ISOs before the market opens and therefore proposes to add a similar level of detail in the Exchange's ISO rule.

Other than the stipulation that ISOs must have a TIF<sup>20</sup> designation of IOC, the proposed language does not amend the current ISO functionality but rather is intended to add more granularity and more closely align the ISO rule with BX's ISO rule. The Exchange does note that in connection with the System migration, the Exchange proposes to amend the current ISO functionality to only allow ISOs to be entered as IOC. Today, Options 5, Section 1(h) provides that an ISO may either be an IOC or an order that expires on the day it is entered. The Exchange proposes to delete this sentence entirely from Options 5, Section 1(h) as ISOs may only be IOC with the System migration, and this will be articulated in proposed Options 3, Section 7(b)(3).

The Exchange is proposing to require ISOs to be entered as IOC, which would cause an ISO to cancel in whole or in part upon receipt if the ISO does not execute or

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<sup>19</sup> BX's ISO rule also currently states that "ISOs may be entered on the Order Book or into the PRISM Mechanism pursuant to Options 3, Section 13(ii)(K)." See BX Options 3, Section 7(a)(6). The Exchange notes that it intends to file a separate rule filing to add similar language as BX relating to how ISOs may be entered on the Exchange.

<sup>20</sup> As discussed later in this filing, the Exchange is proposing to codify the definition of "Time in Force" or "TIF" to mean the period of time that the System will hold an order for potential execution. See proposed Supplementary Material .02 to Options 3, Section 7.

does not entirely execute, because an ISO is generally used when trying to sweep a price level across multiple exchanges in an effort to post the balance of an order without locking an away market. The Exchange therefore believes that ISOs have a limited purpose and should be cancelled if they do not execute or do not entirely execute. As noted above, the proposal will align to current BX functionality that similarly only allows ISOs to be entered as IOC on BX.

### ***All-or-None Orders***

The Exchange proposes to amend the All-Or-None (“AON”) Order rule in Options 3, Section 7(c), which currently provides that an AON Order is a limit or market order that is to be executed in its entirety or not at all, and that an AON Order may only be entered as an IOC Order. As amended, the AON rule will provide:

An All-Or-None (“AON”) Order is a limit or market order that is to be executed in its entirety or not at all. An AON Order may only be entered as an Immediate-or-Cancel Order. AON Orders will only execute against multiple, aggregated orders if the executions would occur simultaneously. AON Orders may not be submitted during the Opening Process.

With the proposed changes, the Exchange is not amending current AON functionality; rather, it is memorializing current System behavior in a manner consistent with its affiliates. Today, AON Orders have a size contingency (i.e., executed in its entirety at the entered size or not at all) and must be IOC. The Exchange is specifying that AON Orders will execute against multiple, aggregated orders only if the executions would occur simultaneously to ensure that AON Orders are executed at the specified size while also honoring the priority of all other orders on the order book. The Exchange is

adopting this rule text for AON orders to align to substantially similar language on BX.<sup>21</sup>

The Exchange notes that the handling of AONs as described in the proposed rule text in Options 3, Section 7(c) is consistent with the Exchange's allocation methodology in Options 3, Section 10. The additional detail makes clear that because of the size contingency of AON Orders, those orders must be satisfied simultaneously to avoid any priority conflict on the order book, which considers current displayed NBBO prices to avoid locked and crossed markets as well as trade-throughs.

The Exchange is also proposing to add that AON orders may not be submitted during the Opening Process to reflect current System handling. The Exchange notes that BX similarly prohibits the submission of AON orders before the market opens and therefore proposes to add a similar level of detail in the Exchange's AON rule.<sup>22</sup>

### ***Stop Orders***

The Exchange proposes to amend its Stop Order rule in Options 3, Section 7(d), which presently provides that a stop order is an order that becomes a market order when the stop price is elected. A stop order to buy is elected when the option is bid or trades on the Nasdaq ISE at, or above, the specified stop price. A stop order to sell is elected when the option is offered or trades on the Nasdaq ISE at, or below, the specified stop price. The Exchange now proposes to add that a Stop Order shall be cancelled if it is immediately electable upon receipt. Stop Orders allow Members increased control and flexibility over their transactions and the prices at which they are willing to execute an

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<sup>21</sup> See BX Options 3, Section 7(a)(4)(A) (describing Minimum Quantity Orders and AON Orders as Contingency Orders). Unlike BX, the Exchange does not currently offer Minimum Quantity Orders.

<sup>22</sup> See BX Options 3, Section 7(a)(7).

order. The purpose of a Stop Order is to not execute upon entry, and instead rest in the System until the market reaches a certain price level, at which time the order could be executed. A Stop Order that is immediately executable upon receipt would therefore negate the purpose of the Stop Order, so the Exchange would cancel such orders today. The Exchange believes that this ensures Members are able to use Stop Orders to achieve their intended purpose. The proposed changes codify current Stop Order handling and are intended to better align the Exchange's Stop Order rule with that of its affiliate, Phlx.<sup>23</sup>

The Exchange also proposes to specify that Stop Orders may only be entered through FIX or Precise.<sup>24</sup> This is how Stop Orders are handled today. Because the Exchange offers three order entry protocols today (FIX, Precise, and OTTO),<sup>25</sup> the

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<sup>23</sup> See Phlx Options 3, Section 7(b)(4).

<sup>24</sup> "Nasdaq Precise" or "Precise" is a front-end interface that allows Electronic Access Members and their Sponsored Customers to send orders to the Exchange and perform other related functions. Features include the following: (1) order and execution management: enter, modify, and cancel orders on the Exchange, and manage executions (e.g., parent/child orders, inactive orders, and post-trade allocations); (2) market data: access to real-time market data (e.g., NBBO and Exchange BBO); (3) risk management: set customizable risk parameters (e.g., kill switch); and (4) book keeping and reporting: comprehensive audit trail of orders and trades (e.g., order history and done away trade reports). See Supplementary Material .03(d) to Options 3, Section 7. See General 1, Section 1(a)(6) for the definition of Electronic Access Member and Supplementary Material .02 to Options 3, Section 21 for the definition of Sponsored Customer.

<sup>25</sup> "Ouch to Trade Options" or "OTTO" is an interface that allows Members and their Sponsored Customers to connect, send, and receive messages related to orders, auction orders, and auction responses to the Exchange. Features include the following: (1) options symbol directory messages (e.g., underlying and complex instruments); (2) System event messages (e.g., start of trading hours messages and start of opening); (3) trading action messages (e.g., halts and resumes); (4) execution messages; (5) order messages; (6) risk protection triggers and cancel notifications; (7) auction notifications; (8) auction responses; and (9)

Exchange believes that adding this detail will make clear that Stop Orders are only available to be entered through two of these order entry protocols and reduce any potential confusion.

### ***Stop Limit Orders***

The Exchange proposes to amend its Stop Limit Order rule in Options 3, Section 7(e), which presently provides that a stop limit order is an order that becomes a limit order when the stop price is elected. A stop limit order to buy is elected when the option is bid or trades on the Nasdaq ISE at, or above, the specified stop price. A stop limit order to sell is elected when the option is offered or trades on the Nasdaq ISE at, or below, the specified stop price. The Exchange now proposes to add that a Stop Limit Order shall be cancelled if it is immediately electable upon receipt. The Exchange would cancel these orders today for the same reasons discussed above for Stop Orders. The proposed changes codify current Stop Limit Order handling and are intended to better align the Exchange's Stop Limit Order rule with that of Phlx.<sup>26</sup>

The Exchange also proposes to specify that Stop Limit Orders may only be entered through FIX or Precise. This is how Stop Limit Orders are handled today. For the same reasons discussed above for Stop Orders, the Exchange believes that adding this detail will make clear that Stop Limit Orders are only available to be entered through the specified order entry protocol and reduce any potential confusion. Lastly, the Exchange proposes a non-substantive change to correct a punctuation error in the paragraph header.

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post trade allocation messages. See Supplementary Material .03(b) to Options 3, Section 7.

<sup>26</sup> See Phlx Options 3, Section 7(b)(4)(A).

### ***Cancel and Replace Orders***

The Exchange proposes to relocate the rule text governing Cancel and Replace Orders from Supplementary Material .02 to Options 3, Section 7 into Options 3, Section 7(f). The Exchange also proposes non-substantive, clarifying changes to the relocated rule text to update the incorrect cross-cites therein to the System's price or other reasonability checks. The Exchange also proposes to amend the following portion of the rule, which currently provides: "The replacement order will retain the priority of the cancelled order, if the order posts to the Order Book, provided the price is not amended, size is not increased, or in the case of Reserve Orders,<sup>27</sup> size is not changed." The Exchange proposes to make clear that in the case of Reserve Orders, a change in price will also result in a change of priority for the replacement order. The Exchange also proposes to clarify that the reference to the Reserve Order's size in this Rule is referring to both displayed and non-displayed size. As amended, the rule will provide: "The replacement order will retain the priority of the cancelled order, if the order posts to the Order Book, provided the price is not amended, or size is not increased. In the case of Reserve Orders, the replacement order will retain the priority of the cancelled order, if the order posts to the Order Book, provided the price is not amended or size (displayed and non-displayed) is not changed." The proposed changes will aid market participants in locating this order type in the main body of the rule, and add more granularity around how the Exchange will treat the cancellation and replacement of Reserve Orders.

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<sup>27</sup> As discussed later in this filing, a Reserve Order is defined in Options 3, Section 7(g) as a Limit Order that contains both a displayed portion and a non-displayed portion.

### ***Reserve Orders***

As described in Options 3, Section 7(g), the Exchange offers Members a Reserve Order, which is a Limit Order that contains both a displayed portion and a non-displayed portion. Both the displayed and non-displayed portions of a Reserve Order are available for potential execution against incoming marketable orders. A non-marketable Reserve Order will rest on the order book. The non-displayed portion of a Reserve Order will be available for execution only after all displayed interest at that price has been executed. Both the displayed and the non-displayed portions of a Reserve Order will be ranked initially by the specified limit price and time of entry, and both the displayed and non-displayed portions of a Reserve Order will trade in accordance with the priority and allocation provisions in Options 3, Section 10.

When the displayed portion of a Reserve Order has been decremented, in whole or in part, it will be refreshed from the non-displayed portion of the resting Reserve Order. If the displayed portion is refreshed in part, the new displayed portion will include the previously displayed portion. Upon any refresh, the entire displayed portion of the order will be ranked at the specified limit price, assigned a new entry time (i.e., the time that the newly displayed portion of the order was refreshed), and given priority in accordance with Options 3, Section 10. Any remaining non-displayed portion of the order will receive the same time stamp as the newly displayed portion of the order.

The Exchange now proposes to enhance the Reserve Order rule by providing more granularity in how Members may elect to refresh the display quantity for the Reserve Order. The Exchange is not proposing to modify the current functionality of Reserve Orders, but rather proposes to augment the definition to clarify current System



behavior. Specifically, the Exchange proposes to make clear that Reserve Orders may be entered with an instruction for the displayed portion of the order to be refreshed: (A) upon full execution of the displayed portion or upon any partial execution; and (B) up to the initial size of the displayed portion or with a random refresh quantity within a range determined by the Member.<sup>28</sup> The Exchange believes that this refresh feature for Reserve Orders provides more flexibility and opportunities for Members to add displayed liquidity to the Exchange. The Exchange believes that the proposed changes would add transparency to the operation of Reserve Orders, without altering current functionality. The Exchange notes that other options exchanges like Cboe currently offer similar refresh features on their Reserve Order functionality.<sup>29</sup>

Finally, the Exchange proposes non-substantive, technical changes in Options 3, Section 7(g) to reformat the paragraph numbering, make a corrective change to “non-displayed portions” in proposed paragraph (6), and update a cross-cite in proposed paragraph (6).

### ***Attributable Orders***

As described in Options 3, Section 7(h), the Exchange currently offers Attributable Orders, which allow Members to voluntarily display their firm IDs on the

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<sup>28</sup> See proposed Options 3, Section 7(g)(4). The Exchange will also renumber the paragraphs within this rule accordingly. As it relates to the refresh quantity range, Members must designate a range for the random refresh election when they submit the Reserve Order if they elect a random refresh, otherwise the Reserve Order would be refreshed at a quantity equal to the initial size of the displayed portion. The range must be set at a number between 1 and the initial displayed quantity.

<sup>29</sup> See Cboe Rule 5.6(c) (setting forth the random replenishment and fixed replenishment features for Reserve Orders).

orders. The rule also provides the Exchange with flexibility to announce which Exchange Systems and class of securities for which the Attributable Order would be available.<sup>30</sup>

The Exchange now proposes to delete existing text that refers to class of securities in Options 3, Section 7(h). Attributable Orders are available for all classes of securities today. The Exchange is therefore deleting this language as inaccurate. The Exchange also proposes a corrective change herein to “an Option Trader Alert.”

#### ***Customer Cross Orders***

Customer Cross Orders are currently defined in Options 3, Section 7(i). The Exchange proposes to add that such orders will trade in accordance with Options 3, Section 12(a). This is a non-substantive amendment to add a cross-reference to Section 12(a), which currently describes in detail how a Customer Cross Order would execute on the Exchange.

#### ***Qualified Contingent Cross Orders***

Qualified Contingent Cross (“QCC”) Orders are currently defined in Options 3, Section 7(j). The Exchange proposes a non-substantive, technical change to add a reference to “QCC” in the first sentence of this rule. The Exchange also proposes to add that QCC Orders will trade in accordance with Options 3, Section 12(c). This is a non-substantive amendment to add a cross-reference to Section 12(c), which currently describes in detail how a QCC Order would execute on the Exchange.

The Exchange further proposes to specify that QCC Orders may only be entered

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<sup>30</sup> Today, Attributable Orders are not available for the Facilitation, Solicited Order, and Price Improvement Mechanisms.

through FIX or Precise. This is how QCC Orders are handled today. Because the Exchange offers three order entry protocols today (FIX, Precise, and OTTO), the Exchange believes that adding this detail will make clear that QCC Orders are only available to be entered through two of these order entry protocols and reduce any potential confusion.

### ***Preferred Orders***

The Exchange proposes to include the following definition of a Preferred Order in Options 3, Section 7(l) for ease of reference: “A Preferred Order is as described in Options 2, Section 10.” This is not a new order type, as Preferred Orders are currently described in Options 2, Section 10. While this order type is not currently listed in the order type rule in Options 3, Section 7, the Exchange believes that it will be useful to market participants to have order types centralized within one rule. Phlx similarly lists out Directed Orders (akin to Preferred Orders) in its order type rule in Phlx Options 3, Section 7(b)(11).

### ***Add Liquidity Orders***

Add Liquidity Orders (“ALOs”) are currently defined in Options 3, Section 7(n). Today, the Exchange offers ALOs to provide market participants with greater control over the circumstances in which their orders are executed. ALOs are Limit Orders that will only be executed as a “maker” on the Exchange (i.e., when the Member is providing liquidity). Members can choose whether an ALO that is executable on the Exchange upon entry (or that is not executable on the Exchange upon entry, but locks or crosses the NBBO) will be cancelled or re-priced to one MPV above the national best bid (for sell orders) or below the national best offer (for buy orders). If at the time of entry,

an ALO would lock or cross one or more non-displayed orders on the Exchange, the ALO will be cancelled or re-priced to one MPV above the best non-displayed bid price (for sell orders) or below the best non-displayed offer price (for buy orders).<sup>31</sup> Today, an ALO will only be re-priced once and will be executed at the re-priced price. The Exchange notes that without the ability to re-price an ALO in the foregoing manner, under certain circumstances, an incoming ALO could execute against a displayed or non-displayed order resting on the Exchange's limit order book, which would be in direct contravention with the purpose of an ALO (to provide liquidity, not take liquidity).

As part of a concurrent rule filing, the Exchange is proposing to adopt a re-pricing mechanism identical to current BX re-pricing functionality<sup>32</sup> to avoid certain orders from locking or crossing an away market's price.<sup>33</sup> In connection with the proposed adoption of the BX-like re-pricing mechanism in Options 3, Section 5(d) in the Re-Pricing Filing,

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<sup>31</sup> As discussed in more detail below, the Exchange will amend this sentence to say "orders *or quotes*" to codify existing ALO behavior.

<sup>32</sup> Today, BX re-prices certain orders to avoid locking and crossing away markets, consistent with its Trade-Through compliance and Locked or Crossed Markets obligations. See BX Options 3, Section 5(d). See also Securities Exchange Act Release No. 89476 (August 4, 2020), 85 FR 48274 (August 10, 2020) (SR-BX-2020-017) (describing BX re-pricing mechanism in BX Options 3, Section 5).

<sup>33</sup> See Securities Exchange Act Release No. 96362 (November 18, 2022) (SR-ISE-2022-25) ("Re-Pricing Filing"). Specifically in the Re-Pricing Filing, the Exchange is proposing to adopt the following language in Options 3, Section 5(d), which will be identical to BX Options 3, Section 5(d): An order that is designated by a Member as non-routable will be re-priced in order to comply with applicable Trade-Through and Locked and Crossed Markets restrictions. If, at the time of entry, an order that the entering party has elected not to make eligible for routing would cause a locked or crossed market violation or would cause a trade-through violation, it will be re-priced to the current national best offer (for bids) or the current national best bid (for offers) and displayed at one minimum price variance above (for offers) or below (for bids) the national best price.

the Exchange now proposes to make related changes to the ALO rule in Options 3, Section 7(n). In particular, the Exchange proposes that if an ALO would not lock or cross an order or quote on the System but would lock or cross the NBBO, the order will be handled pursuant to Options 3, Section 5(d), which will set forth the new BX-like re-pricing mechanism for non-routable orders.<sup>34</sup> As noted in Options 3, Section 7(n), ALOs are inherently non-routable. Accordingly, the Exchange is proposing to handle ALOs in a consistent manner with the new re-pricing mechanism. Because the new mechanism will allow for continuous re-pricing as discussed above, the Exchange also proposes to remove the current limitation in the ALO rule stipulating that these orders will only be re-priced once and executed at the re-priced price. The proposed order handling for ALOs will be functionally identical to ALO handling on BX today.<sup>35</sup>

The Exchange further proposes a clarifying change in the ALO rule that would not amend current System behavior. The Exchange proposes to add “or quotes” to make clear that if at the time of entry, an ALO would lock or cross one or more non-displayed orders *or quotes* on the Exchange, the ALO will be cancelled or re-priced to one MPV above the best non-displayed bid price (for sell orders) or below the best non-displayed offer price (for buy orders).

Finally, the Exchange proposes to add that ALOs may only be submitted when an options series is open for trading to make clear that an ALO would not be accepted during the Opening Process when the order book is not available. The proposed rule text

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<sup>34</sup> Id.

<sup>35</sup> See BX Options 3, Section 7(a)(12). See also Securities Exchange Act Release No. 93896 (January 4, 2022), 87 FR 1231 (January 10, 2022) (SR-BX-2021-054), which introduced ALOs on BX.

is consistent with current functionality, so the Exchange is codifying current ALO behavior with this change and adding the same level of detail currently in BX's ALO rule.<sup>36</sup>

As amended, Options 3, Section 7(n) will provide:

An Add Liquidity Order is a limit order that is to be executed in whole or in part on the Exchange (i) only after being displayed on the Exchange's limit order book; and (ii) without routing any portion of the order to another market center. Members may specify whether an Add Liquidity Order shall be cancelled or re-priced to the minimum price variation above the national best bid price (for sell orders) or below the national best offer price (for buy orders) if, at the time of entry, the order (i) is executable on the Exchange; or (ii) the order is not executable on the Exchange, but would lock or cross the national best bid or offer. If at the time of entry, an Add Liquidity Order would lock or cross one or more non-displayed orders or quotes on the Exchange, the Add Liquidity Order shall be cancelled or re-priced to the minimum price variation above the best non-displayed bid price (for sell orders) or below the best non-displayed offer price (for buy orders). Notwithstanding the aforementioned, if an Add Liquidity Order would not lock or cross an order or quote on the System but would lock or cross the NBBO, the order will be handled pursuant to Options 3, Section 5(d). An Add Liquidity Order will be ranked in the Exchange's limit order book in accordance with Options 3, Section 10. Add Liquidity Orders may only be submitted when an options series is open for trading.

#### ***QCC with Stock Orders***

The Exchange proposes a non-substantive change to correct a cross-cite in the QCC with Stock Order rule in Options 3, Section 7(t). The current citation to Options 3, Section 12(c) in the description of this order type should instead be Options 3, Section 12(e).

#### ***Opening Sweep***

Opening Sweeps are currently defined in Options 3, Section 7(u) as a Market Maker order submitted for execution against eligible interest in the System during the

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<sup>36</sup>

Id.

Opening Process pursuant to Options 3, Section 8(b)(1). The Exchange proposes to replace the current definition with the following: “An Opening Sweep is a one-sided order entered by a Market Maker through SQF for execution against eligible interest in the System during the Opening Process. This order type is not subject to any protections listed in Options 3, Section 15, except for Automated Quotation Adjustments. The Opening Sweep will only participate in the Opening Process pursuant to Options 3, Section 8(b)(1) and will be cancelled upon the open if not executed.”

The proposed rule text is consistent with current functionality, so the Exchange is providing additional context to the Opening Sweep as currently described in Options 3, Section 8(b) and codifying current Opening Sweep behavior with this change. Specifically, because an Opening Sweep is an IOC order submitted by a Market Maker during the Opening Process, the Exchange is making clear in the proposed rule text that this order type is entered through SQF.<sup>37</sup> The Exchange is also specifying that Opening Sweeps are not subject to any risk protections in Options 3, Section 15 (except Automated Quotation Adjustments) because the Opening Process itself has boundaries (notably, the Quality Opening Market<sup>38</sup> and the Opening Quote Range<sup>39</sup>) within which

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<sup>37</sup> See Supplementary Material .03(c) of Options 3, Section 7, which notes that SQF is an interface that allows Market Makers to submit IOC orders.

<sup>38</sup> A “Quality Opening Market” is a bid/ask differential applicable to the best bid and offer from all Valid Width Quotes defined in a table to be determined by the Exchange and published on the Exchange's web site. The calculation of Quality Opening Market is based on the best bid and offer of Valid Width Quotes. The differential between the best bid and offer are compared to reach this determination. The allowable differential, as determined by the Exchange, takes into account the type of security (for example, Penny versus non-Penny Interval Program issue), volatility, option premium, and liquidity. The Quality Opening Market differential is intended to ensure the price at which the Exchange opens reflects current market conditions. See Options 3, Section 8(a)(7).

orders will be executed. As it relates to the proposed language relating to Opening Sweep participation in the Opening Process and cancellation upon the open, the Exchange notes that this concept is not new as Opening Sweeps are already described in Options 3, Section 8 today and apply only during the Opening Process. The language merely provides additional context to the order type.

The Exchange notes that the Opening Sweep is functionally identical to the Opening Sweep on Phlx,<sup>40</sup> so the proposed language will harmonize the Exchange's rule with the current Phlx rule.

### ***Time in Force***

Today, the Exchange notes that certain functionality is described as an "order type" in Options 3, Section 7, but would be more precisely described as a TIF attribute that may be added to a particular order type. Accordingly, the Exchange proposes to codify the term "TIF" in proposed Supplementary Material .02 to Options 3, Section 7. The proposed TIF definition will be identical to the TIF definition in BX Options 3, Section 7(b). The Exchange also proposes to relocate various rules into Supplementary Material .02 to centralize the TIFs that are available on the Exchange today. As proposed, the rule text will provide:

**.02 Time in Force.** The term "Time in Force" or "TIF" shall mean the period of time that the System will hold an order for potential execution, and shall include:

- (a) **Day.** An order to buy or sell entered with a TIF of "DAY," which, if not executed, expires at the end of the day on which it was entered. All orders by their terms are Day orders unless otherwise specified. Day orders may be entered through FIX,

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<sup>39</sup> The Opening Quote Range represents the outer boundaries at which the Exchange may open. See Options 3, Section 8(i).

<sup>40</sup> See Phlx Options 3, Section 7(b)(6).



OTTO, or Precise.

- (b) **Good-Till-Canceled.** An order to buy or sell entered with a TIF of “GTC” that remains in force until the order is filled, canceled or the option contract expires; provided, however, that GTC orders will be canceled in the event of a corporate action that results in an adjustment to the terms of an option contract. GTC orders may be entered through FIX or Precise.
- (c) **Good-Till-Date.** An order to buy or sell entered with a TIF of “GTD,” which, if not executed, will be cancelled at the sooner of the end of the expiration date assigned to the order, or the expiration of the series; provided, however, that GTD orders will be canceled in the event of a corporate action that results in an adjustment to the terms of an option contract. GTD orders may be entered through FIX or Precise.
- (d) **Immediate-or-Cancel.** An order entered with a TIF of “IOC” that is to be executed in whole or in part upon receipt. Any portion not so executed is to be treated as cancelled.
- (1) Orders entered with a TIF of IOC are not eligible for routing.
- (2) IOC orders may be entered through FIX, OTTO, Precise, or SQF, provided that an IOC order entered by a Market Maker through the SQF protocol will not be subject to the (A) Order Price Protection, Market Order Spread Protection, and Size Limitation Protection as defined in Options 3, Section 15(a)(1)(A), (1)(B), and (2)(B) respectively, for single leg orders, or (B) Complex Order Price Protection as defined in Options 3, Section 16(c)(1) for Complex Orders.
- (3) Block Orders, Facilitation Orders, Complex Facilitation Orders, SOM Orders, Complex SOM Orders, PIM Orders, Complex PIM Orders, QCC Orders, QCC Complex Orders, Customer Cross Orders, and Customer Cross Complex Orders are considered to have a TIF of IOC. By their terms, these orders will be: (1) executed either on entry or after an exposure period, or (2) cancelled.
- (e) **Opening Only.** An Opening Only (“OPG”) order is entered with a TIF of “OPG.” This order can only be executed in the Opening Process pursuant to Options 3, Section 8. Any portion of the order that is not executed during the Opening Process is cancelled. OPG orders may not route. This order type is not subject to any protections listed in Options 3, Section 15, except Size Limitation.

The Exchange is relocating rule text governing Day orders from Options 3, Section 7(l) into Supplementary Material .02(a) to specify that orders may be entered with a TIF of DAY. The Exchange also proposes to include additional detail that Day orders may be entered through FIX, OTTO, or Precise. This is how Day orders operate today, and the proposed rule text merely adds the same level of detail currently in BX’s

Day order rule.<sup>41</sup>

The Exchange is relocating rule text governing Good-Till-Canceled (“GTC”) orders from Options 3, Section 7(r) into Supplementary Material .02(b) to specify that orders may be entered with a TIF of GTC. The Exchange also proposes to include additional detail that GTC orders may be entered through FIX or Precise. This articulates current GTC behavior.

The Exchange is relocating rule text governing Good-Till-Date (“GTD”) orders from Options 3, Section 7(p) into Supplementary Material .02(c) to specify that orders may be entered with a TIF of GTD. The Exchange also proposes a number of changes that do not modify current GTD functionality, but are intended to align to the GTC rule described above. Today, GTC and GTD orders are intended to be functionally similar except GTC generally persists until it is cancelled by the Member and GTD generally persists until the assigned date. Accordingly, the Exchange seeks to add a similar level of detail to the GTD rule as it is proposing in the GTC rule above. First, the Exchange proposes to remove the word “limit” from the relocated GTD rule text. Similar to GTC orders, GTD orders can also be sent as Market Orders (in addition to Limit Orders) today. The proposed changes will therefore align the rule text with current functionality. Second, the Exchange proposes to add that GTD orders will be canceled in the event of a corporate action that results in an adjustment to the terms of an option contract. This language is copied from current GTC rule text and articulates current GTD behavior. Third, the Exchange proposes to include additional detail that GTD orders may be

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<sup>41</sup> See BX Options 3, Section 7(b)(3). BX’s rule does not refer to OTTO or Precise because BX does not offer these order entry ports today.

entered through FIX or Precise. This mirrors the proposed changes for GTC orders and articulates current GTD behavior.

The Exchange is relocating rule text governing IOC orders from Options 3, Section 7(b)(3) into Supplementary Material .02(d) to Options 3, Section 7 to specify that orders may be entered with a TIF of IOC. The Exchange also proposes a number of changes to conform the Exchange's IOC rule with that of BX. None of the proposed changes modify current Exchange IOC functionality. First, the Exchange proposes to remove the word "limit" from the relocated IOC rule text in Supplementary Material .02(d). Today, IOC orders may be sent as either a Market Order or Limit Order. Eliminating the word "limit" from the proposed IOC rule will therefore align the rule text with current functionality.<sup>42</sup> Second, the Exchange proposes to memorialize current IOC behavior in Supplementary Material .02(d)(1) by stating that orders entered with a TIF of IOC are not eligible for routing.<sup>43</sup> Third, the Exchange proposes to codify current IOC behavior in Supplementary Material .02(d)(2) by stating that IOC orders may be entered through FIX, OTTO, Precise, or SQF.<sup>44</sup>

Fourth, the Exchange proposes to note in the same section that an IOC order entered by a Market Maker through SQF will not be subject to the (A) Order Price

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<sup>42</sup> BX similarly allows both Market Orders and Limit Orders to be entered as IOC. See BX Options 3, Section 7(b)(2). The Exchange is not specifying Market and Limit Orders in the relocated IOC rule text for consistency with the other TIFs in proposed Supplementary Material .02 to Options 3, Section 7.

<sup>43</sup> See BX Options 3, Section 7(b)(2)(A) for identical language.

<sup>44</sup> See BX Options 3, Section 7(b)(2)(B) for substantially similar language. BX's rule does not refer to OTTO or Precise because BX does not offer these ports today.

Protection,<sup>45</sup> Market Order Spread Protection,<sup>46</sup> and Size Limitation Protection<sup>47</sup> as defined in Options 3, Section 15(a)(1)(A), (1)(B), and (2)(B), respectively, for single leg orders, or (B) Complex Order Price Protection<sup>48</sup> as defined in Options 3, Section 16(c)(1) for Complex Orders.<sup>49</sup> Today, the IOC rule explicitly excludes the Limit Order Price Protection (for single leg and Complex Orders) and Size Limitation Protection from applying to IOC orders entered through SQF. As discussed later in this filing, the current Limit Order Price Protection for single leg orders will be replaced by a similar risk management tool called the Order Price Protection that will be identical to BX, so the Exchange will likewise reflect that change in the proposed IOC rule. The proposed change to exclude the Market Order Spread Protection from applying to IOC orders

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<sup>45</sup> The current IOC rule references the Limit Order Price Protection as set forth in Options 3, Section 15(a)(1)(A). As discussed later in this filing, the Exchange is proposing to replace the existing Limit Order Price Protection with a similar risk management tool called Order Price Protection. See proposed Options 3, Section 15(a)(1)(A).

<sup>46</sup> Market Orders will be rejected if the NBBO is wider than a preset threshold at the time the order is received by the System. Market Order Spread Protection shall not apply to the Opening Process or during a trading halt. The Exchange may establish different thresholds for one or more series or classes of options. See Options 3, Section 15(a)(1)(B).

<sup>47</sup> There is a limit on the number of contracts an incoming order or quote may specify. Orders or quotes that exceed the maximum number of contracts are rejected. The maximum number of contracts, which shall not be less than 10,000, is established by the Exchange from time-to-time. See Options 3, Section 15(a)(2)(B).

<sup>48</sup> This risk protection is currently called the Limit Order Price Protection in Options 3, Section 16(c)(1). The Exchange will rename this risk protection in a subsequent filing to the Complex Order Price Protection.

<sup>49</sup> See BX Options 3, Section 7(b)(2)(B) for substantially similar language. BX's rule does not refer to the Complex Order Price Protection because BX does not offer complex functionality today.

entered through SQF is not a change to IOC current functionality, but rather, a change to align the rule with current System behavior and with BX IOC rule.<sup>50</sup>

The Exchange notes while it generally only permits orders (including IOC orders) to be entered into its three order entry protocols, FIX, OTTO, and Precise, it does permit the entry of IOC orders by Market Makers into its quote protocol, SQF. The Exchange has elected not to apply the specified risk protections on IOC orders entered through SQF as it does for IOC orders entered through FIX, OTTO, and Precise because only Market Makers utilize SQF to enter IOC orders. Market Makers are professional traders with their own risk settings. FIX, OTTO, and Precise, on the other hand, are utilized by all market participants who may not have their own risk settings, unlike Market Makers. Market Makers utilize IOC orders to trade out of accumulated positions and manage their risk when providing liquidity on the Exchange. The Exchange understands that proper risk management, including using these IOC orders to offload risk, is vital for Market Makers, and allows them to maintain tight markets and meet their quoting and other obligations to the market. Market Makers handle a large amount of risk when quoting and in addition to the risk protections required by the Exchange, Market Makers utilize their own risk management parameters when entering orders, minimizing the likelihood of a Market Maker's erroneous order from being entered. The Exchange believes that Market Makers, unlike other market participants, have the ability to manage their risk when submitting IOC orders through SQF and should be permitted to elect this method of order entry to obtain efficiency and speed of order entry, particularly in light of the quoting obligations that the Exchange imposes on these participants, unlike other market

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<sup>50</sup> See BX Options 3, Section 7(b)(2)(B).

participants.<sup>51</sup> The Exchange believes that allowing Market Makers to submit IOC orders through their preferred protocol increases their efficiency in submitting such orders and thereby allows them to maintain quality markets to the benefit of all market participants that trade on the Exchange. For the foregoing reasons, the Exchange has opted to not offer the Order Price Protection, Market Order Spread Protection, and Size Limitation (for single leg orders), or the Complex Order Price Protection (for Complex Orders), for IOC orders entered through SQF because Market Makers have more sophisticated infrastructures than other market participants and are able to manage their risk.

The Exchange also proposes to add substantially similar language in Supplementary Material .03(c), which governs the SQF protocol. Specifically, the Exchange proposes to add: “Immediate-or-Cancel Orders entered into SQF are not subject to the (i) Order Price Protection, Market Order Spread Protection, and Size Limitation Protection in Options 3, Section 15(a)(1)(A), (1)(B), and (2)(B) respectively, for single leg orders, or (ii) Complex Order Price Protection as defined in Options 3, Section 16(c)(1) for Complex Orders.” Adding these exceptions to the SQF rule as well as the IOC rule will make clear that these order protections will not apply to IOC orders entered through SQF.

The Exchange further proposes to specify in Supplementary Material .02(d)(3) that Block Orders, Facilitation Orders, Complex Facilitation Orders, SOM Orders, Complex SOM Orders, PIM Orders, Complex PIM Orders, QCC Orders, QCC Complex Orders, Customer Cross Orders, and Customer Cross Complex Orders are considered to

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<sup>51</sup> See Options 2, Section 5(e).

have a TIF of IOC. By their terms, these orders will be: (1) executed either on entry or after an exposure period, or (2) cancelled.<sup>52</sup> The proposed changes in Supplementary Material .02(d)(3) memorialize current System behavior and are intended to bring greater transparency in how these order types operate today.

The Exchange is relocating rule text governing OPG orders from Options 3, Section 7(o) into Supplementary Material .02(e) to specify that orders may be entered with a TIF of OPG. The Exchange also proposes a number of changes to conform the Exchange's OPG rule with that of BX. Other than as specified below, the proposed changes do not modify current Exchange OPG functionality. The Exchange proposes to remove the word "limit" from the relocated OPG rule text in Supplementary Material .02(e) in order to reflect that the Exchange will now allow both Market and Limit OPG Orders. As noted above, this is a proposed functionality change to align with current BX OPG functionality.<sup>53</sup> The Exchange also proposes non-substantive changes to replace the current references to the opening rotation with the term "Opening Process" as defined in Options 3, Section 8. The Exchange further proposes to codify current OPG behavior by stating that OPG orders may not route.<sup>54</sup> Lastly, the Exchange proposes to memorialize current OPG behavior by indicating that OPG orders are not subject to any protections listed in Options 3, Section 15, except Size Limitation.<sup>55</sup> Today, the Exchange does not

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<sup>52</sup> See BX Options 3, Section 7(b)(2)(C) for substantially similar language for PRISM orders.

<sup>53</sup> See BX Options 3, Section 7(b)(1).

<sup>54</sup> See BX Options 3, Section 7(b)(1) for identical language.

<sup>55</sup> Id.

apply any of the risk protections in Options 3, Section 15 (except Size Limitation) because the Opening Process itself has boundaries within which orders will be executed.<sup>56</sup>

### **Opening Process**

In connection with the technology migration, the Exchange proposes several enhancements to its Opening Process in Options 3, Section 8. The Exchange first proposes to remove the current limitation that only allows routable Public Customer<sup>57</sup> interest to route during the Opening Process. Instead, all routable market participant interest will be allowed to route to align the Exchange's opening functionality with BX.<sup>58</sup> Like BX, the Exchange believes that it will be beneficial to provide all market participants with the opportunity to have their interest executed on away markets during the Opening Process. To effectuate the foregoing, the Exchange proposes to amend

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<sup>56</sup> See Options 3, Section 8.

<sup>57</sup> The term "Public Customer" means a person or entity that is not a broker or dealer in securities. See Option 1, Section 1(a)(42).

<sup>58</sup> See BX Options 3, Section 8. See also Securities Exchange Act Release No. 89731 (September 1, 2020), 85 FR 55524 (September 8, 2020) (SR-BX-2020-016) (noting throughout that BX permits all market participants to route during its Opening Process). At the end of the Opening Process, pursuant to ISE Options 3, Section 8(j)(6) and subsection (A), the System will execute orders at the Opening Price that have contingencies (such as, without limitation, Reserve Orders) and non-routable orders, such as a 'Do-Not-Route' or 'DNR' Orders, to the extent possible. The System will only route non-contingency Public Customer orders, except that Public Customer Reserve Orders may route up to their full volume. For contracts that are not routable, pursuant to ISE Options 3, Section 8(j)(6), such as DNR Orders and orders priced through the Opening Price, the System will cancel (1) any portion of a Do-Not-Route order that would otherwise have to be routed to the exchange(s) disseminating the ABBO for an opening to occur, or (2) any order or quote that is priced through the Opening Price. All other interest will be eligible for trading after opening.



Options 3, Section 8(b) to remove the sentence providing that only Public Customer interest is routable during the Opening Process. The Exchange further proposes to make a related change in Options 3, Section 8(i)(7), which currently provides that the System will route routable Public Customer interest pursuant to Options 3, Section 10(c)(1)(A). Specifically, the Exchange proposes to remove the reference to Public Customer to indicate all routable interest will route in accordance with the Exchange's priority rule. The Exchange will also update the cross-cite to Options 3, Section 10(c)(1)(A), currently pointing to the Priority Customer priority overlay, to the more general priority rule in Options 3, Section 10(c). The Exchange further proposes to amend Options 3, Section 8(j)(6) to remove the references to "Public Customer." As amended, Section 8(j)(6) will provide: "The System will execute orders at the Opening Price that have contingencies (such as, without limitation, Reserve Orders) and non-routable orders, such as "Do-Not-Route" or "DNR" Orders, to the extent possible. The System will only route non-contingency orders, except that Reserve Orders may route up to their full volume."

In addition, the Exchange proposes to amend Options 3, Section 8(g)(1), which currently describes how the Potential Opening Price would be calculated when there is more than one Potential Opening Price.<sup>59</sup> Today, Section 8(g)(1) provides that when two or more Potential Opening Prices would satisfy the maximum quantity criterion and leave no contracts unexecuted, the System takes the highest and lowest of those prices and takes the mid-point; if such mid-point is not expressed as a permitted minimum price variation, it will be rounded to the minimum price variation that is closest to the closing

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<sup>59</sup> The Potential Opening Price indicates a price where the System may open once all other Opening Process criteria is met.

price for the affected series from the immediately prior trading session. If there is no closing price from the immediately prior trading session, the System will round up to the minimum price variation to determine the Opening Price. The Exchange now proposes to no longer round in the direction of the previous trading day's closing price and simply round up to the minimum price variation if the mid-point of the high/low is not expressed as a permitted minimum price variation. The proposed changes are intended to simplify and bring greater transparency to the Opening Process, as market participants can now have a better sense of how the Potential Opening Price will be calculated without having to account for the closing price of each options series.

The Exchange further proposes to amend Options 3, Section 8(i)(3), which currently describes the determination of Opening Quote Range ("OQR") boundaries in certain scenarios.<sup>60</sup> Specifically, the Exchange proposes to replace "are marketable against the ABBO" with "cross the ABBO" to more precisely describe the specified scenario within in this rule. The Exchange notes that this is not a System change, but rather a clarifying change around the applicability of the rule text. Lastly, the Exchange proposes a non-substantive change in paragraph (j)(3)(B) of Options 3, Section 8 to remove the extra instance of "which is" from the second sentence.

## **Auction Mechanisms**

### ***Facilitation and Solicited Order Mechanisms***

The Exchange first proposes to make clarifying changes in Options 3, Section 11 (Auction Mechanisms). Today, Supplementary Material .02 to Options 3, Section 11

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<sup>60</sup> OQR is an additional type of boundary used in the Opening Process, and is intended to limit the opening price to a reasonable, middle ground price, thus reducing the potential for erroneous trades during the Opening Process.

states that Responses<sup>61</sup> represent non-firm interest that can be canceled at any time prior to execution, and that Responses are not displayed to any market participants. The Exchange now proposes a non-substantive change to relocate this language into the introductory paragraph of Options 3, Section 11 after the definition of “Response” for better readability. The Exchange also proposes to add “or modified” after the “canceled” to indicate that auction Responses may be canceled or modified at any time prior to execution. This is not a change to current System behavior, but rather a clarification that better aligns the rule text to existing functionality. The Exchange also notes that the rules for the complex Facilitation and Solicited Order Mechanisms in Options 3, Sections 11(c)(7) and (e)(4), respectively, already provide for this concept.<sup>62</sup>

#### ***Price Improvement Mechanism***

The Exchange proposes a number of changes to Options 3, Section 13 (Price Improvement Mechanism for Crossing Transactions), some of which are System changes to align with existing BX Price Improvement Mechanism (“BX PRISM”) functionality and others that are non-System changes that add greater clarity to current PIM behavior. The Exchange proposes to amend Options 3, Section 13(b)(4) to add clarifying rule text to the current sentence, which states, “The Crossing Transaction<sup>63</sup> may not be canceled,

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<sup>61</sup> For purposes of Options 3, Section 11, a “Response” means an electronic message that is sent by Members in response to a broadcast message. A “broadcast message” is an electronic message sent by the Exchange to all Members upon entry of an order into one of the auction mechanisms listed within Options 3, Section 11 (i.e., Block, Facilitation, or Solicited Order Mechanisms).

<sup>62</sup> Specifically, these provisions state that 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.

<sup>63</sup> A “Crossing Transaction” is comprised of the order the Electronic Access

but the price of the Counter-Side Order may be improved during the exposure period.” The Exchange proposes to add “or modified” after the word “canceled” to make clear that the Crossing Transaction may not be canceled or modified, but the Counter-Side Order may be improved during the exposure period. This proposed change would not amend the current System, rather it would bring greater clarity to the rule text that modifications are not permitted unless the Counter-Side Order is being improved during the exposure period.

The Exchange proposes to add rule text within Options 3, Section 13(b)(5) which states, “Crossing Transactions submitted at or before the opening of trading are not eligible to initiate an auction and will be rejected.” The Exchange notes that this rule text represents current System behavior. BX has a similar provision within BX Options 3, Section 13(i)(E). The Exchange notes that this rule text will bring greater clarity to when a Crossing Transaction would be eligible to initiate a PIM.

The Exchange proposes to amend the current PIM functionality within Options 3, Section 13(c)(3). Today, during the exposure period, Improvement Orders<sup>64</sup> may not be canceled, however, Improvement Orders may be modified to (i) increase the size at the same price, or (ii) improve the price of the Improvement Order for any size up to the size of the Agency Order. The Exchange proposes to amend this functionality so that Improvement Orders may be canceled or modified similar to functionality on BX PRISM

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Member represents as agent (the "Agency Order") and a counter-side order for the full size of the Agency Order (the "Counter-Side Order"). See Options 3, Section 13(b).

<sup>64</sup> Improvement Orders are responses entered by Members to indicate the size and price at which they want to participate in the execution of the Agency Order. See Options 3, Section 13(c)(1).

today within BX Options 3, Section 13(ii)(A)(8). The modification and cancellation of an Improvement Order through OTTO will be similar to the manner in which a Cancel and Replace Order<sup>65</sup> would be handled outside of the auction process. For Improvement Orders through SQF, the modification and cancellation of such orders will be handled by sending new Improvement Orders that overwrite the existing Improvement Order with updated price/quantity instructions.

Next, the Exchange proposes to amend Options 3, Section 13(d)(5), which currently states, “If a trading halt is initiated after an order is entered into the Price Improvement Mechanism, such auction will be automatically terminated without execution.” The Exchange proposes to instead provide, “If a trading halt is initiated after an order is entered into the Price Improvement Mechanism, such auction will be automatically terminated with execution solely with the Counter-Side Order.” In the event of a trading halt, since the Counter-Side Order has guaranteed that an execution will occur at the same price as the Crossing Transaction or better, and Improvement Orders offer no such guarantee, the Counter-Side Order is the only valid price at which to

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<sup>65</sup> Cancel and Replace Orders shall mean a single message for the immediate cancellation of a previously received order and the replacement of that order with a new order. If the previously placed order is already filled partially or in its entirety, the replacement order is automatically canceled or reduced by the number of contracts that were executed. The replacement order will retain the priority of the cancelled order, if the order posts to the Order Book, provided the price is not amended, size is not increased, or in the case of Reserve Orders, size is not changed. If the replacement portion of a Cancel and Replace Order does not satisfy the System's price or other reasonability checks (e.g. Options 3, Section 15(b)(1)(A) and (b)(1)(B); and Supplementary Material .07 (a)(1)(A), (b) and (c)(1) to Options 8, Section 14) the existing order shall be cancelled and not replaced. See Supplementary Material .02 to Options 3, Section 7 (as described above, the current definition will be moved to proposed Options 3, Section 7(f) with no substantive changes).

execute the Crossing Transaction. This is similar to functionality on BX PRISM at BX Options 3, Section 13(ii)(C).<sup>66</sup>

The Exchange also proposes a System change to adopt a new same side execution price check for PIM, which will be described in new subsection (d)(6) of Options 3, Section 13 and will be functionally identical to BX PRISM. As proposed, Options 3, Section 13(d)(6) will provide that if the PIM execution price would be the same or better than an order on the limit order book on the same side of the market as the Agency Order, the Agency Order may only be executed at a price that is at least \$0.01 better than the resting order's limit price. If such resting order's limit price is equal to or crosses the initiating Crossing Transaction price, then the entire Agency Order will trade at the initiating Crossing Transaction price with all better priced counter-side interest being considered for execution at the initiating Crossing Transaction price. As noted above, this price check will be functionally identical to the same side execution price check on BX PRISM today.<sup>67</sup> Like BX, the proposed price check is designed to ensure that the

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<sup>66</sup> BX Options 3, Section 13(ii)(C) provides that if the situations described in subparagraphs (B)(2) or (3) above occur, the entire PRISM Order will be executed at: (1) in the case of the BX BBO crossing the PRISM Order stop price, the best response price(s) or, if the stop price is the best price in the Auction, at the stop price, unless the best response price is equal to or better than the price of a limit order resting on the Order Book on the same side of the market as the PRISM Order, in which case the PRISM Order will be executed against that response, but at a price that is at least \$0.01 better than the price of such limit order at the time of the conclusion of the Auction; or (2) in the case of a trading halt on the Exchange in the affected series, the stop price, in which case the PRISM Order will be executed solely against the Initiating Order. Any unexecuted PAN responses will be cancelled.

<sup>67</sup> BX Options 3, Section 13(ii)(I) provides that if the execution price of the PRISM Auction would be the same or better than an order on the limit order book on the same side of the market as the PRISM Order, the PRISM Order may only be executed at a price that is at least \$0.01 better than the resting order's limit price.

Exchange would not trade at prices that would lock or cross interest on the same side of the market as the Agency Order where limit orders have rested and obtained priority to execute at that price. In the event where a limit order arrives on the same side of the market as the Agency Order and is at the same or better price than the initiating Crossing Transaction price, the Exchange would execute the entire PIM order at the initiating Crossing Transaction price. The execution takes place at this price because the PIM is guaranteed an execution and the PIM agency side instructions would not allow an execution to take place at a higher (lower) price than submitted for a buying (selling) agency side PIM order. Considering that the limit order has arrived either at or better on the same side as the Agency Order than the agency side price, the initiating Crossing Transaction price is the only price at which the guaranteed execution can take place. The following examples illustrate how the proposed PIM execution price check would work:

***Example: PIM executes with Improvement Order at \$0.01 better than a limit order on the same side of the market as the Agency Order***

Firm Limit order to buy @ 1.40 arrives prior to the PIM auction beginning

ISE BBO: 1.40 x 2.00

PIM Agency Order to buy 20 @ 1.50 arrives with an auto-match price of 1.50 indicated  
PIM Improvement Order<sup>68</sup> to sell 20 @ 1.40 arrives

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If such resting order's limit price is equal to or crosses the stop price, then the entire PRISM Order will trade at the stop price with all better priced interest being considered for execution at the stop price.

<sup>68</sup> “Improvement Orders” are responses sent by Members during the PIM’s exposure period in response to the PIM that indicate the size and price at which they want to participate in the execution of the Agency Order. See Options 3, Section 13(c)(1).

Auction concludes after timer and PIM Agency Order trades 20 with PIM Improvement Order @ 1.41; the Counter-Side Order<sup>69</sup> cancels

***Example: PIM executes at Agency Price with all better priced interest when limit order on same side equals or crosses the initiating Crossing Transaction price***

Assume ISE BBO: 1.00 x 2.00

PIM Agency Order to buy 20 @ 1.50 arrives with an auto-match price of 1.50 indicated  
 PIM Improvement Order to sell 20 @ 1.40 arrives  
 During the exposure period, Firm Limit order to buy @ 1.50 arrives

Auction concludes after timer and PIM Agency Order trades 12 with PIM Improvement Order @ 1.50 and 8 with the Counter-Side Order @ 1.50 (i.e., the guaranteed execution price) because all better priced interest must trade at the initiating Crossing Transaction price when the limit order on the same side equals or crosses the initiating Crossing Transaction price.<sup>70</sup> The remainder of the Counter-Side Order and the remainder of the PIM Improvement Order cancel. The execution takes place at 1.50 because the PIM is guaranteed an execution, and the PIM agency side instructions would not allow an execution to take place at a higher price than the submitted 1.50 buying price for the agency side PIM order.

Further, the Exchange proposes amendments to Complex PIM, some of which are similar to the amendments proposed for simple PIM. Similar to simple PIM, the Exchange proposes to amend Options 3, Section 13(e)(4)(ii) to state, “During the exposure period, Improvement Complex Orders may be canceled or modified.”<sup>71</sup> The Exchange proposes to amend this functionality so that Improvement Orders may be

<sup>69</sup> The “Counter-Side Order” is the counter-side order for the full size of the Agency Order that is entered into the PIM by the initiating Electronic Access Member. See Options 3, Section 13(b).

<sup>70</sup> The order is allocated pursuant to Options 3, Section 13(d)(3) where the Counter-Side Order will be allocated the greater of 1 contract or 40%, which, in this case, equates to 8 contracts out of the 20 contracts. Thus, in this case, the Improvement Order is allocated 12 contracts to fully execute the 20 contracts of the original PIM Agency Order.

<sup>71</sup> Options 3, Section 13(e)(4)(ii) currently states, “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.”



canceled or modified similar to functionality on BX today within BX Options 3, Section 13(ii)(A)(8).<sup>72</sup>

The Exchange also proposes to relocate the last sentence of Options 3, Section 13(e)(3) into Options 3, Section 13(e)(4)(iv) at new “(E)”. The Exchange proposes similar rule text within simple PIM to indicate that an exposure period would automatically terminate if a trading halt is initiated after the order is entered into a Complex PIM. The relocation would add the rule text to a more logical place within the Complex PIM rule.

The Exchange further proposes in the same rule to memorialize another scenario in which the exposure period for a Complex PIM would early terminate today. Specifically, the Exchange proposes to amend Options 3, Section 13(e)(4)(iv) at new “(D)” to provide that the exposure period will automatically terminate when a resting Complex Order in the same complex strategy on either side of the market becomes marketable against the Complex Order book or bids and offers for the individual legs. The Exchange believes that the proposed codification will detail for market participants the situations in which early termination would occur for Complex PIMs today, and align the Exchange’s rules with current System behavior. The Exchange notes that the exposure period for a Complex Order Exposure likewise early terminates today when a resting Complex Order becomes marketable against the Complex Order book or bids and

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<sup>72</sup> BX Options 3, Section 13(ii)(A)(8) provides that a PAN response must be equal to or better than the displayed NBBO at the time of receipt of the PAN response. PAN responses may be modified or cancelled during the Auction. A PAN response submitted with a price that is outside the NBBO will be rejected.

offers for the individual legs.<sup>73</sup> Accordingly, the proposed language closely tracks existing Complex Order Exposure language. The Exchange believes that it is appropriate to early terminate Complex PIM under these circumstances for the following reasons. When the resting Complex Order is on the same side as the Agency Complex Order, interest that becomes marketable against the resting Complex Order would also be marketable against the Complex PIM order. Therefore, early terminating the Complex PIM would allow the Complex PIM order to interact with this interest given that the Complex PIM order is at a superior price compared to the resting Complex Order, thus providing an opportunity for price improvement for the Agency Complex Order. Additionally, when the resting Complex Order is on the opposite side of the Agency Complex Order, interest that arrives marketable against the resting Complex Order is now at a superior price to the Agency Complex Order. The Exchange would therefore early terminate in this scenario and execute the Complex PIM order with its contra side order because it is no longer at top of book.

The Exchange also proposes to codify existing System behavior in the Complex PIM rule at Options 3, Section 13(e)(5), which currently provides that when a marketable Complex Order on the opposite side of the Agency Complex Order ends the exposure

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<sup>73</sup> Supplementary Material .01(b)(ii) of ISE Options 3, Section 14 provides that the exposure period for a Complex Order will end immediately: (A) upon the receipt of a Complex Order 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; (B) upon the receipt of a non-marketable Complex Order 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; or (C) when a resting Complex Order for the same complex strategy on either side of the market becomes marketable against interest on the Complex Order book or bids and offers for same individual legs of the complex strategy.

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. Specifically, the Exchange proposes to add that transactions will be rounded, when necessary, to the \$0.01 increment that favors the Agency Complex Order. As noted above, this is not a functionality change, but rather is intended to better articulate current System behavior. The Exchange also notes that the simple PIM rule already articulates that the mid-way price will be rounded to the \$0.01 increment that favors the Agency Order in Options 3, Section 13(d)(4). The rounding for Complex PIM currently operates the same way as simple PIM in this respect, so the proposed Complex PIM language closely tracks the simple PIM language.

Finally, the Exchange proposes to amend Supplementary Material .02 to Options 3, Section 13 to add the following sentence: “It will be considered a violation of this Rule and will be deemed conduct inconsistent with just and equitable principles of trade and a violation of Options 9, Section 1 if an Electronic Access Member submits a PIM Order (initiating an auction) and also submits its own Improvement Order in the same auction.” BX has a similar prohibition within BX Options 3, Section 13(iii). The proposed new rule is intended to provide guidance to Members where certain behavior within a PIM will not be considered a bona fide transaction.

### **Order Price Protection**

The Exchange currently has a Limit Order Price Protection in Options 3, Section 15(a)(1)(A), which is a “fat finger” check designed to address risks to market participants

of human error in entering certain orders at unintended prices. Specifically, there is a limit on the amount by which incoming limit orders to buy may be priced above the Exchange's best offer and by which incoming limit orders to sell may be priced below the Exchange's best bid. Limit orders that exceed the pricing limit are rejected. The limit is established by the Exchange from time-to-time for orders to buy (sell) as the greater of the Exchange's best offer (bid) plus (minus): (i) an absolute amount not to exceed \$2.00, or (ii) a percentage of the Exchange's best bid/offer not to exceed 10%.

The Exchange proposes to replace the existing risk protection with an Order Price Protection ("OPP") that would similarly prevent the execution of limit orders at prices outside pre-set parameters. The proposed OPP will be functionally similar to the OPP functionality currently offered by BX.<sup>74</sup> In particular, proposed Options 3, Section 15(a)(1)(A) will provide that OPP is a feature of the System that prevents limit orders at prices outside of pre-set standard limits from being accepted by the System. Further, OPP will reject incoming orders that exceed certain parameters according to the following algorithm set forth in proposed Options 3, Section 15(a)(1)(A)(ii):

- (a) If the better of the NBBO or the internal market BBO (the "Reference BBO") on the contra-side of an incoming order is greater than \$1.00, orders with a limit more than the greater of the below will cause the order to be rejected by the System upon receipt.

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<sup>74</sup> BX's OPP is currently memorialized in BX Options 3, Section 15(a)(1), which provides that OPP is a feature of the System that prevents certain day limit, good til cancelled, and immediate or cancel orders at prices outside of pre-set standard limits from being accepted by the System. BX's rule also provides that OPP applies to all options but does not apply to market orders. As described above, the Exchange is proposing to adopt an OPP rule that more accurately describes this functionality than BX's current OPP rule. BX will file a separate rule change to conform its OPP rule with the Exchange's proposed rule text.

- (1) 50% less (greater) than such contra-side Reference Best Bid (Offer);  
or
  - (2) a configurable dollar amount not to exceed \$1.00 less (greater) than such contra-side Reference Best Bid (Offer) as specified by the Exchange announced via an Options Trader Alert.
- (b) If the Reference BBO on the contra-side of an incoming order is less than or equal to \$1.00, orders with a limit more than the greater of the below will cause the order to be rejected by the System upon receipt.
- (1) 100% less (greater) than such contra-side Reference Best Bid (Offer);  
or
  - (2) a configurable dollar amount not to exceed \$1.00 less (greater) than such contra-side Reference Best Bid (Offer) as specified by the Exchange announced via an Options Trader Alert.

The proposed OPP will be calculated using the better of the NBBO or the internal market BBO (i.e., the Reference BBO) instead of the Exchange BBO as currently used today, which will align to current BX functionality.<sup>75</sup> Like BX, the Exchange believes that calculating OPP on the basis of the better of the NBBO or the internal market BBO protects investors and the public interest where the internal market BBO is better than the NBBO. In addition, the proposed OPP parameters will be the greater of a percentage threshold or fixed dollar amount, similar to today's limit order price protection that uses the greater of a percentage or fixed dollar threshold. The proposed parameters are identical to BX's OPP.<sup>76</sup> The Exchange believes that the proposed algorithm for OPP would continue to provide a reasonable limit to the range where orders will be accepted.

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<sup>75</sup> See BX Options 3, Section 15(a)(1)(B).

<sup>76</sup> Id. The Exchange will initially set the fixed dollar configuration at \$0.05, identical to BX.

As set forth in proposed Options 3, Section 15(a)(1)(A)(i), OPP will be operational each trading day after the opening until the close of trading, except during trading halts, which will be identical to current functionality.<sup>77</sup> The Exchange also proposes in this paragraph to add identical language as BX, which will provide the Exchange with discretion to temporarily deactivate OPP from time to time on an intra-day basis if it is determined that unusual market conditions warranted deactivation in the interest of a fair and orderly market. Like BX, the Exchange believes that it will be useful to have the flexibility to temporarily disable OPP intra-day in response to an unusual market event (for example, if dissemination of data was delayed and resulted in unreliable underlying values needed for the Reference BBO). Members would be notified of intra-day OPP deactivation and any subsequent reactivation by the Exchange through the issuance of System status messages. Specifically, the Exchange proposes to add in Options 3, Section 15(a)(1)(A)(i) that OPP may be temporarily deactivated on an intra-day basis at the Exchange's discretion.

The following examples illustrate the application of the proposed OPP thresholds:

***Example: An option priced less than or equal to \$1.00***

For a penny MPV option with a BBO on ISE of \$0.01 x \$0.02, consider that the configurable dollar amount is set to \$0.05

If the incoming order was less than \$1.00, and the Reference BBO is the internal market BBO, the System will reject buy orders priced higher than the greater of (i) \$0.04 (100% greater than the contra-side Reference Best Offer of \$0.02) or (ii) \$0.07 (\$0.02 offer + \$0.05 configuration)

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<sup>77</sup> See Options 3, Section 15(a)(1)(A) (currently providing that the limit order price protection does not apply to the opening process or during a trading halt).

***Example: An option priced greater than \$1.00***

For a penny MPV option with a BBO on ISE of \$1.01 x \$1.02, consider that the configurable dollar amount is set to \$0.05

If the incoming order was more than \$1.00, and the Reference BBO is the internal market BBO, the System will reject buy orders priced higher than the greater of (i) \$1.53 (50% greater than the contra-side Reference Best Offer of \$1.02) or (ii) \$1.07 (\$1.02 offer + \$0.05 configuration)

**Post-Only Quoting Protection**

The Exchange proposes to adopt an optional quoting protection for Market Makers that will be identical to current BX functionality.<sup>78</sup> This optional risk protection would allow Market Makers to prevent their quotes from removing liquidity from the Exchange's order book upon entry.

Specifically, the Exchange proposes to adopt the new risk protection in Options 3, Section 15(a)(3)(C). As proposed, Market Makers may elect to configure their SQF protocols to prevent their quotes from removing liquidity ("Post-Only Quote Configuration"). A Post-Only Quote Configuration would re-price or cancel a Market Maker's quote that would otherwise lock or cross any resting order or quote<sup>79</sup> on the order book upon entry. Market Makers may elect whether to re-price or cancel their quotes with this functionality. When configured for re-price, quotes would be re-priced and displayed by the System to one MPV below the current best offer (for bids) or above the current best bid (for offers). Notwithstanding the aforementioned, if a quote with a

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<sup>78</sup> See BX Options 3, Section 15(c)(3).

<sup>79</sup> This would include any re-priced orders as described in the Re-Pricing Filing as proposed Options 3, Section 5(d), ALOs as described in proposed Options 3, Section 7(n), and any re-priced quotes as described in Options 3, Section 4(b)(6). As described above, ALOs may re-price.

Post-Only Quote Configuration would not lock or cross an order or quote on the System but would lock or cross the NBBO, the quote will be handled pursuant to Options 3, Section 4(b)(6).<sup>80</sup> When configured for cancel, Market Makers will have their quotes cancelled whenever the quote would lock or cross the NBBO or be placed on the book at a price other than its limit price. Finally, the Exchange notes that similar to BX, this risk protection will not apply during an Opening Process because the order book is established once options series are open for trading.

Below are some examples of the Post-Only Quote Configuration functionality.

#### **Re-priced Post-Only Quote Configuration – Penny Interval Program Display and Execution Example**

- Penny Interval Program MPV in open trading state
- Market Makers A and C do not have Post-Only Quote Configuration risk protection configured
- Market Maker B is configured for Post-Only Quote Configuration re-price
- Market Maker A quote \$0.98 (10) x \$1.00 (10)
- ABBO \$0.96 x \$1.03
- Market Maker B quote \$1.00 (10) x \$1.01 (10) arrives
  - Bid side of quote re-prices onto order book @ 0.99 and sets displayed NBBO to 10 quantity
  - Offer side rests at 1.01 without issue
- Market Maker C quote \$0.97 (20) x \$0.98 (20) arrives
  - Trades 10 with Market Maker B @ \$0.99 and 10 with Market Maker A @ \$0.98

Market Maker B avoids taking liquidity while Market Maker C, who chose not to be configured for such, removes liquidity by interacting with re-priced interest on ISE's order book.

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<sup>80</sup> Options 3, Section 4(b)(6) provides that a quote will not be executed at a price that trades through another market or displayed at a price that would lock or cross another market. If, at the time of entry, a quote would cause a locked or crossed market violation or would cause a trade-through violation, it will either be re-priced and displayed at one minimum price variance above (for offers) or below (for bids) the national best price, or immediately cancelled, as configured by the Member.



### **Re-priced Post-Only Quote Configuration – Non-Penny Interval Program Display and Execution Example**

- Non-Penny Interval Program MPV in open trading state
- Market Maker A quote \$0.95 (10) x \$1.00 (10)
- ABBO \$0.85 x \$1.05
- Market Maker B (configured for Post-Only Quote Configuration and selection of re-price upon quote) quote arrives \$1.00 (5) x \$1.05 (5)
  - Bid side quote re-prices on order book to \$0.95
  - Displays on order book @ \$0.95 (bid), which now shows (15 quantity)
  - Offer side quote books and displays in Depth of Market Feed at \$1.05
- Order to sell 10 contracts arrives @ \$0.95
  - 7 contracts execute with Market Maker A @ \$0.95
  - 3 contracts execute with Market Maker B @ \$0.95

In this example, the Market Maker avoided taking liquidity by deploying the Post-Only Quote Configuration with re-price.

### **Kill Switch**

As set forth in Options 3, Section 17, the Exchange offers an order cancellation Kill Switch, which is an optional tool that allows Members to initiate a message to the System to promptly cancel and restrict their order activity on the Exchange, or across both the Exchange and its affiliate, Nasdaq GEMX, LLC. Members may submit a Kill Switch request to the System for certain identifier(s) (“Identifier”) on either a user or group level.<sup>81</sup> Today, Members can log in through a graphical user interface (“GUI”) to send a message to the Exchange to initiate the order cancellation Kill Switch.<sup>82</sup> As an alternative to the GUI Kill Switch, Members may also send a message through one of the Exchange’s order entry ports (i.e., FIX, Precise, and OTTO) to initiate the order

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<sup>81</sup> Identifiers include Exchange accounts, ports, and/or mnemonics. Thus, a Member using Kill Switch may elect to cancel orders for an individual Identifier (e.g., mnemonic) or any group of Identifiers (e.g., all mnemonics within one Member firm). Permissible groups must reside within a single Member firm. See Options 3, Section 17(a).

<sup>82</sup> See Options 3, Section 17(a)(2)

cancellation Kill Switch.<sup>83</sup> Once a Member initiates the Kill Switch (either through the GUI or an order entry port), it will result in the cancellation of all existing orders for the requested Identifier(s). The Member will be unable to enter any additional orders for the affected Identifier(s) until the Member sends a re-entry request to the Exchange.<sup>84</sup>

Due to the lack of demand for the GUI Kill Switch by Members, the Exchange proposes to decommission this optional tool with the planned technology migration.<sup>85</sup> With the proposed changes, the Exchange seeks to streamline its product offerings and to reallocate Exchange resources to other business and risk management initiatives. While the Exchange will no longer offer this optional risk protection to Members through the GUI, it will continue to offer this functionality through FIX, Precise, and OTTO.

In addition, all Members may contact the Exchange's market operations staff to request that the Exchange cancel any of their existing bids, offers, or orders in any series of options.<sup>86</sup> Furthermore, the Exchange will continue to have System-enforced risk mechanisms that automatically remove orders for the Member once certain pre-set thresholds or conditions are met. This includes risk protections such as the market wide risk protection<sup>87</sup> and cancel on disconnect.<sup>88</sup>

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<sup>83</sup> See Options 3, Section 17(a)(1).

<sup>84</sup> See Options 3, Section 17(a)(3).

<sup>85</sup> No Members have used the GUI Kill Switch for order cancellation in 2022. The Exchange will provide prior notice of the decommission to Members via Options Trader Alert.

<sup>86</sup> See Options 3, Section 19.

<sup>87</sup> The market wide risk protection automatically removes Member orders when certain firm-set thresholds are met. Once the thresholds are triggered, the Member must send a re-entry indicator to re-enter the System. See Options 3,

To effect the proposed decommission of the GUI Kill Switch for order cancellation, the Exchange proposes to amend Options 3, Section 17 by eliminating paragraph (a)(2) and related cross-cites within this rule. The Exchange will also renumber the paragraphs in this rule accordingly.

The Exchange notes that it previously amended its rules to decommission the quote removal Kill Switch that was available to Market Makers through the GUI.<sup>89</sup> The Exchange noted in SR-ISE-2021-19 that Market Makers did not use the GUI Kill Switch to remove their quotes, but rather, utilized other means such as the mass purge request through SQF. In this case, the Exchange similarly notes that no Members use the GUI Kill Switch to cancel their orders but rather, utilize other means like the port Kill Switch through FIX, Precise and OTTO to purge their existing orders from the System. As such, the Exchange believes that eliminating the GUI Kill Switch all together (including for orders as proposed herein) will streamline the Exchange's risk protection offerings in a manner that reflects Member use.

### **Data Feeds and TradeInfo**

In connection with the technology migration, the Exchange proposes a number of enhancements to its current data feed offerings in Options 3, Section 23(a), many of

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Section 15(a)(1)(C).

<sup>88</sup> When the OTTO or FIX Port detects the loss of communication with a Member's Client Application because the Exchange's server does not receive a Heartbeat message for a certain time period ("nn" seconds), the Exchange will automatically logoff the Member's affected Client Application and if the Member has elected to have its orders cancelled pursuant to Section 18(f) (for OTTO) or Section 18(g) (for FIX) automatically cancel all orders. See Options 3, Section 18(c) and (d).

<sup>89</sup> See Securities Exchange Act Release No. 93017 (September 16, 2021), 86 FR 52700 (September 22, 2021) (SR-ISE-2021-19).

which are intended to conform with current BX functionality, as specified below.

As set forth in Options 3, Section 23(a)(1), the Exchange offers the Nasdaq ISE Depth of Market Data Feed (“Depth of Market Feed”), which currently provides aggregate quotes and orders at the top five price levels on ISE, and provides subscribers with a consolidated view of tradable prices beyond the BBO, showing additional liquidity and enhancing transparency for ISE traded options. The data provided for each option series includes the symbols (series and underlying security), put or call indicator, expiration date, the strike price of the series, and whether the option series is available for trading on the Exchange and identifies if the series is available for closing transactions only. In addition, subscribers are provided with total aggregate quantity, Public Customer aggregate quantity, Priority Customer aggregate quantity, price, and side (i.e., bid/ask). This information is provided for each of the top five price levels on the Depth Feed. The feed also provides order imbalances on opening/reopening.

The Exchange now proposes to no longer provide book information for the top five price levels, and instead provide full depth-of-book information. As such, the Exchange will delete language that relates to top five price level information in the rule text. The Exchange also proposes to add more specificity around what would be provided in the opening/reopening order imbalance information (namely, the size of matched contracts and size of the imbalance). The proposed changes will closely align the information provided on the Exchange’s Depth of Market Feed with that of BX’s Depth of Market Feed, except the Exchange will not offer auction and exposure

notifications on its Depth of Market Feed like BX does today.<sup>90</sup> The Exchange already offers auction and exposure notifications on the Nasdaq ISE Order Feed as described below.<sup>91</sup> As amended, Options 3, Section 23(a)(1) would provide:

Nasdaq ISE Depth of Market Data Feed (“Depth of Market Feed”) is a data feed that provides full order and quote depth information for individual orders and quotes on the Exchange book and last sale information for trades executed on the Exchange. The data provided for each options series includes the symbols (series and underlying security), put or call indicator, expiration date, the strike price of the series, and whether the option series is available for trading on ISE and identifies if the series is available for closing transactions only. The feed also provides order imbalances on opening/reopening (size of matched contracts and size of the imbalance).

As set forth in Options 3, Section 23(a)(2), the Exchange offers the Nasdaq ISE Order Feed (“Order Feed”), which currently provides information on new orders resting on the book (e.g., price, quantity and market participant capacity). In addition, the feed also announces all auctions. The data provided for each option series includes the symbols (series and underlying security), put or call indicator, expiration date, the strike price of the series, and whether the option series is available for trading on ISE and identifies if the series is available for closing transactions only. The feed also provides order imbalances on opening/reopening.

The Exchange now proposes to update the information that would be available on

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<sup>90</sup> See BX Options 3, Section 23(a)(1). As discussed below, the Exchange is instead proposing to offer these notifications on the Nasdaq ISE Order Feed. BX does not have a comparable order feed today.

<sup>91</sup> BX does not have a comparable order feed today. However, the proposed data elements in the ISE Order Feed already exist in the rules or technical specifications (for the Attributable Order content) of other options exchanges, as described below.

the Order Feed. In particular, the Exchange would include Attributable Order tags<sup>92</sup> (as provided by the Member) and related data content around displayed order types and specified order attributes (e.g., OCC account number, give-up information, CMTA information).<sup>93</sup> The Exchange also proposes to add more specificity around what would be provided in the opening/reopening order imbalance information (namely, the size of matched contracts and size of the imbalance). This specifically aligns to the data elements in both BX's Depth of Market Feed in BX Options 3, Section 23(a)(1) and the Exchange's proposed Depth of Market Feed in proposed Options 3, Section 23(a)(1). The Exchange will continue to provide auction notifications on the Order Feed, but will relocate the existing language to the end of the rule and adopt new content by providing that the proposed Order Feed will provide exposure notifications as well.<sup>94</sup> As amended,

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<sup>92</sup> As discussed above, an Attributable Order is a market or limit order which displays the user firm ID for purposes of electronic trading on the Exchange. See Options 3, Section 7(h).

<sup>93</sup> The Exchange notes that Cboe has similar attributable order functionality in Cboe Rule 5.6(c) as an order a user designates for display (price and size) that includes the user's executing firm ID or other unique identifier. While Cboe does not have a comparable data feed rule, Cboe's technical specifications indicate that it currently has Participant ID and Client ID tags available on its Multicast PITCH data feed. See Section 4.6 in [https://cdn.cboe.com/resources/membership/US\\_EQUITIES\\_OPTIONS\\_MULTICAST\\_PITCH\\_SPECIFICATION.pdf](https://cdn.cboe.com/resources/membership/US_EQUITIES_OPTIONS_MULTICAST_PITCH_SPECIFICATION.pdf) (relating to Participant ID or Client ID as optionally specified values).

<sup>94</sup> BX's Depth of Market Feed currently has identical content relating to auction and exposure notifications in BX Options 3, Section 23(a)(1). Exposure notifications are new with the introduction of routing and the removal of flash functionality in SR-ISE-2022-11. See Securities Exchange Act Release No. 94897 (May 12, 2022), 87 FR 30294 (May 18, 2022) (SR-ISE-2022-11) ("Routing Filing"). An exposure notification informs the market of an order that has arrived marketable against an ABBO and has a routing timer pursuant to the changes introduced to Options 5, Section 4 in the Routing Filing, while an auction notification is the notification of an auction for a Block, simple/complex Facilitation,

Options 3, Section 23(a)(2) would provide:

Nasdaq ISE Order Feed (“Order Feed”) provides information on new orders resting on the book (e.g., price, quantity, market participant capacity and Attributable Order tags when provided by a Member). The data provided for each option series includes the symbols (series and underlying security), displayed order types, order attributes (e.g., OCC account number, give-up information, CMTA information), put or call indicator, expiration date, the strike price of the series, and whether the option series is available for trading on ISE and identifies if the series is available for closing transactions only. The feed also provides order imbalances on opening/reopening (size of matched contracts and size of the imbalance), auction and exposure notifications.

As set forth in Options 3, Section 23(a)(3), the Exchange offers the Nasdaq ISE Top Quote Feed, which currently calculates and disseminates ISE’s best bid and offer position, with aggregated size (including total size in aggregate, for Professional Order size in the aggregate and Priority Customer Order size in the aggregate), based on displayable order and quote interest in the System. The feed also provides last trade information along with opening price, daily trading volume, high and low prices for the day. The data provided for each option series includes the symbols (series and underlying security), put or call indicator, expiration date, the strike price of the series, and whether the option series is available for trading on ISE and identifies if the series is available for closing transactions only. The feed also provides order imbalances on opening/reopening.

The Exchange now proposes to harmonize certain features of this feed with BX’s Top of Market Feed while retaining certain intended differences as specified below.<sup>95</sup>

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simple/complex Solicited Order, simple/complex PIM auction, or a complex exposure auction pursuant to Supplementary Material .01 to Options 3, Section 14.

<sup>95</sup> See BX Options 3, Section 23(a)(2).

The Exchange first proposes to rename the Nasdaq ISE Top Quote Feed to the Nasdaq ISE Top of Market Feed (“Top Feed”) to match the BX feed name. In addition, the Exchange proposes to make conforming changes to rename the Top Feed in Options 7, Section 7.C(iii) and Section 10.H. The Exchange will also make a corrective change in Options 7, Section 7.C(iii) to update an incorrect cross-reference to the Market Data pricing in Section 10.

The Exchange further proposes to no longer provide information for opening price, daily trading volume, high and low prices for the day. These are conforming changes that would align the information provided on the Exchange’s Top Feed with information on BX’s Top Feed.<sup>96</sup> The Exchange will continue to provide aggregated size information as a legacy holdover, which will be different than current BX functionality. Similarly, the Exchange will continue to provide opening/reopening order imbalance information on its Top Feed unlike BX. As amended, Options 3, Section 23(a)(3) will provide:

Nasdaq ISE Top of Market Feed (“Top Feed”) calculates and disseminates ISE’s best bid and offer position, with aggregated size (including total size in aggregate, for Professional Order size in the aggregate and Priority Customer Order size in the aggregate), based on displayable order and quote interest in the System. The feed also provides last trade information and for each option series includes the symbols (series and underlying security), put or call indicator, expiration date, the strike price of the series, and whether the option series is available for trading on ISE and identifies if the series is available for closing transactions only. The feed also provides order imbalances on opening/reopening.

As set forth in Options 3, Section 23(a)(4), the Exchange offers the Nasdaq ISE Trades Feed (“Trades Feed”), which currently displays last trade information along with opening price, daily trading volume, high and low prices for the day. The data provided

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<sup>96</sup> Id.



for each option series includes the symbols (series and underlying security), put or call indicator, expiration date, the strike price of the series, and whether the option series is available for trading on ISE and identifies if the series is available for closing transactions only. The Exchange proposes to no longer provide information for opening price, daily trading volume, high and low prices for the day to align to the changes proposed for the Top Feed described above. As amended, Options 3, Section 23(a)(4) will provide:

Nasdaq ISE Trades Feed ("Trades Feed") displays last trade information. The data provided for each option series includes the symbols (series and underlying security), put or call indicator, expiration date, the strike price of the series, and whether the option series is available for trading on ISE and identifies if the series is available for closing transactions only.

As set forth in Options 3, Section 23(a)(5), the Exchange offers the Nasdaq ISE Spread Feed ("Spread Feed"), which currently is a feed that consists of: (1) options orders for all Complex Orders (i.e., spreads, buy-writes, delta neutral strategies, etc.); (2) data aggregated at the top five price levels (BBO) on both the bid and offer side of the market; (3) last trades information. The Spread Feed provides updates, including prices, side, size and capacity, for every Complex Order placed on the Complex Order book. The Spread Feed shows: (1) aggregate bid/ask quote size; (2) aggregate bid/ask quote size for Professional Customer Orders; and (3) aggregate bid/ask quote size for Priority Customer Orders for ISE traded options. The feed also provides Complex Order auction notifications.

Similar to the proposed changes to the Depth of Market Feed above, the Exchange now proposes in the Spread Feed to no longer provide book information for the top five price levels, and instead provide full depth-of-book information. As such, the Exchange will delete language that relates to top five price level information in the rule text, and replace it with full depth language that is substantively similar to the language in the

current BX Depth of Market Feed in BX Options 3, Section 23(a)(1) and in the Exchange's proposed Depth of Market Feed in Options 3, Section 23(a)(1), except the proposed language herein will be tailored to complex functionality. The Exchange also proposes to add Attributable Complex Order<sup>97</sup> tags (when provided by the Member) into the Spread Feed.<sup>98</sup> The Exchange also proposes to delete the following sentence: "The Spread Feed provides updates, including prices, side, size and capacity, for every Complex Order placed on the ISE Complex Order book. The Spread Feed shows: (1) aggregate bid/ask quote size; (2) aggregate bid/ask quote size for Professional Customer Orders; and (3) aggregate bid/ask quote size for Priority Customer Orders for ISE traded options." The Exchange proposes instead to incorporate these concepts into the amended Spread Feed rule in a manner that is more consistent with the other amended rules in Options 3, Section 23(a).

As amended, Options 3, Section 23(a)(5) will provide:

Nasdaq ISE Spread Feed ("Spread Feed") is a feed that consists of: (1) options orders for all Complex Orders (i.e., spreads, buy-writes, delta neutral strategies, etc.); (2) full Complex Order depth information, including prices, side, size, capacity, Attributable Complex Order tags when provided by a Member, and order attributes (e.g., OCC account number, give-up information, CMTA information), for individual Complex Orders on the Exchange book; (3) last trades information; and (4) calculating and disseminating ISE's complex best bid

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<sup>97</sup> An Attributable Complex Order is a Market or Limit Complex Order that is designated as an Attributable Order as provided in Options 3, Section 7(h). See Options 3, Section 14(b)(4).

<sup>98</sup> Cboe currently allows complex orders to be designated as Attributable. See Cboe Rule 5.33(b)(3). While Cboe does not have a comparable data feed rule, Cboe's technical specifications indicate that it currently has Participant ID and Client ID tags available on its Complex Multicast PITCH data feed. See Section 3.8 in [https://cdn.cboe.com/resources/membership/US\\_OPTIONS\\_COMPLEX\\_MULTICAST\\_PITCH\\_SPECIFICATION.pdf](https://cdn.cboe.com/resources/membership/US_OPTIONS_COMPLEX_MULTICAST_PITCH_SPECIFICATION.pdf) (relating to Participant ID or Client ID as optionally specified values).

and offer position, with aggregated size (including total size in aggregate, for Professional Order size in the aggregate and Priority Customer Order size in the aggregate), based on displayable Complex Order interest in the System. The feed also provides Complex Order auction notifications.

In addition, the Exchange proposes to no longer offer TradeInfo, which is a user interface set forth in Options 3, Section 23(b)(2) that permits Members to: (i) search all orders submitted in a particular security or all orders of a particular type, regardless of their status (open, canceled, executed, etc.); (ii) view orders and executions; and (iii) download orders and executions for recordkeeping purposes. TradeInfo users may also cancel open orders at the order, port or firm mnemonic level through TradeInfo. Due to the lack of demand for this interface by Members,<sup>99</sup> the Exchange seeks to decommission the TradeInfo interface when the Exchange migrates over to the enhanced Nasdaq platform with the technology migration.<sup>100</sup> The Exchange notes that FIX, FIX DROP,<sup>101</sup> and the Clearing Trade Interface (“CTI”),<sup>102</sup> which are available to all Members, can be

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<sup>99</sup> No Members logged into TradeInfo in 2022.

<sup>100</sup> The Exchange will provide prior notice of the decommission to all Members through an Options Trader Alert.

<sup>101</sup> FIX DROP is a real-time order and execution update message that is sent to a Member after an order been received/modified or an execution has occurred and contains trade details specific to that Member. The information includes, among other things, the following: (i) executions; (ii) cancellations; (iii) modifications to an existing order; and (iv) busts or post-trade corrections. See Options 3, Section 23(b)(3).

<sup>102</sup> CTI is a real-time cleared trade update message that is sent to a Member after an execution has occurred and contains trade details specific to that Member. The information includes, among other things, the following: (i) The Clearing Member Trade Agreement (“CMTA”) or The Options Clearing Corporation (“OCC”) number; (ii) badge or mnemonic; (iii) account number; (iv) information which identifies the transaction type (e.g., auction type) for billing purposes; and (v) market participant capacity. See Options 3, Section 23(b)(1).

used today to obtain order information that is currently available within TradeInfo, and FIX can be used to cancel orders today.

In connection with its proposal to retire TradeInfo, the Exchange also proposes to eliminate all references to TradeInfo in Options 7 (Pricing Schedule). Today, as set forth in Options 7, Section 7.C(ii)(3), the Exchange does not charge any fees for TradeInfo.

With the proposed changes, the Exchange will amend Options 7 to delete Section 7.C(ii)(3) in its entirety.

### **Optional Risk Protections**

The Exchange proposes to introduce optional quantity and notional value checks in new Options 3, Section 28, entitled “Optional Risk Protections.” The proposed optional order risk protections will be functionally identical to the protections currently offered by BX.<sup>103</sup> Members may use this voluntary functionality through their FIX or Precise protocols to limit the quantity and notional value they can send per order and on aggregate for the day. Specifically, Members may establish limits for the following parameters, as set forth in proposed subparagraphs (a)(1)-(4):

- (1) Notional dollar value per order, which will be calculated as quantity multiplied by limit price multiplied by number of underlying shares;
- (2) Daily aggregate notional dollar value;
- (3) Quantity per order; and
- (4) Daily aggregate quantity

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<sup>103</sup> See BX Options 3, Section 28. While BX’s rule does not contain the level of granularity as proposed in the Exchange’s rule, including how orders are rejected if any of the optional risk protection values are exceeded, the Exchange understands that BX’s optional risk protections operate in the same manner. In addition, BX’s rule does not include Precise as this order entry port is not available on BX today.

Proposed paragraph (b) will provide that Members may elect one or more of the above optional risk protections by contacting Market Operations and providing a per order value (for (a)(1) and (a)(3)) or daily aggregate value (for (a)(2) and (a)(4)) for each order protection. Members may modify their settings through Market Operations.

Proposed paragraph (c) will provide that the System will reject all incoming aggregated Member orders for any of the (a)(2) and (a)(4) risk protections after the value configured by the Member is exceeded. Proposed paragraph (d) will provide that the System will reject all incoming Member orders for any of the (a)(1) and (a)(3) risk protections upon arrival if the value configured by the Member is exceeded by the incoming order. The Exchange notes that the difference in handling between aggregate and individual order protections is necessary to allow for complete processing of the final order that puts a Member's configured value over the aggregate values configured. While individual orders can be directly measured against the configured values for (a)(1) and (a)(3), the aggregate values must be calculated after complete processing of an order and thus the rejection of orders begins upon the arrival of the next order after the aggregate values in (a)(2) or (a)(4) have been exceeded.

The following example shows how the System will reject all subsequent incoming aggregated orders after the (a)(2) or (a)(4) values configured by the Member have been exceeded:

*Aggregate Quantity Limit = 800.*

1. Member enters an Order to Buy 500 – Accepted
2. Member enters an Order to Buy 400 – Accepted (Member did not meet the configured limit of 800 with the first order of 500 at the time Member entered the second order)
3. Member enters an Order to Buy 1 – Rejected (Member already exceeded the configured limit of 800 with the second order of 400)

The following example shows how the System will reject all incoming orders upon arrival if the (a)(1) or (a)(3) values configured by the Member have been exceeded by the arriving order:

*Quantity Per Order Limit = 800.*

1. Member enters an Order to Buy 801 – Rejected (Member exceeded the Quantity per order limit upon arrival with the order to buy 801 contracts)

Proposed paragraph (e) will provide that if a Member sets a notional dollar value, a Market Order would not be accepted from that Member. This is because notional dollar value is calculated by using an order's specified limit price, and Market Orders by definition are priced at the best available price upon execution. Lastly, proposed paragraph (f) will provide that the proposed risk protections are only available for orders entered through FIX or Precise. Additionally, all of the proposed settings will be firm-level.

### **Corrective Changes**

The Exchange proposes a few corrective changes in Options 3. First, the Exchange proposes to amend Supplementary Material .04 to Options 3, Section 7.<sup>104</sup> This rule presently states that orders may be entered on the Exchange with a routing strategy of FIND or SRCH, or, in the alternative, an order may be marked as DNR as provided in Options 5, Section 4 through FIX only. The Exchange now proposes to add “or Precise” after FIX to indicate that Members may also use Precise to route their orders

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<sup>104</sup> The Exchange notes that it recently added Supplementary Material .04 to Options 3 Section 7 in the Routing Filing, which is effective but not yet operative. The proposed changes herein to Supplementary Material .04 to Options 3, Section 7 therefore assumes that the rule changes in the Routing Filing are effective prior to the effectiveness of this filing.

using FIND or SRCH, or mark orders as DNR. The Exchange notes that FIX and Precise are the only order entry protocols on the Exchange that permit routing today. As such, this corrective change will make clear that the listed routing strategies in Supplementary Material .04 will be available for orders entered through FIX or Precise only.

Second, the Exchange proposes to fix an incorrect cross-reference set forth in Options 3, Section 10(b)(1). Specifically, the cross-reference therein to the minimum trading increment rule will be updated to Options 3, Section 3.

b. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,<sup>105</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act,<sup>106</sup> in particular, in that it is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general to protect investors and the public interest. As it relates to the elimination of fees for TradeInfo, the Exchange believes that its proposal is consistent with Section 6(b) of the Act,<sup>107</sup> in general, and furthers the objectives of Sections 6(b)(4) and 6(b)(5) of the Act,<sup>108</sup> in particular, in that it provides for the equitable allocation of reasonable dues, fees, and other charges among members and issuers and other persons using any facility, and is not designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

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<sup>105</sup> 15 U.S.C. 78f(b).

<sup>106</sup> 15 U.S.C. 78f(b)(5).

<sup>107</sup> 15 U.S.C. 78f(b).

<sup>108</sup> 15 U.S.C. 78f(b)(4) and (5).

Generally, the Exchange's proposal is intended to add or align certain System functionality with functionality currently offered on BX in order to provide a more consistent technology offering across affiliated Nasdaq options exchanges. A more harmonized technology offering, in turn, will simplify technology implementation, changes, and maintenance by market participants of the Exchange that are also participants on Nasdaq affiliated options exchanges. The Exchange's proposal also seeks to provide greater harmonization between the rules of the Exchange and its affiliates, which would result in greater uniformity, and less burdensome and more efficient regulatory compliance by market participants. As such, the proposal would foster cooperation and coordination with persons engaged in facilitating transactions in securities and would remove impediments to and perfect the mechanism of a free and open market and a national market system. The Exchange believes that more consistent rules will increase the understanding of the Exchange's operations for market participants that are also participants on the Nasdaq affiliated options exchanges, thereby contributing to the protection of investors and the public interest. The proposal also seeks to memorialize existing functionality and add more granularity in the Exchange's rules to describe how existing functionality operates today. The Exchange believes that such changes would remove impediments to and perfect the mechanism of a free and open market and a national market system because the proposed changes would promote transparency in Exchange rules and reducing potential confusion, thereby ensuring that Members, regulators, and the public can more easily navigate the Exchange's Rulebook and better understand how options trading is conducted on the Exchange.



**Bulk Message**

The Exchange believes that its proposal to memorialize its bulk message functionality is consistent with the Act as it will codify existing functionality, thereby promoting transparency in the Exchange's rules and reducing any potential confusion.<sup>109</sup> This functionality provides Market Makers with an additional tool to meet their various quoting obligations in a manner they deem appropriate, consistent with the purpose of the bulk message functionality to facilitate Market Makers' provision of liquidity. By providing Market Makers with additional control over the quotes they use to provide liquidity to the Exchange, this tool may benefit all investors through additional execution opportunities at potentially improved prices. As noted above, other options exchanges like Cboe currently offer similar bulk messaging functionality that allow their market participants to submit block quantity quotes in a single electronic message.<sup>110</sup>

The Exchange does not believe that the offering the bulk message functionality to only Market Makers would permit unfair discrimination. Market Makers play a unique and critical role in the options market by providing liquidity and active markets, and are subject to various quoting obligations (which other market participants are not, including obligations to maintain active markets, update quotes in response to changed market conditions, to compete with other Market Makers in its appointed classes, and to provide

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<sup>109</sup> As discussed above, this existing functionality is currently described in the Exchange's publicly available technical specifications. See supra note 3.

<sup>110</sup> See supra note 6.

intra-day quotes in its appointed classes.<sup>111</sup> Bulk message functionality provides Market Makers with a means to help them satisfy these obligations.

### **Order Types**

The Exchange believes that the proposed changes to the rules governing Exchange order types are consistent with the Act. As discussed above, the proposed changes consist of several functional enhancements to align the Exchange's order types to existing BX order types, and rule adjustments that add more specificity and clarity to existing order types.

#### ***Market Orders***

The Exchange believes that the proposed changes to the definition of Market Orders in Options 3, Section 7(a) are consistent with the Act. The proposed intra-day cancel timer feature mirrors existing BX functionality in BX Options 3, Section 7(a)(5), and would provide Members with additional flexibility and control to bring the Market Order back to the Member so they can get an execution on another venue by canceling unexecuted Market Orders after a certain period of time. The Exchange believes it is appropriate to offer this feature intra-day because the Exchange already has a separate opening delay timer that provides protection to the market during the Opening Process as discussed above.

#### ***Intermarket Sweep Orders***

The Exchange believes that the proposed changes to the definition of ISOs in Options 3, Section 7(b)(5) are consistent with the Act. As discussed above, the proposed changes are intended to add more granularity and more closely align the level of detail in

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<sup>111</sup> See Options 2, Sections 4 and 5.

the ISO rule with BX's ISO rule in BX Options 3, Section 7(a)(6) by specifying how the Exchange would handle ISOs, including how ISOs may be submitted and when. As such, the Exchange believes that its proposal will promote transparency in the Exchange's rules and consistency across the rules of the Nasdaq affiliated options exchanges.<sup>112</sup>

Furthermore, the proposed changes do not amend current ISO functionality except for the proposed stipulation that ISOs must have a TIF designation of IOC. Today, Options 5, Section 1(h) provides that ISOs may be either an IOC or an order that expires on the day it is entered. The Exchange believes it is appropriate to no longer allow non-IOC ISOs, as an ISO is generally used when trying to sweep a price level across multiple exchanges in an effort to post the balance of an order without locking an away market. The Exchange therefore believes that ISOs have a limited purpose and should be cancelled if they do not execute or do not entirely execute. This is also consistent with how BX currently handles ISOs in that BX only allows ISOs to be entered as IOC.

#### ***All-or-None Orders***

The Exchange believes that the proposed changes to the definition of AON Orders in Options 3, Section 7(c) are consistent with the Act. As discussed above, the Exchange is memorializing current System behavior by specifying how AON Orders will execute against multiple, aggregated orders to align with the level of detail in BX Options 3, Section 7(a)(4)(A). The proposed description of the handling of AON Orders is

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<sup>112</sup> As noted above, BX's ISO rule also currently states that "ISOs may be entered on the Order Book or into the PRISM Mechanism pursuant to Options 3, Section 13(ii)(K)." The Exchange will file a separate rule change to add similar language as BX relating to how ISOs may be entered on the Exchange.

consistent with the Exchange's allocation methodology in Options 3, Section 10 by making clear that because of the size contingency of the AON Order (i.e., executed in its entirety or not at all), those orders must be satisfied simultaneously to avoid any priority conflict on the order book, which considers current displayed NBBO prices to avoid locked and crossed markets as well as trade-throughs. Finally, the proposed changes to add that AON Orders may not be submitted during the Opening Process will better articulate current System behavior, and aligns to the level of detail currently in BX's AON rule at BX Options 3, Section 7(a)(7).

### ***Stop and Stop Limit Orders***

The Exchange believes that the proposed changes to the definition of Stop Orders and Stop Limit Orders in Options 3, Sections 7(d) and 7(e), respectively, are consistent with the Act. The Exchange is proposing to codify current System behavior by adding that Stop Orders and Stop Limit Orders will be cancelled if they are immediately electable upon receipt. As discussed above, the purpose of each of these order types is to not execute upon entry, and instead rest in the System until the market reaches a certain price level, at which time the order could be executed. A Stop Order or Stop Limit Order that is immediately electable upon receipt would therefore negate the purpose of this order type, so the Exchange believes it is appropriate to cancel such orders to ensure that Members are able to use these order types to achieve their intended purpose. As noted above, the proposed changes to codify current Stop and Stop Limit Order handling will align the Exchange's rules with Phlx's Stop and Stop Limit Order rules.<sup>113</sup>

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<sup>113</sup> See supra notes 23 and 26.

The Exchange believes that the proposed changes to specify current System functionality that Stop and Stop Limit Orders may only be entered into FIX or Precise will make clear that these order types are only available to be entered through two of the three order entry protocols offered by the Exchange (i.e., FIX, Precise, and OTTO). As such, the proposed changes will promote transparency in the Exchange's rules and reduce any potential confusion.

### ***Cancel and Replace Orders***

The Exchange believes that the proposed changes to the rule governing Cancel and Replace Orders would promote clarity and make the rules easier to navigate. As discussed above, these are non-substantive changes to relocate the rule from Supplementary Material .02 to Options 3, Section 7 into the main body of the order types rule at Options 3, Section 7(f), updating incorrect cross-cites therein, and adding more granularity around how the Exchange will treat the cancellation and replacement of Reserve Orders.

### ***Reserve Orders***

The Exchange believes that the proposed changes to the Reserve Order rule at Options 3, Section 7(g) are consistent with the Act. The Exchange is proposing to add more granularity around how Members may elect to refresh the display quantity for the Reserve Order. The Exchange notes that the new rule text does not have any impact on the priority rules of the displayed or non-displayed portion of the Reserve Order. This refresh feature for Reserve Orders is intended to provide more flexibility and opportunities for Members to add displayed liquidity to the Exchange, which, in turn, benefits all market participants through more trading opportunities and enhanced price

discovery. As discussed above, the proposed changes do not amend current functionality, but rather is intended to promote transparency around the current operation of Reserve Orders. Further, the Exchange believes that the non-substantive changes in the Reserve Order rule to renumber and reformat the paragraphs therein, and make corrective changes as described above, are consistent with the protection of investors and the public interest because they will simply make the Exchange's rules easier to navigate, thereby reducing any potential confusion. As noted above, other options exchanges like Cboe currently offer Reserve Orders that have similar refresh features.<sup>114</sup>

#### ***Attributable Orders***

The Exchange believes that it is consistent with the Act to delete existing rule text in Options 3, Section 7(h), which currently indicates that Attributable Orders may be available for specified classes of securities, and to make a corrective change to “an Options Trader Alert.” Because Attributable Orders are available for all classes of securities today, the Exchange is deleting this language as inaccurate. The Exchange believes that the proposed changes will promote transparency in the Exchange's rules.

#### ***Customer Cross Orders***

The Exchange believes that the non-substantive amendment in Options 3, Section 7(i) to add that Customer Cross Orders may trade in accordance with Options 3, Section 12(a) is consistent with the protection of investors and the public interest because the proposal will simply add a cross reference in the Customer Cross Order rule to Section 12(a), which currently describes in detail how this order type would execute on the Exchange, thereby adding clarity to how Customer Cross Orders function today.

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<sup>114</sup> See supra note 29.

### ***Qualified Contingent Cross Orders***

The Exchange believes that the proposed changes to the QCC Order rule in Options 3, Section 7(j) to add a reference to “QCC” and to provide that QCC Orders will trade in accordance with Options 3, Section 12(c) are consistent with the Act because the changes are merely intended to add greater clarity to how QCC Orders function today. The Exchange further believes that specifying that QCC Orders may only be entered through FIX or Precise will better articulate current System behavior, and will make clear that QCC Orders are available to be entered through only two of the three order entry protocols currently offered by the Exchange (i.e., FIX, Precise, and OTTO), thereby reducing any potential confusion.

### ***Preferred Orders***

The Exchange believes that its proposal to add a definition of Preferred Orders in Options 3, Section 7(l) is consistent with the Act. While Preferred Orders are currently described in Options 2, Section 10, the Exchange believes that it would be useful to have order types centralized within one rule to make the Rulebook easier to navigate for market participants. As noted above, Phlx similarly lists out Directed Orders (akin to Preferred Orders) in its order types rule at Phlx Options 3, Section 7(b)(11).

### ***Add Liquidity Orders***

The Exchange believes that the proposed changes to the ALO rule in Options 3, Section 7(n) are consistent with the Act. As discussed above, the Exchange is enhancing current ALO functionality to reflect that the Exchange will handle ALOs in a consistent manner with the new continuous re-pricing mechanism that is being proposed concurrently in the Re-Pricing Filing as proposed Options 3, Section 5(d) in situations

where the ALO would not lock or cross an order or quote on the System, but would lock or cross the NBBO.<sup>115</sup> The Exchange therefore believes that the proposed changes will make clear how the Exchange will handle ALOs under the new re-pricing mechanism. The ALO order type was adopted to provide market participants greater control over the circumstances in which their orders are executed. As noted above, the purpose of an ALO is to provide liquidity. For investors and market participants that elect only to provide liquidity in certain circumstances, such as to receive a maker fee (or rebate) upon execution of an order, the Exchange continues to believe that ALOs, as amended under this proposal, will continue to accommodate this strategy. The proposed order handling for ALOs is consistent with how ALOs are handled on BX today.<sup>116</sup>

The Exchange also believes that adding “or quotes” in the ALO rule at Options 3, Section 7(n) is consistent with the Act. Today, if at the time of entry, an ALO would lock or cross one or more non-displayed orders or quotes on the Exchange, the ALO will be cancelled or re-priced in the manner specified within the ALO rule. Adding this rule text will bring greater clarity around current ALO behavior.

The Exchange further believes that the proposed addition that ALOs may only be submitted when an options series is open for trading will make clear ALOs will not be accepted during the Opening Process as the order book is not available. The proposed changes codify existing System behavior, and will therefore promote transparency in the Exchange’s rules.

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<sup>115</sup> See supra note 33.

<sup>116</sup> See BX Options 3, Section 7(a)(12).



***QCC with Stock Orders***

The Exchange believes that the non-substantive change to correct a cross-cite in the QCC with Stock Order rule in Options 3, Section 7(t) will promote clarity in the Exchange's rules.

***Opening Sweep***

The Exchange believes that the proposed changes to the Opening Sweep rule in Options 3, Section 7(u) are consistent with the Act. As discussed above, the Exchange is codifying current System behavior and providing additional context to the rule in a manner that is consistent with Phlx's Opening Sweep rule in Phlx Options 3, Section 7(b)(6). The Exchange therefore believes that the proposed changes promote greater transparency in the Exchange's rules and consistency across the rules of the Nasdaq affiliated options exchanges. Specifically, because an Opening Sweep is an IOC order submitted by a Market Maker during the Opening Process, the Exchange is making clear that Opening Sweeps are entered through SQF in the proposed rule text. The Exchange also believes that it is appropriate to specify that Opening Sweeps are not subject to any risk protections in Options 3, Section 15 (except Automated Quotation Adjustments) because the Opening Process itself has boundaries (notably, the Quality Opening Market and the Opening Quote Range) within which orders will be executed. Finally, the proposed language relating to Opening Sweep participation in the Opening Process and cancellation upon the open merely provides additional context in the order type rule. As noted above, Opening Sweeps are already described in the opening rule today in Options 3, Section 8, and apply only during the Opening Process.

### *Time in Force*

The Exchange believes that the proposed changes to the TIF rules are consistent with the Act. As discussed above, the Exchange believes that certain existing functionality currently described as an “order type” in Options 3, Section 7 would be more precisely described as a TIF attribute that designates the basic parameters of an order type. Relocating and centralizing the existing TIF rules into proposed Supplementary Material .02 to Options 3, Section 7 will therefore clearly delineate these order attributes and make the proposed rules easier to navigate. Codifying the definition of “TIF” in proposed Supplementary Material .02 will add greater clarity and transparency to the Exchange’s rules in a manner consistent with BX Options 3, Section 7(b).

The Exchange believes that the adjustments in proposed Supplementary Material .02(a) to Options 3, Section 7 to add that Day orders may be entered through FIX, OTTO, or Precise will add further granularity and clarity to the Exchange’s rules. The proposed changes provide additional detail about current functionality in a manner that is consistent with the level of detail in BX’s Day order.<sup>117</sup>

The Exchange believes that the adjustments to the relocated GTC and GTD rules in proposed Supplementary Material .02(b) and (c) will add further granularity and clarity to how these TIFs operate today. The Exchange further believes that aligning the level of detail in the GTD rule to the GTC rule, as described above, is appropriate because these two TIFs are meant to be functionally similar except the manner in which they persist in the System.

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<sup>117</sup> See supra note 41.

The Exchange believes that the proposed changes to the relocated IOC rule in proposed Supplementary Material .02(d) will promote greater transparency in the Exchange's rules by providing more granularity to current IOC functionality. Further, the changes conform the Exchange's IOC rule to BX's IOC rule, thereby promoting consistency across the rules of the Nasdaq affiliated options exchanges. Specifically, the proposed changes to remove the word "limit" will make clear that IOC orders may be sent as either a Market or Limit Order today, identical to BX IOC orders.<sup>118</sup> The proposed changes to state that IOC orders are not eligible for routing, and that IOC orders may be entered through FIX, OTTO, Precise, or SQF, will codify current IOC behavior in a manner that is consistent with BX's IOC rule.<sup>119</sup>

As it relates to the proposed changes to memorialize the various risk protections that are excluded from applying to Market Maker IOC orders entered through SQF, the Exchange believes this is appropriate because only Market Makers utilize SQF to enter IOC orders. As discussed above, Market Makers are professional traders with more sophisticated infrastructures than other market participants, and are able to manage their risk through their own risk settings in addition to the risk protections required by the Exchange. The Exchange will continue to apply the specified risk protections on IOC orders entered through FIX, OTTO, and Precise, which are used by the other market participants. The proposed changes will harmonize the Exchange's IOC rule with BX's IOC rule.<sup>120</sup> Further, the proposal to add substantially similar exclusionary language into

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<sup>118</sup> See supra note 42.

<sup>119</sup> See supra notes 43 – 44.

<sup>120</sup> See supra notes 49 – 50.

the SQF rule itself at Supplementary Material .03(c) to Options 3, Section 7 will make clear that these risk protections will not apply to IOC orders entered through SQF.

Specifying in the proposed IOC rule that orders entered into the Exchange's various auction and crossing mechanisms are considered to have a TIF of IOC memorializes current System behavior, and is intended to bring greater transparency in how these order types are handled today. As noted above, BX currently has substantially similar language in its IOC rule for BX PRISM orders in BX Options 3, Section 7(b)(2).

Lastly, the Exchange believes that the adjustments to the relocated OPG rule in proposed Supplementary Material .02(e) to Options 3, Section 7 will add granularity and clarity to how OPG orders operate, and will conform the OPG rule with the level of detail currently in BX's OPG rule in BX Options 3, Section 7(b)(1). As discussed above, the Exchange is proposing to enhance OPG functionality to allow both Market and Limit OPG orders whereas today, only Limit OPG orders are allowed. This harmonizes OPG functionality with BX OPG functionality. The other modifications to replace "opening rotation" with "Opening Process," stating OPG orders may not route, and indicating that OPG orders are not subject to the protections listed in Options 3, Section 15 (except Size Limitation) all memorialize current OPG behavior, and align to the current BX OPG rule. As discussed above, the Exchange does not apply any of the risk protections in Options 3, Section 15 (except Size Limitation) because the Opening Process itself has boundaries within which orders will be executed.

### **Opening Process**

The Exchange believes that the proposed changes to the Opening Process in Options 3, Section 8 are consistent with the Act. As discussed above, the Exchange is

proposing to remove the current limitation that only allows Public Customers interest to route during the opening, and will instead allow all market participant interest to route. The proposed changes will serve to more closely align the Exchange's Opening Process with BX's Opening Process. Like BX, the Exchange believes that it will be beneficial to provide all market participants with the opportunity to have their interest executed on away markets during the Opening Process. The Exchange further believes that the related changes to remove references to "Public Customer" throughout Options 3, Section 8, and to update the cross-cite currently pointing to the Priority Customer priority overlay to the more general priority rule, will add clarity, transparency, and internal consistency to Exchange rules regarding the proposed handling of routable interest during the Opening Process.

The Exchange believes that its proposal to no longer round in the direction of the previous trading day's closing price and simply round up to the MPV, if the mid-point of the highest and lowest of the Potential Opening Prices is not expressed as a permitted MPV, will simplify and bring greater transparency to the Opening Process, to the benefit of investors. Market participants can now have a better sense of how the Potential Opening Price will be calculated without having to account for the closing price of each options series. The Exchange believes this may promote greater efficiency in the marketplace especially in view of the continued growth in the number of options today.

The Exchange further believes that the proposed changes to replace "are marketable against the ABBO" with "cross the ABBO" will better articulate how the Exchange currently determines the OQR boundaries in the scenario specified in Options

3, Section 8(i)(3). Lastly, the Exchange believes that the non-substantive change in paragraph (j)(3)(B) of Options 3, Section 8 will bring greater clarity to the Rulebook.

### **Auction Mechanisms**

#### ***Facilitation and Solicited Order Mechanisms***

The Exchange believes that its proposal to relocate the rule text relating to Responses from Supplementary Material .02 to Options 3, Section 11 into the introductory paragraph of Options 3, Section 11, and adding that Responses can be modified, is consistent with the Act. The Exchange is relocating this language into the introductory paragraph of Options 3, Section 11 after the definition of “Response” for better readability. The proposed change to add “or modified” to indicate that Responses may be canceled or modified any time prior to execution better aligns the rule text to current System behavior. As noted above, the rules for the complex Facilitation and Solicited Order Mechanisms in Options 3, Sections 11(c)(7) and (e)(4), respectively, already provide for this concept.

#### ***Price Improvement Mechanism***

The Exchange’s proposal to amend Options 3, Section 13(b)(4) to clarify the current rule text by adding the words “or modified” after “canceled” is consistent with the Act because the additional text will make clear that a Crossing Transaction may not be modified unless the Counter-Side Order is being improved during the exposure period.

The Exchange’s proposal to add clarifying rule text within Options 3, Section 13(b)(5) which states, “Crossing Transactions submitted at or before the opening of trading are not eligible to initiate an Auction and will be rejected” is consistent with the Act because it will bring greater clarity to when a Crossing Transaction is currently

eligible to initiate a PIM. The PIM considers both the NBBO and local book for its entry price validation and therefore requires an opening for the PIM to begin.

The Exchange's proposal to amend the current PIM functionality within Options 3, Section 13(c)(3) to permit Improvement Orders to be canceled or modified is consistent with the Act. The Exchange proposes to amend this functionality so that Improvement Orders may be canceled or modified similar to functionality on BX today within Options 3, Section 13(ii)(a)(8). Today, during the exposure period, Improvement Orders may not be canceled and Improvement Orders may be modified to (i) increase the size at the same price, or (ii) improve the price of the Improvement Order for any size up to the size of the Agency Order. The modification and cancellation of an Improvement Order through OTTO will be similar to the manner in which a Cancel and Replace Order would be handled outside of the auction process. For Improvement Orders through SQF, the modification and cancellation of such orders will be handled by sending new Improvement Orders that overwrite the existing Improvement Order with updated price/quantity instructions. Improvement Orders are not visible to other auction participants, including the Agency Order. The Exchange believes that providing responders with flexibility to cancel or modify their Improvement Orders may encourage market participants to respond to more auctions, including PIM.

The proposal to amend Options 3, Section 13(d)(5) to permit an auction to automatically terminate upon the occurrence of a trading halt with execution solely with the Counter-Side Order is consistent with the Act. This functionality would be similar to rule text within BX Options 3, Section 13(ii)(C). The Exchange believes that utilizing the price of the Counter-Side Order to execute the Crossing Transaction promotes just

and equitable principles of trade, and fosters cooperation and coordination with persons engaged in facilitating transactions in securities since the Counter-Side Order has guaranteed that an execution will occur at the same price as the Crossing Transaction, or better, prior to the trading halt, and Improvement Orders offer no such guarantee, the Counter-Side Order is the only valid price at which to execute the Crossing Transactions, and the Counter-Side Order is the appropriate contra-side.<sup>121</sup>

The Exchange believes that the proposed System change to adopt a new same side execution price check for PIM in new subsection (d)(6) of Options 3, Section 13 is consistent with the Act. As discussed above, this feature would be functionally identical to BX PRISM in BX Options 3, Section 13(ii)(I). Like BX, the proposed price check is designed to ensure that the Exchange would not trade at prices that would lock or cross interest on the same side of the market as the Agency Order where limit orders have rested and obtained priority to execute at that price. In the event where a limit order arrives on the same side of the market as the Agency Order and is at the same or better price than the initiating Crossing Transaction price, the Exchange would execute the entire PIM transaction at the initiating Crossing Transaction price. The execution takes place at this price because the PIM is guaranteed an execution and the PIM agency side instructions would not allow an execution to take place at a higher (lower) price than submitted for a buying (selling) agency side PIM order. Considering that the limit order has arrived either at or better on the same side as the Agency Order than the agency side

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<sup>121</sup> The Exchange notes that trading on the Exchange in any option contract will be halted whenever trading in the underlying security has been paused or halted by the primary listing market.



price, the initiating Crossing Transaction price is the only price at which the guaranteed execution can take place.

The Exchange's proposal to amend Options 3, Section 13(e)(4)(ii) to permit Improvement Complex Orders to be canceled or modified is consistent with the Act. Further, similar to the proposed change for simple PIM, the Exchange notes that the modification and cancellation of an Improvement Complex Order will be similar to the manner in which a Cancel and Replace Order would be handled outside of the auction process. Improvement Complex Orders are not visible to other auction participants, including the Agency Complex Order. Further, similar to the proposed changes for simple PIM, the Exchange believes that providing responders with flexibility to cancel or modify their Improvement Complex Orders may encourage market participants to respond to more auctions, including Complex PIM.

The Exchange's proposal to amend Options 3, Section 13(e)(4)(iv) at new "(D)" to provide that the exposure period for a Complex PIM will automatically terminate when a resting Complex Order in the same complex strategy on either side of the market becomes marketable against the Complex Order book or bids and offers for the individual legs is consistent with the Act. The proposed changes will codify current System behavior and will provide greater transparency to market participants for situations in which early termination would occur for Complex PIMs today. As noted above, Complex Order Exposure currently early terminates in similar situations, so the proposed language for Complex PIM closely tracks existing Complex Exposure language in

Supplementary Material .01(b)(ii) to Options 3, Section 14.<sup>122</sup> The Exchange believes that it is appropriate to early terminate Complex PIM under these circumstances for the following reasons. When the resting Complex Order is on the same side as the Agency Complex Order, interest that becomes marketable against the resting Complex Order would also be marketable against the Complex PIM order. Therefore, early terminating the Complex PIM would allow the Complex PIM order to interact with this interest given that the Complex PIM order is at a superior price compared to the resting Complex Order, thus providing an opportunity for price improvement for the Agency Complex Order. Additionally, when the resting Complex Order is on the opposite side of the Agency Complex Order, interest that arrives marketable against the resting Complex Order is now at a superior price to the Agency Complex Order. The Exchange would therefore early terminate in this scenario and execute the Complex PIM order with its contra side order because it is no longer at top of book.

The Exchange's proposal to relocate the last sentence of Options 3, Section 13(e)(3) into Options 3, Section 13(e)(4)(iv) at new "(E)" is consistent with the Act. This non-substantive amendment will relocate the rule text to a more logical place within the Complex PIM rule.

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<sup>122</sup> Supplementary Material .01(b)(ii) of ISE Options 3, Section 14 provides that exposure period for a Complex Order will end immediately: (A) upon the receipt of a Complex Order 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; (B) upon the receipt of a non-marketable Complex Order 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; or (C) when a resting Complex Order for the same complex strategy on either side of the market becomes marketable against interest on the Complex Order book or bids and offers for same individual legs of the complex strategy.

The Exchange believes that its proposal to codify existing Complex PIM behavior in Options 3, Section 13(e)(5) to articulate that the complex mid-way price will be rounded to the \$0.01 increment that favors the Agency Complex Order will promote clarity and transparency in the Exchange's rules by better aligning the rule text with the current operation of the System. As noted above, the simple PIM rule already articulates that the mid-way price will be rounded to the \$0.01 increment that favors the Agency Order in Options 3, Section 13(d)(4). The rounding for Complex PIM currently operates the same way as simple PIM in this respect, so the proposed Complex PIM language closely tracks the simple PIM language

Finally, the proposal to amend Supplementary Material .02 to Options 3, Section 15 to add a sentence which provides, "It will be considered a violation of this Rule and will be deemed conduct inconsistent with just and equitable principles of trade and a violation of Options 9, Section 1 if an Electronic Access Member submits a PIM Order (initiating an auction) and also submits its own Improvement Order in the same auction," is consistent with the Act. BX has a similar prohibition within Options 3, Section 13(iii). The proposed new rule is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, by providing guidance to Members where certain behavior within a PIM will not be considered a bona fide transaction.

### **Order Price Protection**

The Exchange believes that its proposal to replace its current Limit Order Price Protection with a similar "fat finger" check called Order Price Protection in Options 3, Section 15(a)(1)(A) is consistent with the Act. The proposed OPP would similarly

prevent the execution of limit orders at prices outside pre-set numerical or percentage parameters, and is designed to prevent limit orders entered at clearly unintended prices from executing in the System to the detriment of market participants. The proposed risk protection is also functionally similar to BX's OPP in BX Options 3, Section 15(a)(1), and therefore is not novel.<sup>123</sup> Similar to BX, the Exchange believes that the proposed fixed dollar amount and percentage parameters will protect against erroneous executions, while also allowing orders to execute within a reasonable range.

The Exchange believes that using the Reference BBO (i.e., better of the NBBO or the internal market BBO) to calculate the proposed OPP, identical to current BX OPP functionality, will similarly protect investors and the public interest where the internal market BBO is better than the NBBO.

The Exchange further believes that its proposal to add language allowing Exchange discretion to temporarily deactivate OPP on an intra-day basis is consistent with the Act. BX has identical language today in BX Options 3, Section 15(a)(1)(A)(i), and similar to BX, the Exchange believes that having this discretion will be useful if the Exchange determined that unusual market conditions warranted deactivation in the interest of a fair and orderly market. Like BX, the Exchange believes that it will be useful to have the flexibility to temporarily disable OPP intra-day in response to an unusual market event (e.g., if dissemination of data was delayed and resulted in unreliable underlying values needed for the Reference BBO) to maintain a fair and

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<sup>123</sup> As noted above, the Exchange is proposing to adopt an OPP rule that more accurately describes the proposed functionality than BX's current OPP rule, so BX will align its current OPP rule to the Exchange's proposed rule text in a separate rule filing.

orderly market. This will promote just and equitable principles of trade and ultimately protect investors.

### **Post-Only Quoting Protection**

The Exchange's proposal to adopt a new Post-Only Quote Configuration in Options 3, Section 15(a)(3)(C) to permit Market Makers to prevent their quotes from removing liquidity from the Exchange's order book promotes equitable principles of trade and protects investors and the public interest by enhancing the risk protections available to Market Makers. This optional risk protection would enable Market Maker to better manage their risk when quoting on the Exchange. As noted above, BX offers identical functionality today in BX Options 3, Section 15(c)(3).

The proposed risk protection allows Market Makers the ability to avoid removing liquidity from the Exchange's order book if their quote would otherwise lock or cross any resting order or quote on the Exchange's order book upon entry, thereby protecting investors and the general public as Market Makers transact a large number of orders on the Exchange and bring liquidity to the marketplace. Market Makers would utilize the proposed risk protection to avoid unintentionally taking liquidity with resting interest<sup>124</sup> on the order book. As a result of taking liquidity, Market Makers would incur a taker fee that may impact the Market Maker's ability to provide liquidity and meet quoting obligations. Market Makers are required to add liquidity on the Exchange and, in turn,

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<sup>124</sup> As noted above, this would include any re-priced orders as described in the Re-Pricing Filing as proposed Options 3, Section 5(d), ALOs as described in proposed Options 3, Section 7(n), and any re-priced quotes as described in Options 3, Section 4(b)(6). As discussed above, ALOs may re-price.

are rewarded with lower pricing<sup>125</sup> and enhanced allocations.<sup>126</sup> Specifically, the risk protection would permit Market Makers to add liquidity only and avoid removing resting interest on the order book, which will lead to enhanced liquidity on the Exchange and in turn will benefit and protect investors and the public interest through the potential for greater volumes of orders and executions on the Exchange.

The Exchange does not believe that introducing this Post-Only Quote Configuration will unfairly discriminate among market participants. Today, all Members may utilize the existing Add Liquidity Order type to prevent orders from removing liquidity from the Exchange's order book upon entry. The Post-Only Quote Configuration is available to Market Makers only as a risk protection. Unlike other market participants, Market Makers have certain obligations on the market, such as requirements to provide continuous two-sided quotes on a daily basis<sup>127</sup> and are subject to various obligations associated with providing liquidity on the market.<sup>128</sup> Market Makers are liquidity providers on the Exchange and, therefore, are offered certain quote risk protections noted to allow them to manage their risk more effectively.<sup>129</sup> The proposed Post-Only Quote Configuration is another risk protection afforded to Market Makers to assist them in managing their risk while continuing to comply with their

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<sup>125</sup> See Options 7, Section 3.

<sup>126</sup> See Options 3, Section 10.

<sup>127</sup> See Options 2, Section 5(e).

<sup>128</sup> See Options 2, Section 4.

<sup>129</sup> Options 3, Section 15(a)(3) currently sets forth the Anti-Internalization and Quotation Adjustments Protections that are available today to Market Makers.

obligations. The Exchange notes that enhancing the ability of Market Makers to add liquidity and avoid taking liquidity from the order book promotes just and equitable principles of trade on the Exchange and protects investors and the public interest, thereby enhancing market structure by allowing Market Makers to add liquidity only. Greater liquidity benefits all market participants by providing more trading opportunities and attracting greater participation by Market Makers. Also, an increase in the activity of Market Makers in turn facilitates tighter spreads.

### **Kill Switch**

The Exchange does not believe that the proposed decommission of the GUI Kill Switch for order cancellation will affect the protection of investors or the public interest or the maintenance of a fair and orderly market because no Members have used the GUI Kill Switch risk protection in 2022.<sup>130</sup> The Exchange does not charge any fees for the GUI Kill Switch. In addition, the Exchange notes that the use of this tool is completely optional, and the Exchange will continue to offer substantially similar Kill Switch functionality through FIX, Precise, and OTTO. As set forth in the Kill Switch rule, the GUI Kill Switch allows for the cancellation and restriction of orders for the requested Identifier(s) on a user or group level, whereas the port Kill Switch allows for cancellation and restriction of orders for the requested Identifier(s) on a user level.<sup>131</sup> While the GUI Kill Switch had more optionality around how Members may combine the Kill Switch request by Identifier(s), no Members have used the GUI Kill Switch risk protection this

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<sup>130</sup> As noted above, the Exchange will provide prior notice of the decommission to all Members via Options Trader Alert.

<sup>131</sup> See Options 3, Section 17(a)(1) and (2).

year. Furthermore, Members will retain the ability to contact market operations staff to manually purge their orders from the market. In addition, the Exchange will continue to implement System-enforced risk mechanisms that automatically remove orders for the Member once certain pre-set thresholds or conditions are met (i.e., market wide risk protection and cancel on disconnect).

Also, the Exchange believes that the low usage rate for the GUI Kill Switch does not warrant the continuous resources necessary for System support of such tools. As a result, the Exchange believes that the proposal will remove impediments to and perfect the mechanism of a free and open market and a national market system by allowing the Exchange to reallocate System capacity and resources currently used to maintain this functionality to the development and maintenance of other business initiatives and risk management products.

As noted above, the Exchange previously amended its rules to decommission the quote removal Kill Switch that was available to Market Makers through the GUI.<sup>132</sup> Similar to the GUI Kill Switch for quote removal, the Exchange has found that no Members use the GUI Kill Switch to cancel their orders, but rather, utilize other means to purge their existing orders from the System. The Exchange therefore believes that eliminating the GUI Kill Switch all together (including for orders as proposed herein) will streamline the Exchange's risk protection offerings in a manner that reflects Member use.

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<sup>132</sup> See supra note 89.



**Data Feeds and Trade Information**

The Exchange believes that the proposed changes to the current data feed offerings in Options 3, Section 23(a) are consistent with the Act. Specifically, the Exchange believes that the proposed changes to its Depth of Market Feed to provide full depth-of-market information will serve to more closely align the information provided on the Exchange's Depth of Market Feed with that of BX's Depth of Market Feed in BX Options 3, Section 23(a)(1), thereby ensuring a more consistent technology offering across the Nasdaq affiliated options exchanges. The Exchange also believes that the modified Depth of Market Feed will help to protect a free and open market by providing additional data to the marketplace. The Exchange further believes that the proposed changes to add more specificity around what would be provided in the opening/reopening order imbalance information, and to correct an erroneous reference to "ISE" in the Depth of Market Feed rule will promote transparency and clarity in the Exchange's rules.

The Exchange believes that the proposed changes to the Order Feed around what type of information would be available on this data feed offering, as further described above, will promote clarity and transparency in the Exchange's rules. Furthermore, the proposed data elements in the Order Feed are based on data elements that currently exist on other markets. For instance, the specificity around what would be provided in the opening/reopening order imbalance information, as well as the auction and exposure notifications are identical to the content within BX's Depth of Market Feed in BX Options 3, Section 23(a)(1). As noted above, the Attributable Order content is similar to the data elements on Cboe's current multicast PITCH feed.<sup>133</sup>

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<sup>133</sup> See supra note 93.

The Exchange believes that the proposed changes to the existing Top Quote Feed to rebrand into the Top Feed, to no longer provide information for opening price, daily trading volume, and high and low prices for the day, will serve to further align the Exchange's Top Feed with BX's Top Feed in BX Options 3, Section 23(a)(2), thereby ensuring a more consistent technology offering across the Nasdaq affiliated options exchanges.

The proposed changes to the Trades Feed to no longer provide information for opening price, daily trading volume, and high and low prices for the day are intended to align to the proposed changes to the Top Feed described above. The Exchange believes that removing this language will promote clarity and transparency in the Exchange's rules.

The proposed changes to the Spread Feed to provide full depth-of-book information rather than at the first five price levels are intended to align to the proposed changes to the Depth of Market Feed described above. The proposed full depth language will also be substantially similar to the full depth language in BX's Depth of Market Feed in BX Options 3, Section 23(a)(1) and in the Exchange's proposed Depth of Market Feed in proposed Options 3, Section 23(a)(1), except the proposed language herein will be tailored to complex functionality. Furthermore, the proposed Attributable Complex Order content is similar to the content currently on Cboe's Complex Multicast PITCH feed.<sup>134</sup> The Exchange believes that the modified Spread Feed will help to protect a free and open market by providing additional data to the marketplace. The Exchange also believes that the proposed changes to reorganize and incorporate existing concepts in the

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<sup>134</sup> See supra note 98.

Spread Feed rule a manner that is more consistent with the other amended data feed rules in Options 3, Section 23(a) will make the rules easier to navigate for market participants.

The Exchange believes that it is consistent with the Act to no longer offer TradeInfo when the Exchange migrates over the enhanced Nasdaq functionality, as there is a lack of demand from Members.<sup>135</sup> The Exchange does not assess a fee for TradeInfo. As noted above, Members use FIX, FIX DROP, and CTI to obtain order information currently available in TradeInfo, and to cancel orders through FIX. The Exchange further believes that the proposed decommission of TradeInfo will remove impediments to and perfect the mechanism of a free and open market and a national market system by allowing the Exchange to reallocate System capacity and resources currently used to maintain this functionality to the development and maintenance of other business initiatives and risk management products.

The Exchange's proposal to eliminate TradeInfo pricing from Options 7, Section 7.C(ii)(3) in its entirety is reasonable, equitable, and not unfairly discriminatory because TradeInfo would no longer be available to any Member. It is reasonable to remove all references to TradeInfo pricing from the Exchange's Pricing Schedule as the Exchange is removing this functionality from its Rulebook. As discussed above, the Exchange does not assess a fee for TradeInfo today. Additionally, it is equitable and not unfairly discriminatory to remove the references to TradeInfo pricing from the Pricing Schedule because no Member would be able to utilize this functionality once it is removed from the System.

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<sup>135</sup> As noted above, the Exchange will provide prior notice of the decommission to all Members through an Options Trader Alert.

### **Optional Risk Protections**

The Exchange believes that introducing the optional quantity and notional value risk protections as described above will protect investors and the public interest, and maintain fair and orderly markets, by providing market participants with another tool to manage their order risk. As noted above, BX offers functionally identical optional risk protections in BX Options 3, Section 28.<sup>136</sup> In addition, providing Members with more tools for managing risk will facilitate transactions in securities because Members will have more confidence that risk protections are in place. As a result, the new functionality has the potential to promote just and equitable principles of trade.

### **Corrective Changes**

The Exchange believes that the proposed changes to Supplementary Material .04 to Options 3, Section 7 to add Precise will make clear that Members may also use Precise (in addition to FIX) to route their orders using FIND or SRCH, or mark orders as DNR. The Exchange therefore believes that the proposed changes will add greater transparency to the Rulebook, which would benefit market participants and investors by reducing potential confusion. The Exchange similarly believes that the technical change to fix the incorrect cross-reference to the minimum trading increment rule in Options 3, Section 10(b)(1) will add greater transparency to the Rulebook and reduce any potential confusion.

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<sup>136</sup> As noted above, while the proposed rule text in Options 3, Section 28 adds more granularity, including around how orders are rejected when the value thresholds for the options risk protections are exceeded, the Exchange understands that the BX optional risk protections operate in the same manner. In addition, BX's rule does not include Precise as this order entry port is not available on BX today.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. The Exchange operates in a competitive market and regularly competes with other options exchanges for order flow. As discussed above, the Exchange is re-platforming its System in connection with the technology migration to enhanced Nasdaq functionality, which the Exchange believes would promote competition among options exchanges by potentially attracting additional order flow to the Exchange with the enhanced trading platform.

As it relates to the elimination of fees for TradeInfo from Options 7, the Exchange believes that its proposal does not impose an undue burden on competition because TradeInfo would no longer be available to any Members.

The basis for the majority of the proposed rule changes are the rules of the Nasdaq affiliated options exchanges, which have been previously filed with the Commission as consistent with the Act. As it relates to bulk messaging for quotes as proposed in Options 3, Section 4(b)(3), the Exchange notes that Cboe similarly allows for bulk messaging in Cboe Rule 1.1, except Cboe also allows bulk messaging for orders, unlike the Exchange. As it relates to the proposal in Options 3, Section 7(g)(4) to codify the refresh features into the Exchange's Reserve Order rule, the Exchange notes that Cboe's Reserve Order functionality has similar refresh features in Cboe Rule 5.6(c). As it relates to the proposal in Options 3, Section 23(a) to add Attributable Order and Attributable Complex Order content in the Order Feed and Spread Feed, respectively,

Cboe currently has similar data elements available on its Multicast PITCH feed and Complex Multicast PITCH feed.<sup>137</sup>

The proposed rule changes are based on the following rules of the Nasdaq affiliated exchanges:

- The Market Order proposal in Options 3, Section 7(a) will be materially identical to BX's Market Orders in BX Options 3, Section 7(a)(5).
- The ISO proposal in Options 3, Section 7(b)(5) will be substantially similar to BX's ISO in BX Option 3, Section 7(a)(6). Unlike BX, the Exchange's ISO proposal will not refer to how ISOs may be entered on the Exchange as the Exchange intends address that in a separate rule filing.
- The Exchange's AON proposal will be substantially similar to BX's Contingency Order rule in BX Options 3, Section 7(a)(4)(A) (except BX's rule also describes Minimum Quantity Orders, which the Exchange does not offer today) and BX's AON rule in BX Options 3, Section 7(a)(7).
- The Stop Order proposal in Options 3, Section 7(d) will be substantially similar to Phlx Options 3, Section 7(b)(4), except Phlx does not currently explicitly state that Phlx Stop Orders may only be entered through FIX or Precise because Phlx only offers one order entry protocol (FIX), unlike the Exchange, which offers three (FIX, Precise, and OTTO).
- The Stop Limit Order proposal in Options 3, Section 7(e) will be substantially similar to Phlx Options 3, Section 7(b)(4)(A), except Phlx does not currently

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<sup>137</sup> See supra notes 93 and 98.

explicitly state that Phlx Stop Limit Orders may only be entered through FIX or Precise for the same reasons stated for Stop Orders above.

- The Preferred Order proposal in Options 3, Section 7(l) will be materially identical to Phlx's Directed Order rule in Phlx Options 3, Section 7(b)(11).
- The ALO proposal in Options 3, Section 7(n) will be materially identical to BX ALOs in BX Options 3, Section 7(a)(12).
- The Opening Sweep proposal in Options 3, Section 7(u) will be materially identical to the Phlx Opening Sweep in Phlx Options 3, Section 7(b)(6).
- The Day order proposal in Supplementary Material .02(a) to Options 3, Section 7 will be substantially similar to BX Options 3, Section 7(b)(3), except BX's rule does not refer to OTTO or Precise because BX does not offer OTTO or Precise functionality today.
- The IOC proposal in Supplementary Material .02(d) to Options 3, Section 7 will be substantially similar to BX's IOC in BX Options 3, Section 7(b)(2), except the BX rule does not refer to OTTO, Precise, or Complex Order Price Protection as BX does not offer these features today.
- The OPG proposal in Supplementary Material .02(e) to Options 3, Section 7 will be materially identical to BX's OPG in BX Options 3, Section 7(b)(1).
- The Opening Process proposal in Options 3, Section 8 to allow all market participant interest to route will be identical to BX's Opening Process in BX Options 3, Section 8.
- The following proposed changes to PIM are based on BX PRISM: (1) proposed Options 3, Section 13(b)(5) will be materially identical to BX Options 3, Section

- 13(i)(E); (2) proposed Options 3, Section 13(c)(3) will be materially identical to BX Options 3, Section 13(ii)(A)(8); (3) proposed Options 3, Section 13(d)(5) will be functionally similar to BX Options 3, Section 13(ii)(C); (4) proposed Options 3, Section 13(d)(6) will be functionally similar to BX Options 3, Section 13(ii)(I); (5) proposed Options 3, Section 13(e)(4)(ii) will be functionally similar to BX Options 3, Section 13(ii)(A)(8) with respect to the ability to cancel or modify PIM responses (Improvement Orders); and (6) proposed Supplementary Material .02 to Options 3, Section 13 will be materially identical to BX Options 3, Section 13(iii).
- The proposed OPP risk protection in Options 3, Section 15(a)(1)(A) will be functionally similar to BX OPP in BX Options 3, Section 15(a)(1).<sup>138</sup>
  - The proposed Post-Only Quote Configuration in Options 3, Section 15(a)(3)(C) will be functionally identical to the BX Post-Only Quote Configuration in BX Options 3, Section 15(c)(3).
  - The Depth of Market Feed proposal in Option 3, Section 23(a)(1) will be substantially similar to the BX Depth of Market Feed in BX Options 3, Section 23(a)(1), except the Exchange will not offer auction and exposure notifications on its Depth of Market Feed like BX does today.
  - The Order Feed proposal in Options 3, Section 23(a)(2) will contain data elements that are identical to those on BX's Depth of Market Feed in BX Options 3, Section 23(a)(1), specifically around what would be provided in the

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<sup>138</sup> As noted above, BX will file a separate rule change to conform its OPP rule to the Exchange's proposed rule.



opening/reopening order imbalance information (i.e., the size of matched contracts and size of the imbalance), and auction and exposure notifications.

- The Top Feed proposal in Options 3, Section 23(a)(3) will be substantially similar to the BX Top Feed in BX Options 3, Section 23(a)(2), except the Exchange will continue to provide aggregated size information unlike BX.
- The Spread Feed proposal in Options 3, Section 23(a)(5) will contain full depth language that is substantially similar to BX's Depth of Market Feed in BX Options 3, Section 23(a)(1), except the proposed language in the Spread Feed will be tailored to complex functionality.
- The proposed optional quantity and notional value risk protections in Options 3, Section 28 will be functionally identical to the protections in BX Options 3, Section 28.<sup>139</sup>

The Exchange reiterates that the proposed rule change is being proposed in the context of the technology migration to enhanced Nasdaq functionality. The Exchange further believes the proposed rule change will benefit Members by providing a more consistent technology offering, as well as consistent rules, for market participants on the Nasdaq affiliated options exchanges. In addition, the proposed rule change relates to adding clarity and consistency in the Exchange's Rulebook, and are designed to reduce

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<sup>139</sup> As noted above, while the proposed rule text in Options 3, Section 28 adds more granularity, including around how orders are rejected when the value thresholds for the options risk protections are exceeded, the Exchange understands that the BX optional risk protections operate in the same manner. In addition, BX's rule does not include Precise as this order entry port is not available on BX today.

any potential investor confusion as to the features and applicability of certain functionality presently available on the Exchange.

The Exchange does not believe that the proposed rule change will impose any burden on intra-market competition that is not necessary or appropriate in furtherance of the purposes of the Act, as the majority of the proposed changes will apply to all Members. As it relates to the proposed rule change relating to bulk message functionality, while the Exchange currently offers this functionality to Market Makers only, bulk messaging is intended to provide Market Makers with an additional tool to meet their various quoting obligations in a manner they deem appropriate. As such, the Exchange believes that this functionality may facilitate Market Makers' provision of liquidity, thereby benefiting all market participants through additional execution opportunities at potentially improved prices. Furthermore, while the Exchange will offer the proposed Post-Only Quote Configuration to Market Makers only, the proposed risk protection will enhance the ability of Market Makers to add liquidity and avoid removing liquidity from the Exchange's order book in the manner described above. Greater liquidity benefits all market participants by providing more trading opportunities and attracting greater participation by Market Makers. The Exchange also does not believe that the proposed decommission of the GUI Kill Switch for order cancellation will impose any burden on intra-market competition that is not necessary or appropriate in furtherance of the purposes of the Act. As discussed above, the Exchange previously amended its rules to decommission the quote removal Kill Switch that was available to

Market Makers through the GUI.<sup>140</sup> The Exchange therefore believes that eliminating the GUI Kill Switch for order cancellation will streamline the Exchange's risk protection offerings in a manner that reflects Member use. The Exchange will continue to offer substantially similar Kill Switch functionality through FIX, Precise, and OTTO.

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

No written comments were either solicited or received.

6. Extension of Time Period for Commission Action

Not Applicable.

7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2)

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)(iii)<sup>141</sup> of the Act and Rule 19b-4(f)(6) thereunder<sup>142</sup> in that it effects a change that: (i) does not significantly affect the protection of investors or the public interest; (ii) does not impose any significant burden on competition; and (iii) by its terms, does not become operative for 30 days after the date of the filing, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest.

As described in Items 3 and 4 above, the majority of the proposed rule changes are based on the rules of BX and Phlx, or are similar to existing rules or functionality on Cboe (i.e., bulk messaging, Reserve Orders, and the Attributable Order content in the

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<sup>140</sup> See supra note 89.

<sup>141</sup> 15 U.S.C. 78s(b)(3)(A)(iii).

<sup>142</sup> 17 CFR 240.19b-4(f)(6).

market data feeds). The proposed rule change aligns the Exchange's System functionality across the Nasdaq affiliated options exchanges, simplifying the technology implementation, changes, and maintenance by Exchange Members that are also market participants on other affiliated Nasdaq options exchanges, retaining only intended differences. The proposed rule change is consistent with the protection of investors and the public interest because it will allow the Exchange to continue to strive towards a technology integration of the Nasdaq affiliated options exchanges in a timely manner to ensure stability of the System. All System functionality as described above will be available to all Members other than the bulk message functionality and Post-Only Quote Configuration. While these tools are only available to Market Makers, the Exchange believes that its offerings will encourage Market Makers to quote tighter and deeper markets, which will increase liquidity on the Exchange, thereby benefiting all market participants in the quality of order interaction. As it relates to the Exchange's proposal to remove pricing for TradeInfo in Options 7, the Exchange believes that the proposed changes do not significantly affect the protection of investors or the public interest because TradeInfo would no longer be available to any Member. For the same reasons, the Exchange believes that the proposed rule change does not impose any significant burden on competition.

Furthermore, Rule 19b-4(f)(6)(iii)<sup>143</sup> requires a self-regulatory organization to give the Commission written notice of its intent to file a proposed rule change under that subsection at least five business days prior to the date of filing, or such shorter time as designated by the Commission. The Exchange has provided such notice.

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<sup>143</sup> 17 CFR 240.19b-4(f)(6)(iii).

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

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

The following proposed rule changes are based on the various rules or proposals of various options exchanges, primarily the Nasdaq affiliated options exchanges:

- The bulk message proposal in Options 3, Section 4(b)(3) will be similar to Cboe's bulk message in Cboe Rule 1.1, except Cboe also allows bulk messaging for orders, unlike the Exchange.
- The Market Order proposal in Options 3, Section 7(a) will be materially identical to BX's Market Orders in BX Options 3, Section 7(a)(5).
- The ISO proposal in Options 3, Section 7(b)(5) will be substantially similar to BX's ISO in BX Option 3, Section 7(a)(6). Unlike BX, the Exchange's ISO proposal will not refer to how ISOs may be entered on the Exchange as the Exchange intends address that in a separate rule filing.
- The Exchange's AON proposal will be substantially similar to BX's Contingency Order rule in BX Options 3, Section 7(a)(4)(A) (except BX's rule also describes Minimum Quantity Orders, which the Exchange does not offer today) and BX's AON rule in BX Options 3, Section 7(a)(7).

- The Stop Order proposal in Options 3, Section 7(d) will be substantially similar to Phlx Options 3, Section 7(b)(4), except Phlx does not currently explicitly state that Phlx Stop Orders may only be entered through FIX or Precise because Phlx only offers one order entry protocol (FIX), unlike the Exchange, which offers three (FIX, Precise, and OTTO).
- The Stop Limit Order proposal in Options 3, Section 7(e) will be substantially similar to Phlx Options 3, Section 7(b)(4)(A), except Phlx does not currently explicitly state that Phlx Stop Limit Orders may only be entered through FIX or Precise for the same reasons stated for Stop Orders above.
- The Reserve Order proposal in Options 3, Section 7(g) will be similar to Cboe's Reserve Order functionality in Cboe Rule 5.6(c).
- The Preferenced Order proposal in Options 3, Section 7(l) will be materially identical to Phlx's Directed Order rule in Phlx Options 3, Section 7(b)(11).
- The ALO proposal in Options 3, Section 7(n) will be materially identical to BX ALOs in BX Options 3, Section 7(a)(12).
- The Opening Sweep proposal in Options 3, Section 7(u) will be materially identical to the Phlx Opening Sweep in Phlx Options 3, Section 7(b)(6).
- The Day order proposal in Supplementary Material .02(a) to Options 3, Section 7 will be substantially similar to BX Options 3, Section 7(b)(3), except BX's rule does not refer to OTTO or Precise because BX does not offer OTTO or Precise functionality today.
- The IOC proposal in Supplementary Material .02(d) to Options 3, Section 7 will be substantially similar to BX's IOC in BX Options 3, Section 7(b)(2), except the

BX rule does not refer to OTTO, Precise, or Complex Order Price Protection as BX does not offer these features today.

- The OPG proposal in Supplementary Material .02(e) to Options 3, Section 7 will be materially identical to BX's OPG in BX Options 3, Section 7(b)(1).
- The Opening Process proposal in Options 3, Section 8 to allow all market participant interest to route will be identical to BX's Opening Process in BX Options 3, Section 8.
- The following proposed changes to PIM are based on BX PRISM: (1) proposed Options 3, Section 13(b)(5) will be materially identical to BX Options 3, Section 13(i)(E); (2) proposed Options 3, Section 13(c)(3) will be materially identical to BX Options 3, Section 13(ii)(A)(8); (3) proposed Options 3, Section 13(d)(5) will be functionally similar to BX Options 3, Section 13(ii)(C); (4) proposed Options 3, Section 13(d)(6) will be functionally similar to BX Options 3, Section 13(ii)(I); (5) proposed Options 3, Section 13(e)(4)(ii) will be functionally similar to BX Options 3, Section 13(ii)(A)(8) with respect to the ability to cancel or modify PIM responses (Improvement Orders); and (6) proposed Supplementary Material .02 to Options 3, Section 13 will be materially identical to BX Options 3, Section 13(iii).
- The proposed OPP risk protection in Options 3, Section 15(a)(1)(A) will be functionally similar to BX OPP in BX Options 3, Section 15(a)(1).<sup>144</sup>

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<sup>144</sup> As noted above, BX will file a separate rule change to conform its OPP rule to the Exchange's proposed rule.

- The proposed Post-Only Quote Configuration in Options 3, Section 15(a)(3)(C) will be functionally identical to the BX Post-Only Quote Configuration in BX Options 3, Section 15(c)(3).
- The Depth of Market Feed proposal in Option 3, Section 23(a)(1) will be substantially similar to the BX Depth of Market Feed in BX Options 3, Section 23(a)(1), except the Exchange will not offer auction and exposure notifications on its Depth of Market Feed like BX does today.
- The Order Feed proposal in Options 3, Section 23(a)(2) will contain data elements that are identical to those on BX's Depth of Market Feed in BX Options 3, Section 23(a)(1), specifically around what would be provided in the opening/reopening order imbalance information (i.e., the size of matched contracts and size of the imbalance), and auction and exposure notifications. The proposal to add Attributable Order content will be similar to the content currently available on Cboe's Multicast PITCH feed.<sup>145</sup>
- The Top Feed proposal in Options 3, Section 23(a)(3) will be substantially similar to the BX Top Feed in BX Options 3, Section 23(a)(2), except the Exchange will continue to provide aggregated size information unlike BX.
- The Spread Feed proposal in Options 3, Section 23(a)(5) will contain full depth language that is substantially similar to BX's Depth of Market Feed in BX Options 3, Section 23(a)(1), except the proposed language in the Spread Feed will be tailored to complex functionality. The proposal to add Attributable Complex

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<sup>145</sup> See supra note 93.



Order content will be similar to the content currently available on Cboe's Complex Multicast PITCH feed.<sup>146</sup>

- The TradeInfo proposal is based on SR-BX-2020-027.
- The proposed optional quantity and notional value risk protections in Options 3, Section 28 will be functionally identical to the protections in BX Options 3, Section 28.<sup>147</sup>

9. Security-Based Swap Submissions Filed Pursuant to Section 3C of the Act

Not applicable.

10. Advance Notices Filed Pursuant to Section 806(e) of the Payment, Clearing and Settlement Supervision Act

Not applicable.

11. Exhibits

1. Notice of Proposed Rule Change for publication in the Federal Register.
5. Text of the proposed rule change.

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<sup>146</sup> See supra note 98.

<sup>147</sup> As noted above, while the proposed rule text in Options 3, Section 28 adds more granularity, including around how orders are rejected when the value thresholds for the options risk protections are exceeded, the Exchange understands that the BX optional risk protections operate in the same manner. In addition, BX's rule does not include Precise as this order entry port is not available on BX today.

**EXHIBIT 1**

SECURITIES AND EXCHANGE COMMISSION  
(Release No. \_\_\_\_\_ ; File No. SR-ISE-2023-06)

February \_\_, 2023

Self-Regulatory Organizations; Nasdaq ISE, LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend its Rules in Connection With a Technology Migration to Enhanced Nasdaq, Inc. (“Nasdaq”) Functionality

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on February 3, 2023, 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 in connection with a technology migration to enhanced Nasdaq, Inc. (“Nasdaq”) functionality.

The text of the proposed rule change is available on the Exchange’s Website at <https://listingcenter.nasdaq.com/rulebook/ise/rules>, at the principal office of the Exchange, and at the Commission’s Public Reference Room.

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

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it

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

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

received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

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

1. Purpose

In connection with a technology migration to enhanced Nasdaq functionality that will result in higher performance, scalability, and more robust architecture, the Exchange proposes to amend its rules to adopt certain trading functionality currently utilized at Nasdaq affiliate options exchanges. As further discussed below, the Exchange is proposing to adopt such functionality substantially in the same form as currently on the Nasdaq affiliated options exchanges, while retaining certain intended differences between it and its affiliates. The Exchange also proposes a number of changes to memorialize existing functionality, add more granularity in its rules to describe how existing functionality operates today, and to harmonize the Exchange's rules where appropriate with the rules of its affiliated options exchanges by using consistent language to describe identical functionality.

The Exchange intends to begin implementation of the proposed rule change by Q4 2023. The Exchange would commence its implementation with a limited symbol migration and continue to migrate symbols over several weeks. The Exchange will issue an Options Trader Alert to Members to provide notification of the symbols that will migrate and the relevant dates.

**Bulk Message**

The Exchange proposes to codify existing functionality that allows Market

Makers to submit their quotes to the Exchange in block quantities as a single bulk message. In other words, a Market Maker may submit a single message to the Exchange, which may contain bids and offers in multiple series. The Exchange does not permit bulk messaging for orders today. The Exchange has historically provided Market Makers with information regarding bulk messaging in its publicly available technical specifications.<sup>3</sup> To promote greater transparency, the Exchange is seeking to codify this functionality in its Rulebook. Specifically, the Exchange proposes to amend Options 3, Section 4(b)(3) to memorialize that quotes may be submitted as a bulk message. The Exchange also proposes to add a definition of “bulk message” in new subparagraph (i) of Options 3, Section 4(b)(3), which will provide that a bulk message means a single electronic message submitted by a Market Maker to the Exchange which may contain a specified number of quotations as designated by the Exchange.<sup>4</sup> The bulk message, submitted via SQF,<sup>5</sup> may enter, modify, or cancel quotes. Bulk messages are handled by the System in

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<sup>3</sup> See [https://www.nasdaq.com/docs/2022/05/17/SQF\\_8.2b.pdf](https://www.nasdaq.com/docs/2022/05/17/SQF_8.2b.pdf) (specifying for bulk quoting of up to 200 quotes per quote block message). The specifications note in other places the manner in which a Member can send such quote block messages.

<sup>4</sup> See *id.* As noted above, quote bulk messages can presently contain up to 200 quotes per message. This is the maximum amount that is permitted in a bulk message. The Exchange would announce any change to these specifications in an Options Technical Update distributed to all Members.

<sup>5</sup> "Specialized Quote Feed" or "SQF" is an interface that allows Market Makers to connect, send, and receive messages related to quotes, Immediate-or-Cancel Orders, and auction responses to the Exchange. Features include the following: (1) options symbol directory messages (e.g., underlying and complex instruments); (2) System event messages (e.g., start of trading hours messages and start of opening); (3) trading action messages (e.g., halts and resumes); (4) execution messages; (5) quote messages; (6) Immediate-or-Cancel Order messages; (7) risk protection triggers and purge notifications; (8) opening imbalance messages; (9) auction notifications; and (10) auction responses. The SQF Purge Interface only receives and notifies of purge requests from the Market Maker. Market Makers may only enter interest into SQF in their assigned options

the same manner as it handles a single quote message.

The Exchange notes that other exchanges like Cboe Options Exchange (“Cboe”) currently offer similar bulk messaging functionality that allow their market participants to submit block quantity quotes in a single electronic message.<sup>6</sup>

### **Order Types**

The Exchange proposes to make several enhancements to certain order types in Options 3, Section 7 in connection with the technology migration to Nasdaq enhanced functionality. Specifically in connection with the migration, the Exchange proposes to: (1) introduce an intra-day cancel timer feature for Market Orders,<sup>7</sup> (2) eliminate non-Immediate-or-Cancel (“IOC”)<sup>8</sup> Intermarket Sweep Orders (“ISOs”),<sup>9</sup> (3) introduce BX-like re-pricing to Add Liquidity Orders (“ALOs”),<sup>10</sup> and (4) allow Market Orders to be

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series. See Supplementary Material .03(c) to Options 3, Section 7.

<sup>6</sup> See definition of “bulk message” in Cboe Rule 1.1. Unlike Cboe, which also allows bulk messaging for orders, the Exchange’s bulk message functionality only applies to quotes as discussed above.

<sup>7</sup> A market order is an order to buy or sell a stated number of options contracts that is to be executed at the best price obtainable when the order reaches the Exchange. See Options 3, Section 7(a).

<sup>8</sup> An IOC order must be executed in whole or in part upon receipt. Any portion not so executed is to be treated as cancelled. See Options 3, Section 7(b)(3). As discussed later in this filing, the Exchange will relocate the IOC rule into Supplementary Material .02 to Options 3, Section 7.

<sup>9</sup> An ISO is a limit order that meets the requirements of Options 5, Section 1(h). See Options 3, Section 7(b)(5).

<sup>10</sup> An Add Liquidity Order is a limit order that is to be executed in whole or in part on the Exchange (i) only after being displayed on the Exchange's limit order book; and (ii) without routing any portion of the order to another market center. Members may specify whether an Add Liquidity Order shall be cancelled or re-priced to the minimum price variation above the national best bid price (for sell orders) or below the national best offer price (for buy orders) if, at the time of

entered as Opening Only (“OPG”)<sup>11</sup> orders (currently only allowed for Limit Orders).<sup>12</sup> As discussed below, the proposed enhancements are intended to align with existing BX functionality. The Exchange also proposes to add more granularity on how certain order types currently operate on the Exchange today, codify existing order type functionality, and to relocate related rule text within Options 3, Section 7 for better readability. Except with respect to the order type enhancements specified above, none of the proposed order type rule changes will amend current functionality. Rather, these changes are designed to bring greater transparency as to the applicability of certain order types currently available on the Exchange, and to provide greater consistency between the rules of the Exchange and its affiliates.

### ***Market Orders***

The Exchange proposes to amend the definition of Market Orders in Options 3, Section 7(a) to introduce a cancel timer feature, which will allow Members to designate Market Orders that do not execute after a certain period of time to be cancelled back to

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entry, the order (i) is executable on the Exchange; or (ii) the order is not executable on the Exchange, but would lock or cross the national best bid or offer. If at the time of entry, an Add Liquidity Order would lock or cross one or more non-displayed orders on the Exchange, the Add Liquidity Order shall be cancelled or re-priced to the minimum price variation above the best non-displayed bid price (for sell orders) or below the best non-displayed offer price (for buy orders). An Add Liquidity Order will only be re-priced once and will be executed at the re-priced price. An Add Liquidity Order will be ranked in the Exchange's limit order book in accordance with Options 3, Section 10. See Options 3, Section 7(n).

<sup>11</sup> An OPG order is a Limit Order that can be entered for the opening rotation only. See Options 3, Section 7(o). As discussed later in this filing, the Exchange will relocate the OPG rule into Supplementary Material .02 to Options 3, Section 7.

<sup>12</sup> A Limit Order is an order to buy or sell a stated number of options contracts at a specified price or better. See Options 3, Section 7(b).

the Member. Specifically, the Exchange proposes to add that Members can designate their Market Orders not executed after a pre-established period of time, as established by the Exchange,<sup>13</sup> will be cancelled back to the Member, once an options series has opened for trading. BX currently has an identical timer feature for BX Market Orders.<sup>14</sup> Similar to BX, the proposed timer would be available once the intra-day trading session begins for an options series, as the Exchange already has a separate opening delay timer that provides protection to the market during the Opening Process. In particular, the Exchange would cancel or route orders (consistent with the Member's instructions) if an options series has not opened before the conclusion of the opening delay timer.<sup>15</sup> As such, the Exchange is proposing that the pre-established period of time for the proposed timer feature would commence once the intra-day trading session begins for that options series. In other words, while the opening process is on-going, and the intra-day trading session has not commenced, the pre-established period of time for the proposed timer feature would not commence. Further, the Exchange proposes to note that Market Orders on the order book would be immediately cancelled if an options series is halted, provided the Member designated the cancellation of Market Orders.<sup>16</sup> The proposed changes are intended to make clear that in the event there is a Market Order in a zero bid market with

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<sup>13</sup> The Exchange will initially set the pre-established period of time at 4 seconds, identical to BX. This specification will be set out in the ISE System settings document on a publicly available website. The Exchange would issue an Options Trader Alert notifying all Members if it determined to amend that timeframe.

<sup>14</sup> See BX Options 3, Section 7(a)(5).

<sup>15</sup> See Options 3, Section 8(k).

<sup>16</sup> Members may make the designation to cancel their Market Orders through their FIX, OTTO, and Precise port settings.

the Market Order was resting on the order book, the Member has an option to designate the cancellation of that Market Order pursuant to the proposed cancel timer feature. In this case, those Market Orders to sell, which were resting on the order book, would immediately cancel upon a trading halt instead of waiting until the end of the pre-established timer period. BX has identical language governing its Market Orders today.<sup>17</sup> Like BX, the Exchange believes that the proposed intra-day timer feature will provide additional flexibility for Members that wish to cancel unexecuted Market Orders after a certain period of time. Lastly, the Exchange proposes a non-substantive change to capitalize the term “market orders” in the first sentence of Options 3, Section 7(a) for consistency with the proposed rule text.

### ***Intermarket Sweep Orders***

The Exchange proposes to amend the ISO rule in Options 3, Section 7(b)(5), which currently provides that an ISO is limit order that meets the requirements of Options 5, Section 1(h).<sup>18</sup> As amended, the ISO rule will provide:

An Intermarket Sweep Order (“ISO”) is a limit order that meets the requirements of Options 5, Section 1(h). Orders submitted to the Exchange as ISO are not routable and

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<sup>17</sup> See BX Options 3, Section 7(a)(5).

<sup>18</sup> Options 5, Section 1(h) provides that an ISO is a limit order for an options series that, simultaneously with the routing of the ISO, one or more additional ISOs, as necessary, are routed to execute against the full displayed size of any Protected Bid, in the case of a limit order to sell, or any Protected Offer, in the case of a limit order to buy, for the options series with a price that is superior to the limit price of the ISO. A Member may submit an Intermarket Sweep Order to the Exchange only if it has simultaneously routed one or more additional Intermarket Sweep Orders to execute against the full displayed size of any Protected Bid, in the case of a limit order to sell, or Protected Offer, in the case of a limit order to buy, for an options series with a price that is superior to the limit price of the Intermarket Sweep Order. An ISO may be either an Immediate-Or-Cancel Order or an order that expires on the day it is entered.



will ignore the ABBO and trade at allowable prices on the Exchange. ISOs must have a TIF designation of IOC. ISOs may not be submitted during the Opening Process.

The proposed rule text is substantially similar to BX's ISO rule in BX Options 3, Section 7(a)(6).<sup>19</sup> The Exchange is also proposing to add that ISOs may not be submitted during the Opening Process to reflect current System handling. The Exchange notes that BX similarly prohibits the submission of ISOs before the market opens and therefore proposes to add a similar level of detail in the Exchange's ISO rule.

Other than the stipulation that ISOs must have a TIF<sup>20</sup> designation of IOC, the proposed language does not amend the current ISO functionality but rather is intended to add more granularity and more closely align the ISO rule with BX's ISO rule. The Exchange does note that in connection with the System migration, the Exchange proposes to amend the current ISO functionality to only allow ISOs to be entered as IOC. Today, Options 5, Section 1(h) provides that an ISO may either be an IOC or an order that expires on the day it is entered. The Exchange proposes to delete this sentence entirely from Options 5, Section 1(h) as ISOs may only be IOC with the System migration, and this will be articulated in proposed Options 3, Section 7(b)(3).

The Exchange is proposing to require ISOs to be entered as IOC, which would cause an ISO to cancel in whole or in part upon receipt if the ISO does not execute or

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<sup>19</sup> BX's ISO rule also currently states that "ISOs may be entered on the Order Book or into the PRISM Mechanism pursuant to Options 3, Section 13(ii)(K)." See BX Options 3, Section 7(a)(6). The Exchange notes that it intends to file a separate rule filing to add similar language as BX relating to how ISOs may be entered on the Exchange.

<sup>20</sup> As discussed later in this filing, the Exchange is proposing to codify the definition of "Time in Force" or "TIF" to mean the period of time that the System will hold an order for potential execution. See proposed Supplementary Material .02 to Options 3, Section 7.

does not entirely execute, because an ISO is generally used when trying to sweep a price level across multiple exchanges in an effort to post the balance of an order without locking an away market. The Exchange therefore believes that ISOs have a limited purpose and should be cancelled if they do not execute or do not entirely execute. As noted above, the proposal will align to current BX functionality that similarly only allows ISOs to be entered as IOC on BX.

### *All-or-None Orders*

The Exchange proposes to amend the All-Or-None (“AON”) Order rule in Options 3, Section 7(c), which currently provides that an AON Order is a limit or market order that is to be executed in its entirety or not at all, and that an AON Order may only be entered as an IOC Order. As amended, the AON rule will provide:

An All-Or-None (“AON”) Order is a limit or market order that is to be executed in its entirety or not at all. An AON Order may only be entered as an Immediate-or-Cancel Order. AON Orders will only execute against multiple, aggregated orders if the executions would occur simultaneously. AON Orders may not be submitted during the Opening Process.

With the proposed changes, the Exchange is not amending current AON functionality; rather, it is memorializing current System behavior in a manner consistent with its affiliates. Today, AON Orders have a size contingency (i.e., executed in its entirety at the entered size or not at all) and must be IOC. The Exchange is specifying that AON Orders will execute against multiple, aggregated orders only if the executions would occur simultaneously to ensure that AON Orders are executed at the specified size while also honoring the priority of all other orders on the order book. The Exchange is adopting this rule text for AON orders to align to substantially similar language on BX.<sup>21</sup>

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<sup>21</sup> See BX Options 3, Section 7(a)(4)(A) (describing Minimum Quantity Orders and

The Exchange notes that the handling of AONs as described in the proposed rule text in Options 3, Section 7(c) is consistent with the Exchange's allocation methodology in Options 3, Section 10. The additional detail makes clear that because of the size contingency of AON Orders, those orders must be satisfied simultaneously to avoid any priority conflict on the order book, which considers current displayed NBBO prices to avoid locked and crossed markets as well as trade-throughs.

The Exchange is also proposing to add that AON orders may not be submitted during the Opening Process to reflect current System handling. The Exchange notes that BX similarly prohibits the submission of AON orders before the market opens and therefore proposes to add a similar level of detail in the Exchange's AON rule.<sup>22</sup>

### ***Stop Orders***

The Exchange proposes to amend its Stop Order rule in Options 3, Section 7(d), which presently provides that a stop order is an order that becomes a market order when the stop price is elected. A stop order to buy is elected when the option is bid or trades on the Nasdaq ISE at, or above, the specified stop price. A stop order to sell is elected when the option is offered or trades on the Nasdaq ISE at, or below, the specified stop price. The Exchange now proposes to add that a Stop Order shall be cancelled if it is immediately electable upon receipt. Stop Orders allow Members increased control and flexibility over their transactions and the prices at which they are willing to execute an order. The purpose of a Stop Order is to not execute upon entry, and instead rest in the System until the market reaches a certain price level, at which time the order could be

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AON Orders as Contingency Orders). Unlike BX, the Exchange does not currently offer Minimum Quantity Orders.

<sup>22</sup> See BX Options 3, Section 7(a)(7).

executed. A Stop Order that is immediately electable upon receipt would therefore negate the purpose of the Stop Order, so the Exchange would cancel such orders today. The Exchange believes that this ensures Members are able to use Stop Orders to achieve their intended purpose. The proposed changes codify current Stop Order handling and are intended to better align the Exchange's Stop Order rule with that of its affiliate, Phlx.<sup>23</sup>

The Exchange also proposes to specify that Stop Orders may only be entered through FIX or Precise.<sup>24</sup> This is how Stop Orders are handled today. Because the Exchange offers three order entry protocols today (FIX, Precise, and OTTO),<sup>25</sup> the Exchange believes that adding this detail will make clear that Stop Orders are only

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<sup>23</sup> See Phlx Options 3, Section 7(b)(4).

<sup>24</sup> "Nasdaq Precise" or "Precise" is a front-end interface that allows Electronic Access Members and their Sponsored Customers to send orders to the Exchange and perform other related functions. Features include the following: (1) order and execution management: enter, modify, and cancel orders on the Exchange, and manage executions (e.g., parent/child orders, inactive orders, and post-trade allocations); (2) market data: access to real-time market data (e.g., NBBO and Exchange BBO); (3) risk management: set customizable risk parameters (e.g., kill switch); and (4) book keeping and reporting: comprehensive audit trail of orders and trades (e.g., order history and done away trade reports). See Supplementary Material .03(d) to Options 3, Section 7. See General 1, Section 1(a)(6) for the definition of Electronic Access Member and Supplementary Material .02 to Options 3, Section 21 for the definition of Sponsored Customer.

<sup>25</sup> "Ouch to Trade Options" or "OTTO" is an interface that allows Members and their Sponsored Customers to connect, send, and receive messages related to orders, auction orders, and auction responses to the Exchange. Features include the following: (1) options symbol directory messages (e.g., underlying and complex instruments); (2) System event messages (e.g., start of trading hours messages and start of opening); (3) trading action messages (e.g., halts and resumes); (4) execution messages; (5) order messages; (6) risk protection triggers and cancel notifications; (7) auction notifications; (8) auction responses; and (9) post trade allocation messages. See Supplementary Material .03(b) to Options 3, Section 7.

available to be entered through two of these order entry protocols and reduce any potential confusion.

### ***Stop Limit Orders***

The Exchange proposes to amend its Stop Limit Order rule in Options 3, Section 7(e), which presently provides that a stop limit order is an order that becomes a limit order when the stop price is elected. A stop limit order to buy is elected when the option is bid or trades on the Nasdaq ISE at, or above, the specified stop price. A stop limit order to sell is elected when the option is offered or trades on the Nasdaq ISE at, or below, the specified stop price. The Exchange now proposes to add that a Stop Limit Order shall be cancelled if it is immediately electable upon receipt. The Exchange would cancel these orders today for the same reasons discussed above for Stop Orders. The proposed changes codify current Stop Limit Order handling and are intended to better align the Exchange's Stop Limit Order rule with that of Phlx.<sup>26</sup>

The Exchange also proposes to specify that Stop Limit Orders may only be entered through FIX or Precise. This is how Stop Limit Orders are handled today. For the same reasons discussed above for Stop Orders, the Exchange believes that adding this detail will make clear that Stop Limit Orders are only available to be entered through the specified order entry protocol and reduce any potential confusion. Lastly, the Exchange proposes a non-substantive change to correct a punctuation error in the paragraph header.

### ***Cancel and Replace Orders***

The Exchange proposes to relocate the rule text governing Cancel and Replace Orders from Supplementary Material .02 to Options 3, Section 7 into Options 3, Section

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<sup>26</sup> See Phlx Options 3, Section 7(b)(4)(A).

7(f). The Exchange also proposes non-substantive, clarifying changes to the relocated rule text to update the incorrect cross-cites therein to the System's price or other reasonability checks. The Exchange also proposes to amend the following portion of the rule, which currently provides: "The replacement order will retain the priority of the cancelled order, if the order posts to the Order Book, provided the price is not amended, size is not increased, or in the case of Reserve Orders,<sup>27</sup> size is not changed." The Exchange proposes to make clear that in the case of Reserve Orders, a change in price will also result in a change of priority for the replacement order. The Exchange also proposes to clarify that the reference to the Reserve Order's size in this Rule is referring to both displayed and non-displayed size. As amended, the rule will provide: "The replacement order will retain the priority of the cancelled order, if the order posts to the Order Book, provided the price is not amended, or size is not increased. In the case of Reserve Orders, the replacement order will retain the priority of the cancelled order, if the order posts to the Order Book, provided the price is not amended or size (displayed and non-displayed) is not changed." The proposed changes will aid market participants in locating this order type in the main body of the rule, and add more granularity around how the Exchange will treat the cancellation and replacement of Reserve Orders.

### ***Reserve Orders***

As described in Options 3, Section 7(g), the Exchange offers Members a Reserve Order, which is a Limit Order that contains both a displayed portion and a non-displayed portion. Both the displayed and non-displayed portions of a Reserve Order are available

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<sup>27</sup> As discussed later in this filing, a Reserve Order is defined in Options 3, Section 7(g) as a Limit Order that contains both a displayed portion and a non-displayed portion.

for potential execution against incoming marketable orders. A non-marketable Reserve Order will rest on the order book. The non-displayed portion of a Reserve Order will be available for execution only after all displayed interest at that price has been executed. Both the displayed and the non-displayed portions of a Reserve Order will be ranked initially by the specified limit price and time of entry, and both the displayed and non-displayed portions of a Reserve Order will trade in accordance with the priority and allocation provisions in Options 3, Section 10.

When the displayed portion of a Reserve Order has been decremented, in whole or in part, it will be refreshed from the non-displayed portion of the resting Reserve Order. If the displayed portion is refreshed in part, the new displayed portion will include the previously displayed portion. Upon any refresh, the entire displayed portion of the order will be ranked at the specified limit price, assigned a new entry time (i.e., the time that the newly displayed portion of the order was refreshed), and given priority in accordance with Options 3, Section 10. Any remaining non-displayed portion of the order will receive the same time stamp as the newly displayed portion of the order.

The Exchange now proposes to enhance the Reserve Order rule by providing more granularity in how Members may elect to refresh the display quantity for the Reserve Order. The Exchange is not proposing to modify the current functionality of Reserve Orders, but rather proposes to augment the definition to clarify current System behavior. Specifically, the Exchange proposes to make clear that Reserve Orders may be entered with an instruction for the displayed portion of the order to be refreshed: (A) upon full execution of the displayed portion or upon any partial execution; and (B) up to the initial size of the displayed portion or with a random refresh quantity within a range

determined by the Member.<sup>28</sup> The Exchange believes that this refresh feature for Reserve Orders provides more flexibility and opportunities for Members to add displayed liquidity to the Exchange. The Exchange believes that the proposed changes would add transparency to the operation of Reserve Orders, without altering current functionality. The Exchange notes that other options exchanges like Cboe currently offer similar refresh features on their Reserve Order functionality.<sup>29</sup>

Finally, the Exchange proposes non-substantive, technical changes in Options 3, Section 7(g) to reformat the paragraph numbering, make a corrective change to “non-displayed portions” in proposed paragraph (6), and update a cross-cite in proposed paragraph (6).

#### ***Attributable Orders***

As described in Options 3, Section 7(h), the Exchange currently offers Attributable Orders, which allow Members to voluntarily display their firm IDs on the orders. The rule also provides the Exchange with flexibility to announce which Exchange Systems and class of securities for which the Attributable Order would be available.<sup>30</sup>

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<sup>28</sup> See proposed Options 3, Section 7(g)(4). The Exchange will also renumber the paragraphs within this rule accordingly. As it relates to the refresh quantity range, Members must designate a range for the random refresh election when they submit the Reserve Order if they elect a random refresh, otherwise the Reserve Order would be refreshed at a quantity equal to the initial size of the displayed portion. The range must be set at a number between 1 and the initial displayed quantity.

<sup>29</sup> See Cboe Rule 5.6(c) (setting forth the random replenishment and fixed replenishment features for Reserve Orders).

<sup>30</sup> Today, Attributable Orders are not available for the Facilitation, Solicited Order, and Price Improvement Mechanisms.



The Exchange now proposes to delete existing text that refers to class of securities in Options 3, Section 7(h). Attributable Orders are available for all classes of securities today. The Exchange is therefore deleting this language as inaccurate. The Exchange also proposes a corrective change herein to “an Option Trader Alert.”

#### ***Customer Cross Orders***

Customer Cross Orders are currently defined in Options 3, Section 7(i). The Exchange proposes to add that such orders will trade in accordance with Options 3, Section 12(a). This is a non-substantive amendment to add a cross-reference to Section 12(a), which currently describes in detail how a Customer Cross Order would execute on the Exchange.

#### ***Qualified Contingent Cross Orders***

Qualified Contingent Cross (“QCC”) Orders are currently defined in Options 3, Section 7(j). The Exchange proposes a non-substantive, technical change to add a reference to “QCC” in the first sentence of this rule. The Exchange also proposes to add that QCC Orders will trade in accordance with Options 3, Section 12(c). This is a non-substantive amendment to add a cross-reference to Section 12(c), which currently describes in detail how a QCC Order would execute on the Exchange.

The Exchange further proposes to specify that QCC Orders may only be entered through FIX or Precise. This is how QCC Orders are handled today. Because the Exchange offers three order entry protocols today (FIX, Precise, and OTTO), the Exchange believes that adding this detail will make clear that QCC Orders are only available to be entered through two of these order entry protocols and reduce any potential confusion.

### ***Preferred Orders***

The Exchange proposes to include the following definition of a Preferred Order in Options 3, Section 7(l) for ease of reference: “A Preferred Order is as described in Options 2, Section 10.” This is not a new order type, as Preferred Orders are currently described in Options 2, Section 10. While this order type is not currently listed in the order type rule in Options 3, Section 7, the Exchange believes that it will be useful to market participants to have order types centralized within one rule. Phlx similarly lists out Directed Orders (akin to Preferred Orders) in its order type rule in Phlx Options 3, Section 7(b)(11).

### ***Add Liquidity Orders***

Add Liquidity Orders (“ALOs”) are currently defined in Options 3, Section 7(n).

Today, the Exchange offers ALOs to provide market participants with greater control over the circumstances in which their orders are executed. ALOs are Limit Orders that will only be executed as a “maker” on the Exchange (i.e., when the Member is providing liquidity). Members can choose whether an ALO that is executable on the Exchange upon entry (or that is not executable on the Exchange upon entry, but locks or crosses the NBBO) will be cancelled or re-priced to one MPV above the national best bid (for sell orders) or below the national best offer (for buy orders). If at the time of entry, an ALO would lock or cross one or more non-displayed orders on the Exchange, the ALO will be cancelled or re-priced to one MPV above the best non-displayed bid price (for sell orders) or below the best non-displayed offer price (for buy orders).<sup>31</sup> Today, an ALO will only be re-priced once and will be executed at the re-priced price. The

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<sup>31</sup> As discussed in more detail below, the Exchange will amend this sentence to say “orders *or quotes*” to codify existing ALO behavior.

Exchange notes that without the ability to re-price an ALO in the foregoing manner, under certain circumstances, an incoming ALO could execute against a displayed or non-displayed order resting on the Exchange's limit order book, which would be in direct contravention with the purpose of an ALO (to provide liquidity, not take liquidity).

As part of a concurrent rule filing, the Exchange is proposing to adopt a re-pricing mechanism identical to current BX re-pricing functionality<sup>32</sup> to avoid certain orders from locking or crossing an away market's price.<sup>33</sup> In connection with the proposed adoption of the BX-like re-pricing mechanism in Options 3, Section 5(d) in the Re-Pricing Filing, the Exchange now proposes to make related changes to the ALO rule in Options 3, Section 7(n). In particular, the Exchange proposes that if an ALO would not lock or cross an order or quote on the System but would lock or cross the NBBO, the order will be handled pursuant to Options 3, Section 5(d), which will set forth the new BX-like re-pricing mechanism for non-routable orders.<sup>34</sup> As noted in Options 3, Section 7(n), ALOs

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<sup>32</sup> Today, BX re-prices certain orders to avoid locking and crossing away markets, consistent with its Trade-Through compliance and Locked or Crossed Markets obligations. See BX Options 3, Section 5(d). See also Securities Exchange Act Release No. 89476 (August 4, 2020), 85 FR 48274 (August 10, 2020) (SR-BX-2020-017) (describing BX re-pricing mechanism in BX Options 3, Section 5).

<sup>33</sup> See Securities Exchange Act Release No. 96362 (November 18, 2022) (SR-ISE-2022-25) ("Re-Pricing Filing"). Specifically in the Re-Pricing Filing, the Exchange is proposing to adopt the following language in Options 3, Section 5(d), which will be identical to BX Options 3, Section 5(d): An order that is designated by a Member as non-routable will be re-priced in order to comply with applicable Trade-Through and Locked and Crossed Markets restrictions. If, at the time of entry, an order that the entering party has elected not to make eligible for routing would cause a locked or crossed market violation or would cause a trade-through violation, it will be re-priced to the current national best offer (for bids) or the current national best bid (for offers) and displayed at one minimum price variance above (for offers) or below (for bids) the national best price.

<sup>34</sup> Id.

are inherently non-routable. Accordingly, the Exchange is proposing to handle ALOs in a consistent manner with the new re-pricing mechanism. Because the new mechanism will allow for continuous re-pricing as discussed above, the Exchange also proposes to remove the current limitation in the ALO rule stipulating that these orders will only be re-priced once and executed at the re-priced price. The proposed order handling for ALOs will be functionally identical to ALO handling on BX today.<sup>35</sup>

The Exchange further proposes a clarifying change in the ALO rule that would not amend current System behavior. The Exchange proposes to add “or quotes” to make clear that if at the time of entry, an ALO would lock or cross one or more non-displayed orders *or quotes* on the Exchange, the ALO will be cancelled or re-priced to one MPV above the best non-displayed bid price (for sell orders) or below the best non-displayed offer price (for buy orders).

Finally, the Exchange proposes to add that ALOs may only be submitted when an options series is open for trading to make clear that an ALO would not be accepted during the Opening Process when the order book is not available. The proposed rule text is consistent with current functionality, so the Exchange is codifying current ALO behavior with this change and adding the same level of detail currently in BX’s ALO rule.<sup>36</sup>

As amended, Options 3, Section 7(n) will provide:

An Add Liquidity Order is a limit order that is to be executed in whole or in part on the Exchange (i) only after being displayed on the Exchange's limit order

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<sup>35</sup> See BX Options 3, Section 7(a)(12). See also Securities Exchange Act Release No. 93896 (January 4, 2022), 87 FR 1231 (January 10, 2022) (SR-BX-2021-054), which introduced ALOs on BX.

<sup>36</sup> Id.

book; and (ii) without routing any portion of the order to another market center. Members may specify whether an Add Liquidity Order shall be cancelled or re-priced to the minimum price variation above the national best bid price (for sell orders) or below the national best offer price (for buy orders) if, at the time of entry, the order (i) is executable on the Exchange; or (ii) the order is not executable on the Exchange, but would lock or cross the national best bid or offer. If at the time of entry, an Add Liquidity Order would lock or cross one or more non-displayed orders or quotes on the Exchange, the Add Liquidity Order shall be cancelled or re-priced to the minimum price variation above the best non-displayed bid price (for sell orders) or below the best non-displayed offer price (for buy orders). Notwithstanding the aforementioned, if an Add Liquidity Order would not lock or cross an order or quote on the System but would lock or cross the NBBO, the order will be handled pursuant to Options 3, Section 5(d). An Add Liquidity Order will be ranked in the Exchange's limit order book in accordance with Options 3, Section 10. Add Liquidity Orders may only be submitted when an options series is open for trading.

### ***QCC with Stock Orders***

The Exchange proposes a non-substantive change to correct a cross-cite in the QCC with Stock Order rule in Options 3, Section 7(t). The current citation to Options 3, Section 12(c) in the description of this order type should instead be Options 3, Section 12(e).

### ***Opening Sweep***

Opening Sweeps are currently defined in Options 3, Section 7(u) as a Market Maker order submitted for execution against eligible interest in the System during the Opening Process pursuant to Options 3, Section 8(b)(1). The Exchange proposes to replace the current definition with the following: “An Opening Sweep is a one-sided order entered by a Market Maker through SQF for execution against eligible interest in the System during the Opening Process. This order type is not subject to any protections listed in Options 3, Section 15, except for Automated Quotation Adjustments. The Opening Sweep will only participate in the Opening Process pursuant to Options 3, Section 8(b)(1) and will be cancelled upon the open if not executed.”

The proposed rule text is consistent with current functionality, so the Exchange is providing additional context to the Opening Sweep as currently described in Options 3, Section 8(b) and codifying current Opening Sweep behavior with this change. Specifically, because an Opening Sweep is an IOC order submitted by a Market Maker during the Opening Process, the Exchange is making clear in the proposed rule text that this order type is entered through SQF.<sup>37</sup> The Exchange is also specifying that Opening Sweeps are not subject to any risk protections in Options 3, Section 15 (except Automated Quotation Adjustments) because the Opening Process itself has boundaries (notably, the Quality Opening Market<sup>38</sup> and the Opening Quote Range<sup>39</sup>) within which orders will be executed. As it relates to the proposed language relating to Opening Sweep participation in the Opening Process and cancellation upon the open, the Exchange notes that this concept is not new as Opening Sweeps are already described in Options 3, Section 8 today and apply only during the Opening Process. The language merely provides additional context to the order type.

The Exchange notes that the Opening Sweep is functionally identical to the

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<sup>37</sup> See Supplementary Material .03(c) of Options 3, Section 7, which notes that SQF is an interface that allows Market Makers to submit IOC orders.

<sup>38</sup> A “Quality Opening Market” is a bid/ask differential applicable to the best bid and offer from all Valid Width Quotes defined in a table to be determined by the Exchange and published on the Exchange's web site. The calculation of Quality Opening Market is based on the best bid and offer of Valid Width Quotes. The differential between the best bid and offer are compared to reach this determination. The allowable differential, as determined by the Exchange, takes into account the type of security (for example, Penny versus non-Penny Interval Program issue), volatility, option premium, and liquidity. The Quality Opening Market differential is intended to ensure the price at which the Exchange opens reflects current market conditions. See Options 3, Section 8(a)(7).

<sup>39</sup> The Opening Quote Range represents the outer boundaries at which the Exchange may open. See Options 3, Section 8(i).

Opening Sweep on Phlx,<sup>40</sup> so the proposed language will harmonize the Exchange's rule with the current Phlx rule.

### ***Time in Force***

Today, the Exchange notes that certain functionality is described as an "order type" in Options 3, Section 7, but would be more precisely described as a TIF attribute that may be added to a particular order type. Accordingly, the Exchange proposes to codify the term "TIF" in proposed Supplementary Material .02 to Options 3, Section 7. The proposed TIF definition will be identical to the TIF definition in BX Options 3, Section 7(b). The Exchange also proposes to relocate various rules into Supplementary Material .02 to centralize the TIFs that are available on the Exchange today. As proposed, the rule text will provide:

**.02 Time in Force.** The term "Time in Force" or "TIF" shall mean the period of time that the System will hold an order for potential execution, and shall include:

- (a) **Day.** An order to buy or sell entered with a TIF of "DAY," which, if not executed, expires at the end of the day on which it was entered. All orders by their terms are Day orders unless otherwise specified. Day orders may be entered through FIX, OTTO, or Precise.
- (b) **Good-Till-Canceled.** An order to buy or sell entered with a TIF of "GTC" that remains in force until the order is filled, canceled or the option contract expires; provided, however, that GTC orders will be canceled in the event of a corporate action that results in an adjustment to the terms of an option contract. GTC orders may be entered through FIX or Precise.
- (c) **Good-Till-Date.** An order to buy or sell entered with a TIF of "GTD," which, if not executed, will be cancelled at the sooner of the end of the expiration date assigned to the order, or the expiration of the series; provided, however, that GTD orders will be canceled in the event of a corporate action that results in an adjustment to the terms of an option contract. GTD orders may be entered through FIX or Precise.
- (d) **Immediate-or-Cancel.** An order entered with a TIF of "IOC" that is to be executed in whole or in part upon receipt. Any portion not so executed is to be treated as

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<sup>40</sup> See Phlx Options 3, Section 7(b)(6).

cancelled.

- (1) Orders entered with a TIF of IOC are not eligible for routing.
  - (2) IOC orders may be entered through FIX, OTTO, Precise, or SQF, provided that an IOC order entered by a Market Maker through the SQF protocol will not be subject to the (A) Order Price Protection, Market Order Spread Protection, and Size Limitation Protection as defined in Options 3, Section 15(a)(1)(A), (1)(B), and (2)(B) respectively, for single leg orders, or (B) Complex Order Price Protection as defined in Options 3, Section 16(c)(1) for Complex Orders.
  - (3) Block Orders, Facilitation Orders, Complex Facilitation Orders, SOM Orders, Complex SOM Orders, PIM Orders, Complex PIM Orders, QCC Orders, QCC Complex Orders, Customer Cross Orders, and Customer Cross Complex Orders are considered to have a TIF of IOC. By their terms, these orders will be: (1) executed either on entry or after an exposure period, or (2) cancelled.
- (e) **Opening Only.** An Opening Only (“OPG”) order is entered with a TIF of “OPG.” This order can only be executed in the Opening Process pursuant to Options 3, Section 8. Any portion of the order that is not executed during the Opening Process is cancelled. OPG orders may not route. This order type is not subject to any protections listed in Options 3, Section 15, except Size Limitation.

The Exchange is relocating rule text governing Day orders from Options 3, Section 7(l) into Supplementary Material .02(a) to specify that orders may be entered with a TIF of DAY. The Exchange also proposes to include additional detail that Day orders may be entered through FIX, OTTO, or Precise. This is how Day orders operate today, and the proposed rule text merely adds the same level of detail currently in BX’s Day order rule.<sup>41</sup>

The Exchange is relocating rule text governing Good-Till-Canceled (“GTC”) orders from Options 3, Section 7(r) into Supplementary Material .02(b) to specify that orders may be entered with a TIF of GTC. The Exchange also proposes to include additional detail that GTC orders may be entered through FIX or Precise. This articulates current GTC behavior.

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<sup>41</sup> See BX Options 3, Section 7(b)(3). BX’s rule does not refer to OTTO or Precise because BX does not offer these order entry ports today.



The Exchange is relocating rule text governing Good-Till-Date (“GTD”) orders from Options 3, Section 7(p) into Supplementary Material .02(c) to specify that orders may be entered with a TIF of GTD. The Exchange also proposes a number of changes that do not modify current GTD functionality, but are intended to align to the GTC rule described above. Today, GTC and GTD orders are intended to be functionally similar except GTC generally persists until it is cancelled by the Member and GTD generally persists until the assigned date. Accordingly, the Exchange seeks to add a similar level of detail to the GTD rule as it is proposing in the GTC rule above. First, the Exchange proposes to remove the word “limit” from the relocated GTD rule text. Similar to GTC orders, GTD orders can also be sent as Market Orders (in addition to Limit Orders) today. The proposed changes will therefore align the rule text with current functionality. Second, the Exchange proposes to add that GTD orders will be canceled in the event of a corporate action that results in an adjustment to the terms of an option contract. This language is copied from current GTC rule text and articulates current GTD behavior. Third, the Exchange proposes to include additional detail that GTD orders may be entered through FIX or Precise. This mirrors the proposed changes for GTC orders and articulates current GTD behavior.

The Exchange is relocating rule text governing IOC orders from Options 3, Section 7(b)(3) into Supplementary Material .02(d) to Options 3, Section 7 to specify that orders may be entered with a TIF of IOC. The Exchange also proposes a number of changes to conform the Exchange’s IOC rule with that of BX. None of the proposed changes modify current Exchange IOC functionality. First, the Exchange proposes to remove the word “limit” from the relocated IOC rule text in Supplementary Material

.02(d). Today, IOC orders may be sent as either a Market Order or Limit Order.

Eliminating the word “limit” from the proposed IOC rule will therefore align the rule text with current functionality.<sup>42</sup> Second, the Exchange proposes to memorialize current IOC behavior in Supplementary Material .02(d)(1) by stating that orders entered with a TIF of IOC are not eligible for routing.<sup>43</sup> Third, the Exchange proposes to codify current IOC behavior in Supplementary Material .02(d)(2) by stating that IOC orders may be entered through FIX, OTTO, Precise, or SQF.<sup>44</sup>

Fourth, the Exchange proposes to note in the same section that an IOC order entered by a Market Maker through SQF will not be subject to the (A) Order Price Protection,<sup>45</sup> Market Order Spread Protection,<sup>46</sup> and Size Limitation Protection<sup>47</sup> as

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<sup>42</sup> BX similarly allows both Market Orders and Limit Orders to be entered as IOC. See BX Options 3, Section 7(b)(2). The Exchange is not specifying Market and Limit Orders in the relocated IOC rule text for consistency with the other TIFs in proposed Supplementary Material .02 to Options 3, Section 7.

<sup>43</sup> See BX Options 3, Section 7(b)(2)(A) for identical language.

<sup>44</sup> See BX Options 3, Section 7(b)(2)(B) for substantially similar language. BX’s rule does not refer to OTTO or Precise because BX does not offer these ports today.

<sup>45</sup> The current IOC rule references the Limit Order Price Protection as set forth in Options 3, Section 15(a)(1)(A). As discussed later in this filing, the Exchange is proposing to replace the existing Limit Order Price Protection with a similar risk management tool called Order Price Protection. See proposed Options 3, Section 15(a)(1)(A).

<sup>46</sup> Market Orders will be rejected if the NBBO is wider than a preset threshold at the time the order is received by the System. Market Order Spread Protection shall not apply to the Opening Process or during a trading halt. The Exchange may establish different thresholds for one or more series or classes of options. See Options 3, Section 15(a)(1)(B).

<sup>47</sup> There is a limit on the number of contracts an incoming order or quote may specify. Orders or quotes that exceed the maximum number of contracts are rejected. The maximum number of contracts, which shall not be less than 10,000,

defined in Options 3, Section 15(a)(1)(A), (1)(B), and (2)(B), respectively, for single leg orders, or (B) Complex Order Price Protection<sup>48</sup> as defined in Options 3, Section 16(c)(1) for Complex Orders.<sup>49</sup> Today, the IOC rule explicitly excludes the Limit Order Price Protection (for single leg and Complex Orders) and Size Limitation Protection from applying to IOC orders entered through SQF. As discussed later in this filing, the current Limit Order Price Protection for single leg orders will be replaced by a similar risk management tool called the Order Price Protection that will be identical to BX, so the Exchange will likewise reflect that change in the proposed IOC rule. The proposed change to exclude the Market Order Spread Protection from applying to IOC orders entered through SQF is not a change to IOC current functionality, but rather, a change to align the rule with current System behavior and with BX IOC rule.<sup>50</sup>

The Exchange notes while it generally only permits orders (including IOC orders) to be entered into its three order entry protocols, FIX, OTTO, and Precise, it does permit the entry of IOC orders by Market Makers into its quote protocol, SQF. The Exchange has elected not to apply the specified risk protections on IOC orders entered through SQF as it does for IOC orders entered through FIX, OTTO, and Precise because only Market Makers utilize SQF to enter IOC orders. Market Makers are professional traders with

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is established by the Exchange from time-to-time. See Options 3, Section 15(a)(2)(B).

<sup>48</sup> This risk protection is currently called the Limit Order Price Protection in Options 3, Section 16(c)(1). The Exchange will rename this risk protection in a subsequent filing to the Complex Order Price Protection.

<sup>49</sup> See BX Options 3, Section 7(b)(2)(B) for substantially similar language. BX's rule does not refer to the Complex Order Price Protection because BX does not offer complex functionality today.

<sup>50</sup> See BX Options 3, Section 7(b)(2)(B).

their own risk settings. FIX, OTTO, and Precise, on the other hand, are utilized by all market participants who may not have their own risk settings, unlike Market Makers. Market Makers utilize IOC orders to trade out of accumulated positions and manage their risk when providing liquidity on the Exchange. The Exchange understands that proper risk management, including using these IOC orders to offload risk, is vital for Market Makers, and allows them to maintain tight markets and meet their quoting and other obligations to the market. Market Makers handle a large amount of risk when quoting and in addition to the risk protections required by the Exchange, Market Makers utilize their own risk management parameters when entering orders, minimizing the likelihood of a Market Maker's erroneous order from being entered. The Exchange believes that Market Makers, unlike other market participants, have the ability to manage their risk when submitting IOC orders through SQF and should be permitted to elect this method of order entry to obtain efficiency and speed of order entry, particularly in light of the quoting obligations that the Exchange imposes on these participants, unlike other market participants.<sup>51</sup> The Exchange believes that allowing Market Makers to submit IOC orders through their preferred protocol increases their efficiency in submitting such orders and thereby allows them to maintain quality markets to the benefit of all market participants that trade on the Exchange. For the foregoing reasons, the Exchange has opted to not offer the Order Price Protection, Market Order Spread Protection, and Size Limitation (for single leg orders), or the Complex Order Price Protection (for Complex Orders), for IOC orders entered through SQF because Market Makers have more sophisticated infrastructures than other market participants and are able to manage their

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<sup>51</sup> See Options 2, Section 5(e).

risk.

The Exchange also proposes to add substantially similar language in Supplementary Material .03(c), which governs the SQF protocol. Specifically, the Exchange proposes to add: “Immediate-or-Cancel Orders entered into SQF are not subject to the (i) Order Price Protection, Market Order Spread Protection, and Size Limitation Protection in Options 3, Section 15(a)(1)(A), (1)(B), and (2)(B) respectively, for single leg orders, or (ii) Complex Order Price Protection as defined in Options 3, Section 16(c)(1) for Complex Orders.” Adding these exceptions to the SQF rule as well as the IOC rule will make clear that these order protections will not apply to IOC orders entered through SQF.

The Exchange further proposes to specify in Supplementary Material .02(d)(3) that Block Orders, Facilitation Orders, Complex Facilitation Orders, SOM Orders, Complex SOM Orders, PIM Orders, Complex PIM Orders, QCC Orders, QCC Complex Orders, Customer Cross Orders, and Customer Cross Complex Orders are considered to have a TIF of IOC. By their terms, these orders will be: (1) executed either on entry or after an exposure period, or (2) cancelled.<sup>52</sup> The proposed changes in Supplementary Material .02(d)(3) memorialize current System behavior and are intended to bring greater transparency in how these order types operate today.

The Exchange is relocating rule text governing OPG orders from Options 3, Section 7(o) into Supplementary Material .02(e) to specify that orders may be entered with a TIF of OPG. The Exchange also proposes a number of changes to conform the Exchange’s OPG rule with that of BX. Other than as specified below, the proposed

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<sup>52</sup> See BX Options 3, Section 7(b)(2)(C) for substantially similar language for PRISM orders.

changes do not modify current Exchange OPG functionality. The Exchange proposes to remove the word “limit” from the relocated OPG rule text in Supplementary Material .02(e) in order to reflect that the Exchange will now allow both Market and Limit OPG Orders. As noted above, this is a proposed functionality change to align with current BX OPG functionality.<sup>53</sup> The Exchange also proposes non-substantive changes to replace the current references to the opening rotation with the term “Opening Process” as defined in Options 3, Section 8. The Exchange further proposes to codify current OPG behavior by stating that OPG orders may not route.<sup>54</sup> Lastly, the Exchange proposes to memorialize current OPG behavior by indicating that OPG orders are not subject to any protections listed in Options 3, Section 15, except Size Limitation.<sup>55</sup> Today, the Exchange does not apply any of the risk protections in Options 3, Section 15 (except Size Limitation) because the Opening Process itself has boundaries within which orders will be executed.<sup>56</sup>

### **Opening Process**

In connection with the technology migration, the Exchange proposes several enhancements to its Opening Process in Options 3, Section 8. The Exchange first proposes to remove the current limitation that only allows routable Public Customer<sup>57</sup> interest to route during the Opening Process. Instead, all routable market participant

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<sup>53</sup> See BX Options 3, Section 7(b)(1).

<sup>54</sup> See BX Options 3, Section 7(b)(1) for identical language.

<sup>55</sup> Id.

<sup>56</sup> See Options 3, Section 8.

<sup>57</sup> The term “Public Customer” means a person or entity that is not a broker or dealer in securities. See Option 1, Section 1(a)(42).

interest will be allowed to route to align the Exchange's opening functionality with BX.<sup>58</sup> Like BX, the Exchange believes that it will be beneficial to provide all market participants with the opportunity to have their interest executed on away markets during the Opening Process. To effectuate the foregoing, the Exchange proposes to amend Options 3, Section 8(b) to remove the sentence providing that only Public Customer interest is routable during the Opening Process. The Exchange further proposes to make a related change in Options 3, Section 8(i)(7), which currently provides that the System will route routable Public Customer interest pursuant to Options 3, Section 10(c)(1)(A). Specifically, the Exchange proposes to remove the reference to Public Customer to indicate all routable interest will route in accordance with the Exchange's priority rule. The Exchange will also update the cross-cite to Options 3, Section 10(c)(1)(A), currently pointing to the Priority Customer priority overlay, to the more general priority rule in Options 3, Section 10(c). The Exchange further proposes to amend Options 3, Section 8(j)(6) to remove the references to "Public Customer." As amended, Section 8(j)(6) will provide: "The System will execute orders at the Opening Price that have contingencies

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<sup>58</sup> See BX Options 3, Section 8. See also Securities Exchange Act Release No. 89731 (September 1, 2020), 85 FR 55524 (September 8, 2020) (SR-BX-2020-016) (noting throughout that BX permits all market participants to route during its Opening Process). At the end of the Opening Process, pursuant to ISE Options 3, Section 8(j)(6) and subsection (A), the System will execute orders at the Opening Price that have contingencies (such as, without limitation, Reserve Orders) and non-routable orders, such as a 'Do-Not-Route' or 'DNR' Orders, to the extent possible. The System will only route non-contingency Public Customer orders, except that Public Customer Reserve Orders may route up to their full volume. For contracts that are not routable, pursuant to ISE Options 3, Section 8(j)(6), such as DNR Orders and orders priced through the Opening Price, the System will cancel (1) any portion of a Do-Not-Route order that would otherwise have to be routed to the exchange(s) disseminating the ABBO for an opening to occur, or (2) any order or quote that is priced through the Opening Price. All other interest will be eligible for trading after opening.

(such as, without limitation, Reserve Orders) and non-routable orders, such as “Do-Not-Route” or “DNR” Orders, to the extent possible. The System will only route non-contingency orders, except that Reserve Orders may route up to their full volume.”

In addition, the Exchange proposes to amend Options 3, Section 8(g)(1), which currently describes how the Potential Opening Price would be calculated when there is more than one Potential Opening Price.<sup>59</sup> Today, Section 8(g)(1) provides that when two or more Potential Opening Prices would satisfy the maximum quantity criterion and leave no contracts unexecuted, the System takes the highest and lowest of those prices and takes the mid-point; if such mid-point is not expressed as a permitted minimum price variation, it will be rounded to the minimum price variation that is closest to the closing price for the affected series from the immediately prior trading session. If there is no closing price from the immediately prior trading session, the System will round up to the minimum price variation to determine the Opening Price. The Exchange now proposes to no longer round in the direction of the previous trading day’s closing price and simply round up to the minimum price variation if the mid-point of the high/low is not expressed as a permitted minimum price variation. The proposed changes are intended to simplify and bring greater transparency to the Opening Process, as market participants can now have a better sense of how the Potential Opening Price will be calculated without having to account for the closing price of each options series.

The Exchange further proposes to amend Options 3, Section 8(i)(3), which currently describes the determination of Opening Quote Range (“OQR”) boundaries in

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<sup>59</sup> The Potential Opening Price indicates a price where the System may open once all other Opening Process criteria is met.



certain scenarios.<sup>60</sup> Specifically, the Exchange proposes to replace “are marketable against the ABBO” with “cross the ABBO” to more precisely describe the specified scenario within in this rule. The Exchange notes that this is not a System change, but rather a clarifying change around the applicability of the rule text. Lastly, the Exchange proposes a non-substantive change in paragraph (j)(3)(B) of Options 3, Section 8 to remove the extra instance of “which is” from the second sentence.

### **Auction Mechanisms**

#### ***Facilitation and Solicited Order Mechanisms***

The Exchange first proposes to make clarifying changes in Options 3, Section 11 (Auction Mechanisms). Today, Supplementary Material .02 to Options 3, Section 11 states that Responses<sup>61</sup> represent non-firm interest that can be canceled at any time prior to execution, and that Responses are not displayed to any market participants. The Exchange now proposes a non-substantive change to relocate this language into the introductory paragraph of Options 3, Section 11 after the definition of “Response” for better readability. The Exchange also proposes to add “or modified” after the “canceled” to indicate that auction Responses may be canceled or modified at any time prior to execution. This is not a change to current System behavior, but rather a clarification that better aligns the rule text to existing functionality. The Exchange also notes that the rules

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<sup>60</sup> OQR is an additional type of boundary used in the Opening Process, and is intended to limit the opening price to a reasonable, middle ground price, thus reducing the potential for erroneous trades during the Opening Process.

<sup>61</sup> For purposes of Options 3, Section 11, a “Response” means an electronic message that is sent by Members in response to a broadcast message. A “broadcast message” is an electronic message sent by the Exchange to all Members upon entry of an order into one of the auction mechanisms listed within Options 3, Section 11 (i.e., Block, Facilitation, or Solicited Order Mechanisms).

for the complex Facilitation and Solicited Order Mechanisms in Options 3, Sections 11(c)(7) and (e)(4), respectively, already provide for this concept.<sup>62</sup>

### ***Price Improvement Mechanism***

The Exchange proposes a number of changes to Options 3, Section 13 (Price Improvement Mechanism for Crossing Transactions), some of which are System changes to align with existing BX Price Improvement Mechanism (“BX PRISM”) functionality and others that are non-System changes that add greater clarity to current PIM behavior. The Exchange proposes to amend Options 3, Section 13(b)(4) to add clarifying rule text to the current sentence, which states, “The Crossing Transaction<sup>63</sup> may not be canceled, but the price of the Counter-Side Order may be improved during the exposure period.” The Exchange proposes to add “or modified” after the word “canceled” to make clear that the Crossing Transaction may not be canceled or modified, but the Counter-Side Order may be improved during the exposure period. This proposed change would not amend the current System, rather it would bring greater clarity to the rule text that modifications are not permitted unless the Counter-Side Order is being improved during the exposure period.

The Exchange proposes to add rule text within Options 3, Section 13(b)(5) which states, “Crossing Transactions submitted at or before the opening of trading are not eligible to initiate an auction and will be rejected.” The Exchange notes that this rule text

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<sup>62</sup> Specifically, these provisions state that 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.

<sup>63</sup> 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”). See Options 3, Section 13(b).

represents current System behavior. BX has a similar provision within BX Options 3, Section 13(i)(E). The Exchange notes that this rule text will bring greater clarity to when a Crossing Transaction would be eligible to initiate a PIM.

The Exchange proposes to amend the current PIM functionality within Options 3, Section 13(c)(3). Today, during the exposure period, Improvement Orders<sup>64</sup> may not be canceled, however, Improvement Orders may be modified to (i) increase the size at the same price, or (ii) improve the price of the Improvement Order for any size up to the size of the Agency Order. The Exchange proposes to amend this functionality so that Improvement Orders may be canceled or modified similar to functionality on BX PRISM today within BX Options 3, Section 13(ii)(A)(8). The modification and cancellation of an Improvement Order through OTTO will be similar to the manner in which a Cancel and Replace Order<sup>65</sup> would be handled outside of the auction process. For Improvement Orders through SQF, the modification and cancellation of such orders will be handled by

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<sup>64</sup> Improvement Orders are responses entered by Members to indicate the size and price at which they want to participate in the execution of the Agency Order. See Options 3, Section 13(c)(1).

<sup>65</sup> Cancel and Replace Orders shall mean a single message for the immediate cancellation of a previously received order and the replacement of that order with a new order. If the previously placed order is already filled partially or in its entirety, the replacement order is automatically canceled or reduced by the number of contracts that were executed. The replacement order will retain the priority of the cancelled order, if the order posts to the Order Book, provided the price is not amended, size is not increased, or in the case of Reserve Orders, size is not changed. If the replacement portion of a Cancel and Replace Order does not satisfy the System's price or other reasonability checks (e.g. Options 3, Section 15(b)(1)(A) and (b)(1)(B); and Supplementary Material .07 (a)(1)(A), (b) and (c)(1) to Options 8, Section 14) the existing order shall be cancelled and not replaced. See Supplementary Material .02 to Options 3, Section 7 (as described above, the current definition will be moved to proposed Options 3, Section 7(f) with no substantive changes).

sending new Improvement Orders that overwrite the existing Improvement Order with updated price/quantity instructions.

Next, the Exchange proposes to amend Options 3, Section 13(d)(5), which currently states, “If a trading halt is initiated after an order is entered into the Price Improvement Mechanism, such auction will be automatically terminated without execution.” The Exchange proposes to instead provide, “If a trading halt is initiated after an order is entered into the Price Improvement Mechanism, such auction will be automatically terminated with execution solely with the Counter-Side Order.” In the event of a trading halt, since the Counter-Side Order has guaranteed that an execution will occur at the same price as the Crossing Transaction or better, and Improvement Orders offer no such guarantee, the Counter-Side Order is the only valid price at which to execute the Crossing Transaction. This is similar to functionality on BX PRISM at BX Options 3, Section 13(ii)(C).<sup>66</sup>

The Exchange also proposes a System change to adopt a new same side execution price check for PIM, which will be described in new subsection (d)(6) of Options 3, Section 13 and will be functionally identical to BX PRISM. As proposed, Options 3, Section 13(d)(6) will provide that if the PIM execution price would be the same or better

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<sup>66</sup> BX Options 3, Section 13(ii)(C) provides that if the situations described in subparagraphs (B)(2) or (3) above occur, the entire PRISM Order will be executed at: (1) in the case of the BX BBO crossing the PRISM Order stop price, the best response price(s) or, if the stop price is the best price in the Auction, at the stop price, unless the best response price is equal to or better than the price of a limit order resting on the Order Book on the same side of the market as the PRISM Order, in which case the PRISM Order will be executed against that response, but at a price that is at least \$0.01 better than the price of such limit order at the time of the conclusion of the Auction; or (2) in the case of a trading halt on the Exchange in the affected series, the stop price, in which case the PRISM Order will be executed solely against the Initiating Order. Any unexecuted PAN responses will be cancelled.

than an order on the limit order book on the same side of the market as the Agency Order, the Agency Order may only be executed at a price that is at least \$0.01 better than the resting order's limit price. If such resting order's limit price is equal to or crosses the initiating Crossing Transaction price, then the entire Agency Order will trade at the initiating Crossing Transaction price with all better priced counter-side interest being considered for execution at the initiating Crossing Transaction price. As noted above, this price check will be functionally identical to the same side execution price check on BX PRISM today.<sup>67</sup> Like BX, the proposed price check is designed to ensure that the Exchange would not trade at prices that would lock or cross interest on the same side of the market as the Agency Order where limit orders have rested and obtained priority to execute at that price. In the event where a limit order arrives on the same side of the market as the Agency Order and is at the same or better price than the initiating Crossing Transaction price, the Exchange would execute the entire PIM order at the initiating Crossing Transaction price. The execution takes place at this price because the PIM is guaranteed an execution and the PIM agency side instructions would not allow an execution to take place at a higher (lower) price than submitted for a buying (selling) agency side PIM order. Considering that the limit order has arrived either at or better on the same side as the Agency Order than the agency side price, the initiating Crossing Transaction price is the only price at which the guaranteed execution can take place.

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<sup>67</sup> BX Options 3, Section 13(ii)(I) provides that if the execution price of the PRISM Auction would be the same or better than an order on the limit order book on the same side of the market as the PRISM Order, the PRISM Order may only be executed at a price that is at least \$0.01 better than the resting order's limit price. If such resting order's limit price is equal to or crosses the stop price, then the entire PRISM Order will trade at the stop price with all better priced interest being considered for execution at the stop price.

The following examples illustrate how the proposed PIM execution price check would work:

***Example: PIM executes with Improvement Order at \$0.01 better than a limit order on the same side of the market as the Agency Order***

Firm Limit order to buy @ 1.40 arrives prior to the PIM auction beginning

ISE BBO: 1.40 x 2.00

PIM Agency Order to buy 20 @ 1.50 arrives with an auto-match price of 1.50 indicated  
PIM Improvement Order<sup>68</sup> to sell 20 @ 1.40 arrives

Auction concludes after timer and PIM Agency Order trades 20 with PIM Improvement Order @ 1.41; the Counter-Side Order<sup>69</sup> cancels

***Example: PIM executes at Agency Price with all better priced interest when limit order on same side equals or crosses the initiating Crossing Transaction price***

Assume ISE BBO: 1.00 x 2.00

PIM Agency Order to buy 20 @ 1.50 arrives with an auto-match price of 1.50 indicated  
PIM Improvement Order to sell 20 @ 1.40 arrives  
During the exposure period, Firm Limit order to buy @ 1.50 arrives

Auction concludes after timer and PIM Agency Order trades 12 with PIM Improvement Order @ 1.50 and 8 with the Counter-Side Order @ 1.50 (i.e., the guaranteed execution price) because all better priced interest must trade at the initiating Crossing Transaction price when the limit order on the same side equals or crosses the initiating Crossing Transaction price.<sup>70</sup> The remainder of the Counter-Side Order and the remainder of the

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<sup>68</sup> “Improvement Orders” are responses sent by Members during the PIM’s exposure period in response to the PIM that indicate the size and price at which they want to participate in the execution of the Agency Order. See Options 3, Section 13(c)(1).

<sup>69</sup> The “Counter-Side Order” is the counter-side order for the full size of the Agency Order that is entered into the PIM by the initiating Electronic Access Member. See Options 3, Section 13(b).

<sup>70</sup> The order is allocated pursuant to Options 3, Section 13(d)(3) where the Counter-Side Order will be allocated the greater of 1 contract or 40%, which, in this case, equates to 8 contracts out of the 20 contracts. Thus, in this case, the Improvement Order is allocated 12 contracts to fully execute the 20 contracts of the original PIM Agency Order.

PIM Improvement Order cancel. The execution takes place at 1.50 because the PIM is guaranteed an execution, and the PIM agency side instructions would not allow an execution to take place at a higher price than the submitted 1.50 buying price for the agency side PIM order.

Further, the Exchange proposes amendments to Complex PIM, some of which are similar to the amendments proposed for simple PIM. Similar to simple PIM, the Exchange proposes to amend Options 3, Section 13(e)(4)(ii) to state, “During the exposure period, Improvement Complex Orders may be canceled or modified.”<sup>71</sup> The Exchange proposes to amend this functionality so that Improvement Orders may be canceled or modified similar to functionality on BX today within BX Options 3, Section 13(ii)(A)(8).<sup>72</sup>

The Exchange also proposes to relocate the last sentence of Options 3, Section 13(e)(3) into Options 3, Section 13(e)(4)(iv) at new “(E)”. The Exchange proposes similar rule text within simple PIM to indicate that an exposure period would automatically terminate if a trading halt is initiated after the order is entered into a Complex PIM. The relocation would add the rule text to a more logical place within the Complex PIM rule.

The Exchange further proposes in the same rule to memorialize another scenario in which the exposure period for a Complex PIM would early terminate today.

Specifically, the Exchange proposes to amend Options 3, Section 13(e)(4)(iv) at new

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<sup>71</sup> Options 3, Section 13(e)(4)(ii) currently states, “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.”

<sup>72</sup> BX Options 3, Section 13(ii)(A)(8) provides that a PAN response must be equal to or better than the displayed NBBO at the time of receipt of the PAN response. PAN responses may be modified or cancelled during the Auction. A PAN response submitted with a price that is outside the NBBO will be rejected.

“(D)” to provide that the exposure period will automatically terminate when a resting Complex Order in the same complex strategy on either side of the market becomes marketable against the Complex Order book or bids and offers for the individual legs. The Exchange believes that the proposed codification will detail for market participants the situations in which early termination would occur for Complex PIMs today, and align the Exchange’s rules with current System behavior. The Exchange notes that the exposure period for a Complex Order Exposure likewise early terminates today when a resting Complex Order becomes marketable against the Complex Order book or bids and offers for the individual legs.<sup>73</sup> Accordingly, the proposed language closely tracks existing Complex Order Exposure language. The Exchange believes that it is appropriate to early terminate Complex PIM under these circumstances for the following reasons. When the resting Complex Order is on the same side as the Agency Complex Order, interest that becomes marketable against the resting Complex Order would also be marketable against the Complex PIM order. Therefore, early terminating the Complex PIM would allow the Complex PIM order to interact with this interest given that the Complex PIM order is at a superior price compared to the resting Complex Order, thus providing an opportunity for price improvement for the Agency Complex Order.

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<sup>73</sup> Supplementary Material .01(b)(ii) of ISE Options 3, Section 14 provides that the exposure period for a Complex Order will end immediately: (A) upon the receipt of a Complex Order 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; (B) upon the receipt of a non-marketable Complex Order 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; or (C) when a resting Complex Order for the same complex strategy on either side of the market becomes marketable against interest on the Complex Order book or bids and offers for same individual legs of the complex strategy.



Additionally, when the resting Complex Order is on the opposite side of the Agency Complex Order, interest that arrives marketable against the resting Complex Order is now at a superior price to the Agency Complex Order. The Exchange would therefore early terminate in this scenario and execute the Complex PIM order with its contra side order because it is no longer at top of book.

The Exchange also proposes to codify existing System behavior in the Complex PIM rule at Options 3, Section 13(e)(5), which currently provides that 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. Specifically, the Exchange proposes to add that transactions will be rounded, when necessary, to the \$0.01 increment that favors the Agency Complex Order. As noted above, this is not a functionality change, but rather is intended to better articulate current System behavior. The Exchange also notes that the simple PIM rule already articulates that the mid-way price will be rounded to the \$0.01 increment that favors the Agency Order in Options 3, Section 13(d)(4). The rounding for Complex PIM currently operates the same way as simple PIM in this respect, so the proposed Complex PIM language closely tracks the simple PIM language.

Finally, the Exchange proposes to amend Supplementary Material .02 to Options 3, Section 13 to add the following sentence: “It will be considered a violation of this Rule and will be deemed conduct inconsistent with just and equitable principles of trade and a

violation of Options 9, Section 1 if an Electronic Access Member submits a PIM Order (initiating an auction) and also submits its own Improvement Order in the same auction.” BX has a similar prohibition within BX Options 3, Section 13(iii). The proposed new rule is intended to provide guidance to Members where certain behavior within a PIM will not be considered a bona fide transaction.

### **Order Price Protection**

The Exchange currently has a Limit Order Price Protection in Options 3, Section 15(a)(1)(A), which is a “fat finger” check designed to address risks to market participants of human error in entering certain orders at unintended prices. Specifically, there is a limit on the amount by which incoming limit orders to buy may be priced above the Exchange’s best offer and by which incoming limit orders to sell may be priced below the Exchange’s best bid. Limit orders that exceed the pricing limit are rejected. The limit is established by the Exchange from time-to-time for orders to buy (sell) as the greater of the Exchange’s best offer (bid) plus (minus): (i) an absolute amount not to exceed \$2.00, or (ii) a percentage of the Exchange’s best bid/offer not to exceed 10%.

The Exchange proposes to replace the existing risk protection with an Order Price Protection (“OPP”) that would similarly prevent the execution of limit orders at prices outside pre-set parameters. The proposed OPP will be functionally similar to the OPP functionality currently offered by BX.<sup>74</sup> In particular, proposed Options 3, Section

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<sup>74</sup> BX’s OPP is currently memorialized in BX Options 3, Section 15(a)(1), which provides that OPP is a feature of the System that prevents certain day limit, good til cancelled, and immediate or cancel orders at prices outside of pre-set standard limits from being accepted by the System. BX’s rule also provides that OPP applies to all options but does not apply to market orders. As described above, the Exchange is proposing to adopt an OPP rule that more accurately describes this functionality than BX’s current OPP rule. BX will file a separate rule change

15(a)(1)(A) will provide that OPP is a feature of the System that prevents limit orders at prices outside of pre-set standard limits from being accepted by the System. Further, OPP will reject incoming orders that exceed certain parameters according to the following algorithm set forth in proposed Options 3, Section 15(a)(1)(A)(ii):

- (a) If the better of the NBBO or the internal market BBO (the "Reference BBO") on the contra-side of an incoming order is greater than \$1.00, orders with a limit more than the greater of the below will cause the order to be rejected by the System upon receipt.
  - (1) 50% less (greater) than such contra-side Reference Best Bid (Offer);  
or
  - (2) a configurable dollar amount not to exceed \$1.00 less (greater) than such contra-side Reference Best Bid (Offer) as specified by the Exchange announced via an Options Trader Alert.
  
- (b) If the Reference BBO on the contra-side of an incoming order is less than or equal to \$1.00, orders with a limit more than the greater of the below will cause the order to be rejected by the System upon receipt.
  - (1) 100% less (greater) than such contra-side Reference Best Bid (Offer);  
or
  - (2) a configurable dollar amount not to exceed \$1.00 less (greater) than such contra-side Reference Best Bid (Offer) as specified by the Exchange announced via an Options Trader Alert.

The proposed OPP will be calculated using the better of the NBBO or the internal market BBO (i.e., the Reference BBO) instead of the Exchange BBO as currently used today, which will align to current BX functionality.<sup>75</sup> Like BX, the Exchange believes that calculating OPP on the basis of the better of the NBBO or the internal market BBO protects investors and the public interest where the internal market BBO is better than the

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to conform its OPP rule with the Exchange's proposed rule text.

<sup>75</sup> See BX Options 3, Section 15(a)(1)(B).

NBBO. In addition, the proposed OPP parameters will be the greater of a percentage threshold or fixed dollar amount, similar to today's limit order price protection that uses the greater of a percentage or fixed dollar threshold. The proposed parameters are identical to BX's OPP.<sup>76</sup> The Exchange believes that the proposed algorithm for OPP would continue to provide a reasonable limit to the range where orders will be accepted.

As set forth in proposed Options 3, Section 15(a)(1)(A)(i), OPP will be operational each trading day after the opening until the close of trading, except during trading halts, which will be identical to current functionality.<sup>77</sup> The Exchange also proposes in this paragraph to add identical language as BX, which will provide the Exchange with discretion to temporarily deactivate OPP from time to time on an intra-day basis if it is determined that unusual market conditions warranted deactivation in the interest of a fair and orderly market. Like BX, the Exchange believes that it will be useful to have the flexibility to temporarily disable OPP intra-day in response to an unusual market event (for example, if dissemination of data was delayed and resulted in unreliable underlying values needed for the Reference BBO). Members would be notified of intra-day OPP deactivation and any subsequent reactivation by the Exchange through the issuance of System status messages. Specifically, the Exchange proposes to add in Options 3, Section 15(a)(1)(A)(i) that OPP may be temporarily deactivated on an intra-day basis at the Exchange's discretion.

The following examples illustrate the application of the proposed OPP thresholds:

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<sup>76</sup> Id. The Exchange will initially set the fixed dollar configuration at \$0.05, identical to BX.

<sup>77</sup> See Options 3, Section 15(a)(1)(A) (currently providing that the limit order price protection does not apply to the opening process or during a trading halt).

***Example: An option priced less than or equal to \$1.00***

For a penny MPV option with a BBO on ISE of \$0.01 x \$0.02, consider that the configurable dollar amount is set to \$0.05

If the incoming order was less than \$1.00, and the Reference BBO is the internal market BBO, the System will reject buy orders priced higher than the greater of (i) \$0.04 (100% greater than the contra-side Reference Best Offer of \$0.02) or (ii) \$0.07 (\$0.02 offer + \$0.05 configuration)

***Example: An option priced greater than \$1.00***

For a penny MPV option with a BBO on ISE of \$1.01 x \$1.02, consider that the configurable dollar amount is set to \$0.05

If the incoming order was more than \$1.00, and the Reference BBO is the internal market BBO, the System will reject buy orders priced higher than the greater of (i) \$1.53 (50% greater than the contra-side Reference Best Offer of \$1.02) or (ii) \$1.07 (\$1.02 offer + \$0.05 configuration)

**Post-Only Quoting Protection**

The Exchange proposes to adopt an optional quoting protection for Market Makers that will be identical to current BX functionality.<sup>78</sup> This optional risk protection would allow Market Makers to prevent their quotes from removing liquidity from the Exchange's order book upon entry.

Specifically, the Exchange proposes to adopt the new risk protection in Options 3, Section 15(a)(3)(C). As proposed, Market Makers may elect to configure their SQF protocols to prevent their quotes from removing liquidity ("Post-Only Quote Configuration"). A Post-Only Quote Configuration would re-price or cancel a Market Maker's quote that would otherwise lock or cross any resting order or quote<sup>79</sup> on the

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<sup>78</sup> See BX Options 3, Section 15(c)(3).

<sup>79</sup> This would include any re-priced orders as described in the Re-Pricing Filing as proposed Options 3, Section 5(d), ALOs as described in proposed Options 3, Section 7(n), and any re-priced quotes as described in Options 3, Section 4(b)(6). As described above, ALOs may re-price.

order book upon entry. Market Makers may elect whether to re-price or cancel their quotes with this functionality. When configured for re-price, quotes would be re-priced and displayed by the System to one MPV below the current best offer (for bids) or above the current best bid (for offers). Notwithstanding the aforementioned, if a quote with a Post-Only Quote Configuration would not lock or cross an order or quote on the System but would lock or cross the NBBO, the quote will be handled pursuant to Options 3, Section 4(b)(6).<sup>80</sup> When configured for cancel, Market Makers will have their quotes cancelled whenever the quote would lock or cross the NBBO or be placed on the book at a price other than its limit price. Finally, the Exchange notes that similar to BX, this risk protection will not apply during an Opening Process because the order book is established once options series are open for trading.

Below are some examples of the Post-Only Quote Configuration functionality.

#### **Re-priced Post-Only Quote Configuration – Penny Interval Program Display and Execution Example**

- Penny Interval Program MPV in open trading state
- Market Makers A and C do not have Post-Only Quote Configuration risk protection configured
- Market Maker B is configured for Post-Only Quote Configuration re-price
- Market Maker A quote \$0.98 (10) x \$1.00 (10)
- ABBO \$0.96 x \$1.03
- Market Maker B quote \$1.00 (10) x \$1.01 (10) arrives
  - Bid side of quote re-prices onto order book @ 0.99 and sets displayed NBBO to 10 quantity
  - Offer side rests at 1.01 without issue

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<sup>80</sup> Options 3, Section 4(b)(6) provides that a quote will not be executed at a price that trades through another market or displayed at a price that would lock or cross another market. If, at the time of entry, a quote would cause a locked or crossed market violation or would cause a trade-through violation, it will either be re-priced and displayed at one minimum price variance above (for offers) or below (for bids) the national best price, or immediately cancelled, as configured by the Member.

- Market Maker C quote \$0.97 (20) x \$0.98 (20) arrives  
Trades 10 with Market Maker B @ \$0.99 and 10 with Market Maker A @ \$0.98

Market Maker B avoids taking liquidity while Market Maker C, who chose not to be configured for such, removes liquidity by interacting with re-priced interest on ISE's order book.

### **Re-priced Post-Only Quote Configuration – Non-Penny Interval Program Display and Execution Example**

- Non-Penny Interval Program MPV in open trading state
- Market Maker A quote \$0.95 (10) x \$1.00 (10)
- ABBO \$0.85 x \$1.05
- Market Maker B (configured for Post-Only Quote Configuration and selection of re-price upon quote) quote arrives \$1.00 (5) x \$1.05 (5)
  - Bid side quote re-prices on order book to \$0.95
  - Displays on order book @ \$0.95 (bid), which now shows (15 quantity)
  - Offer side quote books and displays in Depth of Market Feed at \$1.05
- Order to sell 10 contracts arrives @ \$0.95
  - 7 contracts execute with Market Maker A @ \$0.95
  - 3 contracts execute with Market Maker B @ \$0.95

In this example, the Market Maker avoided taking liquidity by deploying the Post-Only Quote Configuration with re-price.

### **Kill Switch**

As set forth in Options 3, Section 17, the Exchange offers an order cancellation Kill Switch, which is an optional tool that allows Members to initiate a message to the System to promptly cancel and restrict their order activity on the Exchange, or across both the Exchange and its affiliate, Nasdaq GEMX, LLC. Members may submit a Kill Switch request to the System for certain identifier(s) (“Identifier”) on either a user or group level.<sup>81</sup> Today, Members can log in through a graphical user interface (“GUI”) to

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<sup>81</sup> Identifiers include Exchange accounts, ports, and/or mnemonics. Thus, a Member using Kill Switch may elect to cancel orders for an individual Identifier (e.g., mnemonic) or any group of Identifiers (e.g., all mnemonics within one Member firm). Permissible groups must reside within a single Member firm. See Options 3, Section 17(a).

send a message to the Exchange to initiate the order cancellation Kill Switch.<sup>82</sup> As an alternative to the GUI Kill Switch, Members may also send a message through one of the Exchange's order entry ports (i.e., FIX, Precise, and OTTO) to initiate the order cancellation Kill Switch.<sup>83</sup> Once a Member initiates the Kill Switch (either through the GUI or an order entry port), it will result in the cancellation of all existing orders for the requested Identifier(s). The Member will be unable to enter any additional orders for the affected Identifier(s) until the Member sends a re-entry request to the Exchange.<sup>84</sup>

Due to the lack of demand for the GUI Kill Switch by Members, the Exchange proposes to decommission this optional tool with the planned technology migration.<sup>85</sup> With the proposed changes, the Exchange seeks to streamline its product offerings and to reallocate Exchange resources to other business and risk management initiatives. While the Exchange will no longer offer this optional risk protection to Members through the GUI, it will continue to offer this functionality through FIX, Precise, and OTTO.

In addition, all Members may contact the Exchange's market operations staff to request that the Exchange cancel any of their existing bids, offers, or orders in any series of options.<sup>86</sup> Furthermore, the Exchange will continue to have System-enforced risk mechanisms that automatically remove orders for the Member once certain pre-set

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<sup>82</sup> See Options 3, Section 17(a)(2)

<sup>83</sup> See Options 3, Section 17(a)(1).

<sup>84</sup> See Options 3, Section 17(a)(3).

<sup>85</sup> No Members have used the GUI Kill Switch for order cancellation in 2022. The Exchange will provide prior notice of the decommission to Members via Options Trader Alert.

<sup>86</sup> See Options 3, Section 19.



thresholds or conditions are met. This includes risk protections such as the market wide risk protection<sup>87</sup> and cancel on disconnect.<sup>88</sup>

To effect the proposed decommission of the GUI Kill Switch for order cancellation, the Exchange proposes to amend Options 3, Section 17 by eliminating paragraph (a)(2) and related cross-cites within this rule. The Exchange will also renumber the paragraphs in this rule accordingly.

The Exchange notes that it previously amended its rules to decommission the quote removal Kill Switch that was available to Market Makers through the GUI.<sup>89</sup> The Exchange noted in SR-ISE-2021-19 that Market Makers did not use the GUI Kill Switch to remove their quotes, but rather, utilized other means such as the mass purge request through SQF. In this case, the Exchange similarly notes that no Members use the GUI Kill Switch to cancel their orders but rather, utilize other means like the port Kill Switch through FIX, Precise and OTTO to purge their existing orders from the System. As such, the Exchange believes that eliminating the GUI Kill Switch all together (including for orders as proposed herein) will streamline the Exchange's risk protection offerings in a manner that reflects Member use.

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<sup>87</sup> The market wide risk protection automatically removes Member orders when certain firm-set thresholds are met. Once the thresholds are triggered, the Member must send a re-entry indicator to re-enter the System. See Options 3, Section 15(a)(1)(C).

<sup>88</sup> When the OTTO or FIX Port detects the loss of communication with a Member's Client Application because the Exchange's server does not receive a Heartbeat message for a certain time period ("nn" seconds), the Exchange will automatically logoff the Member's affected Client Application and if the Member has elected to have its orders cancelled pursuant to Section 18(f) (for OTTO) or Section 18(g) (for FIX) automatically cancel all orders. See Options 3, Section 18(c) and (d).

<sup>89</sup> See Securities Exchange Act Release No. 93017 (September 16, 2021), 86 FR 52700 (September 22, 2021) (SR-ISE-2021-19).

**Data Feeds and TradeInfo**

In connection with the technology migration, the Exchange proposes a number of enhancements to its current data feed offerings in Options 3, Section 23(a), many of which are intended to conform with current BX functionality, as specified below.

As set forth in Options 3, Section 23(a)(1), the Exchange offers the Nasdaq ISE Depth of Market Data Feed (“Depth of Market Feed”), which currently provides aggregate quotes and orders at the top five price levels on ISE, and provides subscribers with a consolidated view of tradable prices beyond the BBO, showing additional liquidity and enhancing transparency for ISE traded options. The data provided for each option series includes the symbols (series and underlying security), put or call indicator, expiration date, the strike price of the series, and whether the option series is available for trading on the Exchange and identifies if the series is available for closing transactions only. In addition, subscribers are provided with total aggregate quantity, Public Customer aggregate quantity, Priority Customer aggregate quantity, price, and side (i.e., bid/ask). This information is provided for each of the top five price levels on the Depth Feed. The feed also provides order imbalances on opening/reopening.

The Exchange now proposes to no longer provide book information for the top five price levels, and instead provide full depth-of-book information. As such, the Exchange will delete language that relates to top five price level information in the rule text. The Exchange also proposes to add more specificity around what would be provided in the opening/reopening order imbalance information (namely, the size of matched contracts and size of the imbalance). The proposed changes will closely align the information provided on the Exchange’s Depth of Market Feed with that of BX’s Depth of Market Feed, except the Exchange will not offer auction and exposure

notifications on its Depth of Market Feed like BX does today.<sup>90</sup> The Exchange already offers auction and exposure notifications on the Nasdaq ISE Order Feed as described below.<sup>91</sup> As amended, Options 3, Section 23(a)(1) would provide:

Nasdaq ISE Depth of Market Data Feed (“Depth of Market Feed”) is a data feed that provides full order and quote depth information for individual orders and quotes on the Exchange book and last sale information for trades executed on the Exchange. The data provided for each options series includes the symbols (series and underlying security), put or call indicator, expiration date, the strike price of the series, and whether the option series is available for trading on ISE and identifies if the series is available for closing transactions only. The feed also provides order imbalances on opening/reopening (size of matched contracts and size of the imbalance).

As set forth in Options 3, Section 23(a)(2), the Exchange offers the Nasdaq ISE Order Feed (“Order Feed”), which currently provides information on new orders resting on the book (e.g., price, quantity and market participant capacity). In addition, the feed also announces all auctions. The data provided for each option series includes the symbols (series and underlying security), put or call indicator, expiration date, the strike price of the series, and whether the option series is available for trading on ISE and identifies if the series is available for closing transactions only. The feed also provides order imbalances on opening/reopening.

The Exchange now proposes to update the information that would be available on the Order Feed. In particular, the Exchange would include Attributable Order tags<sup>92</sup> (as

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<sup>90</sup> See BX Options 3, Section 23(a)(1). As discussed below, the Exchange is instead proposing to offer these notifications on the Nasdaq ISE Order Feed. BX does not have a comparable order feed today.

<sup>91</sup> BX does not have a comparable order feed today. However, the proposed data elements in the ISE Order Feed already exist in the rules or technical specifications (for the Attributable Order content) of other options exchanges, as described below.

<sup>92</sup> As discussed above, an Attributable Order is a market or limit order which

provided by the Member) and related data content around displayed order types and specified order attributes (e.g., OCC account number, give-up information, CMTA information).<sup>93</sup> The Exchange also proposes to add more specificity around what would be provided in the opening/reopening order imbalance information (namely, the size of matched contracts and size of the imbalance). This specifically aligns to the data elements in both BX's Depth of Market Feed in BX Options 3, Section 23(a)(1) and the Exchange's proposed Depth of Market Feed in proposed Options 3, Section 23(a)(1). The Exchange will continue to provide auction notifications on the Order Feed, but will relocate the existing language to the end of the rule and adopt new content by providing that the proposed Order Feed will provide exposure notifications as well.<sup>94</sup> As amended,

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displays the user firm ID for purposes of electronic trading on the Exchange. See Options 3, Section 7(h).

<sup>93</sup> The Exchange notes that Cboe has similar attributable order functionality in Cboe Rule 5.6(c) as an order a user designates for display (price and size) that includes the user's executing firm ID or other unique identifier. While Cboe does not have a comparable data feed rule, Cboe's technical specifications indicate that it currently has Participant ID and Client ID tags available on its Multicast PITCH data feed. See Section 4.6 in [https://cdn.cboe.com/resources/membership/US\\_EQUITIES\\_OPTIONS\\_MULTICAST\\_PITCH\\_SPECIFICATION.pdf](https://cdn.cboe.com/resources/membership/US_EQUITIES_OPTIONS_MULTICAST_PITCH_SPECIFICATION.pdf) (relating to Participant ID or Client ID as optionally specified values).

<sup>94</sup> BX's Depth of Market Feed currently has identical content relating to auction and exposure notifications in BX Options 3, Section 23(a)(1). Exposure notifications are new with the introduction of routing and the removal of flash functionality in SR-ISE-2022-11. See Securities Exchange Act Release No. 94897 (May 12, 2022), 87 FR 30294 (May 18, 2022) (SR-ISE-2022-11) ("Routing Filing"). An exposure notification informs the market of an order that has arrived marketable against an ABBO and has a routing timer pursuant to the changes introduced to Options 5, Section 4 in the Routing Filing, while an auction notification is the notification of an auction for a Block, simple/complex Facilitation, simple/complex Solicited Order, simple/complex PIM auction, or a complex exposure auction pursuant to Supplementary Material .01 to Options 3, Section 14.

Options 3, Section 23(a)(2) would provide:

Nasdaq ISE Order Feed (“Order Feed”) provides information on new orders resting on the book (e.g., price, quantity, market participant capacity and Attributable Order tags when provided by a Member). The data provided for each option series includes the symbols (series and underlying security), displayed order types, order attributes (e.g., OCC account number, give-up information, CMTA information), put or call indicator, expiration date, the strike price of the series, and whether the option series is available for trading on ISE and identifies if the series is available for closing transactions only. The feed also provides order imbalances on opening/reopening (size of matched contracts and size of the imbalance), auction and exposure notifications.

As set forth in Options 3, Section 23(a)(3), the Exchange offers the Nasdaq ISE Top Quote Feed, which currently calculates and disseminates ISE’s best bid and offer position, with aggregated size (including total size in aggregate, for Professional Order size in the aggregate and Priority Customer Order size in the aggregate), based on displayable order and quote interest in the System. The feed also provides last trade information along with opening price, daily trading volume, high and low prices for the day. The data provided for each option series includes the symbols (series and underlying security), put or call indicator, expiration date, the strike price of the series, and whether the option series is available for trading on ISE and identifies if the series is available for closing transactions only. The feed also provides order imbalances on opening/reopening.

The Exchange now proposes to harmonize certain features of this feed with BX’s Top of Market Feed while retaining certain intended differences as specified below.<sup>95</sup> The Exchange first proposes to rename the Nasdaq ISE Top Quote Feed to the Nasdaq ISE Top of Market Feed (“Top Feed”) to match the BX feed name. In addition, the Exchange proposes to make conforming changes to rename the Top Feed in Options 7,

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<sup>95</sup> See BX Options 3, Section 23(a)(2).

Section 7.C(iii) and Section 10.H. The Exchange will also make a corrective change in Options 7, Section 7.C(iii) to update an incorrect cross-reference to the Market Data pricing in Section 10.

The Exchange further proposes to no longer provide information for opening price, daily trading volume, high and low prices for the day. These are conforming changes that would align the information provided on the Exchange's Top Feed with information on BX's Top Feed.<sup>96</sup> The Exchange will continue to provide aggregated size information as a legacy holdover, which will be different than current BX functionality. Similarly, the Exchange will continue to provide opening/reopening order imbalance information on its Top Feed unlike BX. As amended, Options 3, Section 23(a)(3) will provide:

Nasdaq ISE Top of Market Feed ("Top Feed") calculates and disseminates ISE's best bid and offer position, with aggregated size (including total size in aggregate, for Professional Order size in the aggregate and Priority Customer Order size in the aggregate), based on displayable order and quote interest in the System. The feed also provides last trade information and for each option series includes the symbols (series and underlying security), put or call indicator, expiration date, the strike price of the series, and whether the option series is available for trading on ISE and identifies if the series is available for closing transactions only. The feed also provides order imbalances on opening/reopening.

As set forth in Options 3, Section 23(a)(4), the Exchange offers the Nasdaq ISE Trades Feed ("Trades Feed"), which currently displays last trade information along with opening price, daily trading volume, high and low prices for the day. The data provided for each option series includes the symbols (series and underlying security), put or call indicator, expiration date, the strike price of the series, and whether the option series is available for trading on ISE and identifies if the series is available for closing transactions

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<sup>96</sup> Id.

only. The Exchange proposes to no longer provide information for opening price, daily trading volume, high and low prices for the day to align to the changes proposed for the Top Feed described above. As amended, Options 3, Section 23(a)(4) will provide:

Nasdaq ISE Trades Feed ("Trades Feed") displays last trade information. The data provided for each option series includes the symbols (series and underlying security), put or call indicator, expiration date, the strike price of the series, and whether the option series is available for trading on ISE and identifies if the series is available for closing transactions only.

As set forth in Options 3, Section 23(a)(5), the Exchange offers the Nasdaq ISE Spread Feed ("Spread Feed"), which currently is a feed that consists of: (1) options orders for all Complex Orders (i.e., spreads, buy-writes, delta neutral strategies, etc.); (2) data aggregated at the top five price levels (BBO) on both the bid and offer side of the market; (3) last trades information. The Spread Feed provides updates, including prices, side, size and capacity, for every Complex Order placed on the Complex Order book. The Spread Feed shows: (1) aggregate bid/ask quote size; (2) aggregate bid/ask quote size for Professional Customer Orders; and (3) aggregate bid/ask quote size for Priority Customer Orders for ISE traded options. The feed also provides Complex Order auction notifications.

Similar to the proposed changes to the Depth of Market Feed above, the Exchange now proposes in the Spread Feed to no longer provide book information for the top five price levels, and instead provide full depth-of-book information. As such, the Exchange will delete language that relates to top five price level information in the rule text, and replace it with full depth language that is substantively similar to the language in the current BX Depth of Market Feed in BX Options 3, Section 23(a)(1) and in the Exchange's proposed Depth of Market Feed in Options 3, Section 23(a)(1), except the proposed language herein will be tailored to complex functionality. The Exchange also

proposes to add Attributable Complex Order<sup>97</sup> tags (when provided by the Member) into the Spread Feed.<sup>98</sup> The Exchange also proposes to delete the following sentence: “The Spread Feed provides updates, including prices, side, size and capacity, for every Complex Order placed on the ISE Complex Order book. The Spread Feed shows: (1) aggregate bid/ask quote size; (2) aggregate bid/ask quote size for Professional Customer Orders; and (3) aggregate bid/ask quote size for Priority Customer Orders for ISE traded options.” The Exchange proposes instead to incorporate these concepts into the amended Spread Feed rule in a manner that is more consistent with the other amended rules in Options 3, Section 23(a).

As amended, Options 3, Section 23(a)(5) will provide:

Nasdaq ISE Spread Feed ("Spread Feed") is a feed that consists of: (1) options orders for all Complex Orders (i.e., spreads, buy-writes, delta neutral strategies, etc.); (2) full Complex Order depth information, including prices, side, size, capacity, Attributable Complex Order tags when provided by a Member, and order attributes (e.g., OCC account number, give-up information, CMTA information), for individual Complex Orders on the Exchange book; (3) last trades information; and (4) calculating and disseminating ISE’s complex best bid and offer position, with aggregated size (including total size in aggregate, for Professional Order size in the aggregate and Priority Customer Order size in the aggregate), based on displayable Complex Order interest in the System. The feed also provides Complex Order auction notifications.

In addition, the Exchange proposes to no longer offer TradeInfo, which is a user

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<sup>97</sup> An Attributable Complex Order is a Market or Limit Complex Order that is designated as an Attributable Order as provided in Options 3, Section 7(h). See Options 3, Section 14(b)(4).

<sup>98</sup> Cboe currently allows complex orders to be designated as Attributable. See Cboe Rule 5.33(b)(3). While Cboe does not have a comparable data feed rule, Cboe’s technical specifications indicate that it currently has Participant ID and Client ID tags available on its Complex Multicast PITCH data feed. See Section 3.8 in [https://cdn.cboe.com/resources/membership/US\\_OPTIONS\\_COMPLEX\\_MULTICAST\\_PITCH\\_SPECIFICATION.pdf](https://cdn.cboe.com/resources/membership/US_OPTIONS_COMPLEX_MULTICAST_PITCH_SPECIFICATION.pdf) (relating to Participant ID or Client ID as optionally specified values).



interface set forth in Options 3, Section 23(b)(2) that permits Members to: (i) search all orders submitted in a particular security or all orders of a particular type, regardless of their status (open, canceled, executed, etc.); (ii) view orders and executions; and (iii) download orders and executions for recordkeeping purposes. TradeInfo users may also cancel open orders at the order, port or firm mnemonic level through TradeInfo. Due to the lack of demand for this interface by Members,<sup>99</sup> the Exchange seeks to decommission the TradeInfo interface when the Exchange migrates over to the enhanced Nasdaq platform with the technology migration.<sup>100</sup> The Exchange notes that FIX, FIX DROP,<sup>101</sup> and the Clearing Trade Interface (“CTI”),<sup>102</sup> which are available to all Members, can be used today to obtain order information that is currently available within TradeInfo, and FIX can be used to cancel orders today.

In connection with its proposal to retire TradeInfo, the Exchange also proposes to eliminate all references to TradeInfo in Options 7 (Pricing Schedule). Today, as set forth

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<sup>99</sup> No Members logged into TradeInfo in 2022.

<sup>100</sup> The Exchange will provide prior notice of the decommission to all Members through an Options Trader Alert.

<sup>101</sup> FIX DROP is a real-time order and execution update message that is sent to a Member after an order been received/modified or an execution has occurred and contains trade details specific to that Member. The information includes, among other things, the following: (i) executions; (ii) cancellations; (iii) modifications to an existing order; and (iv) busts or post-trade corrections. See Options 3, Section 23(b)(3).

<sup>102</sup> CTI is a real-time cleared trade update message that is sent to a Member after an execution has occurred and contains trade details specific to that Member. The information includes, among other things, the following: (i) The Clearing Member Trade Agreement (“CMTA”) or The Options Clearing Corporation (“OCC”) number; (ii) badge or mnemonic; (iii) account number; (iv) information which identifies the transaction type (e.g., auction type) for billing purposes; and (v) market participant capacity. See Options 3, Section 23(b)(1).

in Options 7, Section 7.C(ii)(3), the Exchange does not charge any fees for TradeInfo. With the proposed changes, the Exchange will amend Options 7 to delete Section 7.C(ii)(3) in its entirety.

### **Optional Risk Protections**

The Exchange proposes to introduce optional quantity and notional value checks in new Options 3, Section 28, entitled “Optional Risk Protections.” The proposed optional order risk protections will be functionally identical to the protections currently offered by BX.<sup>103</sup> Members may use this voluntary functionality through their FIX or Precise protocols to limit the quantity and notional value they can send per order and on aggregate for the day. Specifically, Members may establish limits for the following parameters, as set forth in proposed subparagraphs (a)(1)-(4):

- (1) Notional dollar value per order, which will be calculated as quantity multiplied by limit price multiplied by number of underlying shares;
- (2) Daily aggregate notional dollar value;
- (3) Quantity per order; and
- (4) Daily aggregate quantity

Proposed paragraph (b) will provide that Members may elect one or more of the above optional risk protections by contacting Market Operations and providing a per order value (for (a)(1) and (a)(3)) or daily aggregate value (for (a)(2) and (a)(4)) for each order protection. Members may modify their settings through Market Operations.

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<sup>103</sup> See BX Options 3, Section 28. While BX’s rule does not contain the level of granularity as proposed in the Exchange’s rule, including how orders are rejected if any of the optional risk protection values are exceeded, the Exchange understands that BX’s optional risk protections operate in the same manner. In addition, BX’s rule does not include Precise as this order entry port is not available on BX today.

Proposed paragraph (c) will provide that the System will reject all incoming aggregated Member orders for any of the (a)(2) and (a)(4) risk protections after the value configured by the Member is exceeded. Proposed paragraph (d) will provide that the System will reject all incoming Member orders for any of the (a)(1) and (a)(3) risk protections upon arrival if the value configured by the Member is exceeded by the incoming order. The Exchange notes that the difference in handling between aggregate and individual order protections is necessary to allow for complete processing of the final order that puts a Member's configured value over the aggregate values configured. While individual orders can be directly measured against the configured values for (a)(1) and (a)(3), the aggregate values must be calculated after complete processing of an order and thus the rejection of orders begins upon the arrival of the next order after the aggregate values in (a)(2) or (a)(4) have been exceeded.

The following example shows how the System will reject all subsequent incoming aggregated orders after the (a)(2) or (a)(4) values configured by the Member have been exceeded:

*Aggregate Quantity Limit = 800.*

1. Member enters an Order to Buy 500 – Accepted
2. Member enters an Order to Buy 400 – Accepted (Member did not meet the configured limit of 800 with the first order of 500 at the time Member entered the second order)
3. Member enters an Order to Buy 1 – Rejected (Member already exceeded the configured limit of 800 with the second order of 400)

The following example shows how the System will reject all incoming orders upon arrival if the (a)(1) or (a)(3) values configured by the Member have been exceeded by the arriving order:

*Quantity Per Order Limit = 800.*

1. Member enters an Order to Buy 801 – Rejected (Member exceeded the Quantity per order limit upon arrival with the order to buy 801 contracts)

Proposed paragraph (e) will provide that if a Member sets a notional dollar value, a Market Order would not be accepted from that Member. This is because notional dollar value is calculated by using an order's specified limit price, and Market Orders by definition are priced at the best available price upon execution. Lastly, proposed paragraph (f) will provide that the proposed risk protections are only available for orders entered through FIX or Precise. Additionally, all of the proposed settings will be firm-level.

### **Corrective Changes**

The Exchange proposes a few corrective changes in Options 3. First, the Exchange proposes to amend Supplementary Material .04 to Options 3, Section 7.<sup>104</sup> This rule presently states that orders may be entered on the Exchange with a routing strategy of FIND or SRCH, or, in the alternative, an order may be marked as DNR as provided in Options 5, Section 4 through FIX only. The Exchange now proposes to add “or Precise” after FIX to indicate that Members may also use Precise to route their orders using FIND or SRCH, or mark orders as DNR. The Exchange notes that FIX and Precise are the only order entry protocols on the Exchange that permit routing today. As such, this corrective change will make clear that the listed routing strategies in Supplementary Material .04 will be available for orders entered through FIX or Precise only.

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<sup>104</sup> The Exchange notes that it recently added Supplementary Material .04 to Options 3 Section 7 in the Routing Filing, which is effective but not yet operative. The proposed changes herein to Supplementary Material .04 to Options 3, Section 7 therefore assumes that the rule changes in the Routing Filing are effective prior to the effectiveness of this filing.

Second, the Exchange proposes to fix an incorrect cross-reference set forth in Options 3, Section 10(b)(1). Specifically, the cross-reference therein to the minimum trading increment rule will be updated to Options 3, Section 3.

## 2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,<sup>105</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act,<sup>106</sup> in particular, in that it is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general to protect investors and the public interest. As it relates to the elimination of fees for TradeInfo, the Exchange believes that its proposal is consistent with Section 6(b) of the Act,<sup>107</sup> in general, and furthers the objectives of Sections 6(b)(4) and 6(b)(5) of the Act,<sup>108</sup> in particular, in that it provides for the equitable allocation of reasonable dues, fees, and other charges among members and issuers and other persons using any facility, and is not designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

Generally, the Exchange's proposal is intended to add or align certain System functionality with functionality currently offered on BX in order to provide a more consistent technology offering across affiliated Nasdaq options exchanges. A more harmonized technology offering, in turn, will simplify technology implementation,

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<sup>105</sup> 15 U.S.C. 78f(b).

<sup>106</sup> 15 U.S.C. 78f(b)(5).

<sup>107</sup> 15 U.S.C. 78f(b).

<sup>108</sup> 15 U.S.C. 78f(b)(4) and (5).

changes, and maintenance by market participants of the Exchange that are also participants on Nasdaq affiliated options exchanges. The Exchange's proposal also seeks to provide greater harmonization between the rules of the Exchange and its affiliates, which would result in greater uniformity, and less burdensome and more efficient regulatory compliance by market participants. As such, the proposal would foster cooperation and coordination with persons engaged in facilitating transactions in securities and would remove impediments to and perfect the mechanism of a free and open market and a national market system. The Exchange believes that more consistent rules will increase the understanding of the Exchange's operations for market participants that are also participants on the Nasdaq affiliated options exchanges, thereby contributing to the protection of investors and the public interest. The proposal also seeks to memorialize existing functionality and add more granularity in the Exchange's rules to describe how existing functionality operates today. The Exchange believes that such changes would remove impediments to and perfect the mechanism of a free and open market and a national market system because the proposed changes would promote transparency in Exchange rules and reducing potential confusion, thereby ensuring that Members, regulators, and the public can more easily navigate the Exchange's Rulebook and better understand how options trading is conducted on the Exchange.

### **Bulk Message**

The Exchange believes that its proposal to memorialize its bulk message functionality is consistent with the Act as it will codify existing functionality, thereby promoting transparency in the Exchange's rules and reducing any potential confusion.<sup>109</sup>

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<sup>109</sup> As discussed above, this existing functionality is currently described in the

This functionality provides Market Makers with an additional tool to meet their various quoting obligations in a manner they deem appropriate, consistent with the purpose of the bulk message functionality to facilitate Market Makers' provision of liquidity. By providing Market Makers with additional control over the quotes they use to provide liquidity to the Exchange, this tool may benefit all investors through additional execution opportunities at potentially improved prices. As noted above, other options exchanges like Cboe currently offer similar bulk messaging functionality that allow their market participants to submit block quantity quotes in a single electronic message.<sup>110</sup>

The Exchange does not believe that the offering the bulk message functionality to only Market Makers would permit unfair discrimination. Market Makers play a unique and critical role in the options market by providing liquidity and active markets, and are subject to various quoting obligations (which other market participants are not, including obligations to maintain active markets, update quotes in response to changed market conditions, to compete with other Market Makers in its appointed classes, and to provide intra-day quotes in its appointed classes.<sup>111</sup> Bulk message functionality provides Market Makers with a means to help them satisfy these obligations.

### **Order Types**

The Exchange believes that the proposed changes to the rules governing Exchange order types are consistent with the Act. As discussed above, the proposed changes consist of several functional enhancements to align the Exchange's order types

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Exchange's publicly available technical specifications. See supra note 3.

<sup>110</sup> See supra note 6.

<sup>111</sup> See Options 2, Sections 4 and 5.

to existing BX order types, and rule adjustments that add more specificity and clarity to existing order types.

### ***Market Orders***

The Exchange believes that the proposed changes to the definition of Market Orders in Options 3, Section 7(a) are consistent with the Act. The proposed intra-day cancel timer feature mirrors existing BX functionality in BX Options 3, Section 7(a)(5), and would provide Members with additional flexibility and control to bring the Market Order back to the Member so they can get an execution on another venue by canceling unexecuted Market Orders after a certain period of time. The Exchange believes it is appropriate to offer this feature intra-day because the Exchange already has a separate opening delay timer that provides protection to the market during the Opening Process as discussed above.

### ***Intermarket Sweep Orders***

The Exchange believes that the proposed changes to the definition of ISOs in Options 3, Section 7(b)(5) are consistent with the Act. As discussed above, the proposed changes are intended to add more granularity and more closely align the level of detail in the ISO rule with BX's ISO rule in BX Options 3, Section 7(a)(6) by specifying how the Exchange would handle ISOs, including how ISOs may be submitted and when. As such, the Exchange believes that its proposal will promote transparency in the Exchange's rules and consistency across the rules of the Nasdaq affiliated options exchanges.<sup>112</sup>

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<sup>112</sup> As noted above, BX's ISO rule also currently states that "ISOs may be entered on the Order Book or into the PRISM Mechanism pursuant to Options 3, Section 13(ii)(K)." The Exchange will file a separate rule change to add similar language



Furthermore, the proposed changes do not amend current ISO functionality except for the proposed stipulation that ISOs must have a TIF designation of IOC. Today, Options 5, Section 1(h) provides that ISOs may be either an IOC or an order that expires on the day it is entered. The Exchange believes it is appropriate to no longer allow non-IOC ISOs, as an ISO is generally used when trying to sweep a price level across multiple exchanges in an effort to post the balance of an order without locking an away market. The Exchange therefore believes that ISOs have a limited purpose and should be cancelled if they do not execute or do not entirely execute. This is also consistent with how BX currently handles ISOs in that BX only allows ISOs to be entered as IOC.

#### ***All-or-None Orders***

The Exchange believes that the proposed changes to the definition of AON Orders in Options 3, Section 7(c) are consistent with the Act. As discussed above, the Exchange is memorializing current System behavior by specifying how AON Orders will execute against multiple, aggregated orders to align with the level of detail in BX Options 3, Section 7(a)(4)(A). The proposed description of the handling of AON Orders is consistent with the Exchange's allocation methodology in Options 3, Section 10 by making clear that because of the size contingency of the AON Order (i.e., executed in its entirety or not at all), those orders must be satisfied simultaneously to avoid any priority conflict on the order book, which considers current displayed NBBO prices to avoid locked and crossed markets as well as trade-throughs. Finally, the proposed changes to add that AON Orders may not be submitted during the Opening Process will better

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as BX relating to how ISOs may be entered on the Exchange.

articulate current System behavior, and aligns to the level of detail currently in BX's AON rule at BX Options 3, Section 7(a)(7).

***Stop and Stop Limit Orders***

The Exchange believes that the proposed changes to the definition of Stop Orders and Stop Limit Orders in Options 3, Sections 7(d) and 7(e), respectively, are consistent with the Act. The Exchange is proposing to codify current System behavior by adding that Stop Orders and Stop Limit Orders will be cancelled if they are immediately electable upon receipt. As discussed above, the purpose of each of these order types is to not execute upon entry, and instead rest in the System until the market reaches a certain price level, at which time the order could be executed. A Stop Order or Stop Limit Order that is immediately electable upon receipt would therefore negate the purpose of this order type, so the Exchange believes it is appropriate to cancel such orders to ensure that Members are able to use these order types to achieve their intended purpose. As noted above, the proposed changes to codify current Stop and Stop Limit Order handling will align the Exchange's rules with Phlx's Stop and Stop Limit Order rules.<sup>113</sup>

The Exchange believes that the proposed changes to specify current System functionality that Stop and Stop Limit Orders may only be entered into FIX or Precise will make clear that these order types are only available to be entered through two of the three order entry protocols offered by the Exchange (i.e., FIX, Precise, and OTTO). As such, the proposed changes will promote transparency in the Exchange's rules and reduce any potential confusion.

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<sup>113</sup> See supra notes 23 and 26.

### ***Cancel and Replace Orders***

The Exchange believes that the proposed changes to the rule governing Cancel and Replace Orders would promote clarity and make the rules easier to navigate. As discussed above, these are non-substantive changes to relocate the rule from Supplementary Material .02 to Options 3, Section 7 into the main body of the order types rule at Options 3, Section 7(f), updating incorrect cross-cites therein, and adding more granularity around how the Exchange will treat the cancellation and replacement of Reserve Orders.

### ***Reserve Orders***

The Exchange believes that the proposed changes to the Reserve Order rule at Options 3, Section 7(g) are consistent with the Act. The Exchange is proposing to add more granularity around how Members may elect to refresh the display quantity for the Reserve Order. The Exchange notes that the new rule text does not have any impact on the priority rules of the displayed or non-displayed portion of the Reserve Order. This refresh feature for Reserve Orders is intended to provide more flexibility and opportunities for Members to add displayed liquidity to the Exchange, which, in turn, benefits all market participants through more trading opportunities and enhanced price discovery. As discussed above, the proposed changes do not amend current functionality, but rather is intended to promote transparency around the current operation of Reserve Orders. Further, the Exchange believes that the non-substantive changes in the Reserve Order rule to renumber and reformat the paragraphs therein, and make corrective changes as described above, are consistent with the protection of investors and the public interest because they will simply make the Exchange's rules easier to navigate, thereby reducing

any potential confusion. As noted above, other options exchanges like Cboe currently offer Reserve Orders that have similar refresh features.<sup>114</sup>

### ***Attributable Orders***

The Exchange believes that it is consistent with the Act to delete existing rule text in Options 3, Section 7(h), which currently indicates that Attributable Orders may be available for specified classes of securities, and to make a corrective change to “an Options Trader Alert.” Because Attributable Orders are available for all classes of securities today, the Exchange is deleting this language as inaccurate. The Exchange believes that the proposed changes will promote transparency in the Exchange’s rules.

### ***Customer Cross Orders***

The Exchange believes that the non-substantive amendment in Options 3, Section 7(i) to add that Customer Cross Orders may trade in accordance with Options 3, Section 12(a) is consistent with the protection of investors and the public interest because the proposal will simply add a cross reference in the Customer Cross Order rule to Section 12(a), which currently describes in detail how this order type would execute on the Exchange, thereby adding clarity to how Customer Cross Orders function today.

### ***Qualified Contingent Cross Orders***

The Exchange believes that the proposed changes to the QCC Order rule in Options 3, Section 7(j) to add a reference to “QCC” and to provide that QCC Orders will trade in accordance with Options 3, Section 12(c) are consistent with the Act because the changes are merely intended to add greater clarity to how QCC Orders function today. The Exchange further believes that specifying that QCC Orders may only be entered

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<sup>114</sup> See supra note 29.

through FIX or Precise will better articulate current System behavior, and will make clear that QCC Orders are available to be entered through only two of the three order entry protocols currently offered by the Exchange (i.e., FIX, Precise, and OTTO), thereby reducing any potential confusion.

### ***Preferred Orders***

The Exchange believes that its proposal to add a definition of Preferred Orders in Options 3, Section 7(l) is consistent with the Act. While Preferred Orders are currently described in Options 2, Section 10, the Exchange believes that it would be useful to have order types centralized within one rule to make the Rulebook easier to navigate for market participants. As noted above, Phlx similarly lists out Directed Orders (akin to Preferred Orders) in its order types rule at Phlx Options 3, Section 7(b)(11).

### ***Add Liquidity Orders***

The Exchange believes that the proposed changes to the ALO rule in Options 3, Section 7(n) are consistent with the Act. As discussed above, the Exchange is enhancing current ALO functionality to reflect that the Exchange will handle ALOs in a consistent manner with the new continuous re-pricing mechanism that is being proposed concurrently in the Re-Pricing Filing as proposed Options 3, Section 5(d) in situations where the ALO would not lock or cross an order or quote on the System, but would lock or cross the NBBO.<sup>115</sup> The Exchange therefore believes that the proposed changes will make clear how the Exchange will handle ALOs under the new re-pricing mechanism. The ALO order type was adopted to provide market participants greater control over the circumstances in which their orders are executed. As noted above, the purpose of an

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<sup>115</sup> See supra note 33.

ALO is to provide liquidity. For investors and market participants that elect only to provide liquidity in certain circumstances, such as to receive a maker fee (or rebate) upon execution of an order, the Exchange continues to believe that ALOs, as amended under this proposal, will continue to accommodate this strategy. The proposed order handling for ALOs is consistent with how ALOs are handled on BX today.<sup>116</sup>

The Exchange also believes that adding “or quotes” in the ALO rule at Options 3, Section 7(n) is consistent with the Act. Today, if at the time of entry, an ALO would lock or cross one or more non-displayed orders or quotes on the Exchange, the ALO will be cancelled or re-priced in the manner specified within the ALO rule. Adding this rule text will bring greater clarity around current ALO behavior.

The Exchange further believes that the proposed addition that ALOs may only be submitted when an options series is open for trading will make clear ALOs will not be accepted during the Opening Process as the order book is not available. The proposed changes codify existing System behavior, and will therefore promote transparency in the Exchange’s rules.

#### ***QCC with Stock Orders***

The Exchange believes that the non-substantive change to correct a cross-cite in the QCC with Stock Order rule in Options 3, Section 7(t) will promote clarity in the Exchange’s rules.

#### ***Opening Sweep***

The Exchange believes that the proposed changes to the Opening Sweep rule in Options 3, Section 7(u) are consistent with the Act. As discussed above, the Exchange is

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<sup>116</sup> See BX Options 3, Section 7(a)(12).

codifying current System behavior and providing additional context to the rule in a manner that is consistent with Phlx's Opening Sweep rule in Phlx Options 3, Section 7(b)(6). The Exchange therefore believes that the proposed changes promote greater transparency in the Exchange's rules and consistency across the rules of the Nasdaq affiliated options exchanges. Specifically, because an Opening Sweep is an IOC order submitted by a Market Maker during the Opening Process, the Exchange is making clear that Opening Sweeps are entered though SQF in the proposed rule text. The Exchange also believes that it is appropriate to specify that Opening Sweeps are not subject to any risk protections in Options 3, Section 15 (except Automated Quotation Adjustments) because the Opening Process itself has boundaries (notably, the Quality Opening Market and the Opening Quote Range) within which orders will be executed. Finally, the proposed language relating to Opening Sweep participation in the Opening Process and cancellation upon the open merely provides additional context in the order type rule. As noted above, Opening Sweeps are already described in the opening rule today in Options 3, Section 8, and apply only during the Opening Process.

### ***Time in Force***

The Exchange believes that the proposed changes to the TIF rules are consistent with the Act. As discussed above, the Exchange believes that certain existing functionality currently described as an "order type" in Options 3, Section 7 would be more precisely described as a TIF attribute that designates the basic parameters of an order type. Relocating and centralizing the existing TIF rules into proposed Supplementary Material .02 to Options 3, Section 7 will therefore clearly delineate these order attributes and make the proposed rules easier to navigate. Codifying the definition

of “TIF” in proposed Supplementary Material .02 will add greater clarity and transparency to the Exchange’s rules in a manner consistent with BX Options 3, Section 7(b).

The Exchange believes that the adjustments in proposed Supplementary Material .02(a) to Options 3, Section 7 to add that Day orders may be entered through FIX, OTTO, or Precise will add further granularity and clarity to the Exchange’s rules. The proposed changes provide additional detail about current functionality in a manner that is consistent with the level of detail in BX’s Day order.<sup>117</sup>

The Exchange believes that the adjustments to the relocated GTC and GTD rules in proposed Supplementary Material .02(b) and (c) will add further granularity and clarity to how these TIFs operate today. The Exchange further believes that aligning the level of detail in the GTD rule to the GTC rule, as described above, is appropriate because these two TIFs are meant to be functionally similar except the manner in which they persist in the System.

The Exchange believes that the proposed changes to the relocated IOC rule in proposed Supplementary Material .02(d) will promote greater transparency in the Exchange’s rules by providing more granularity to current IOC functionality. Further, the changes conform the Exchange’s IOC rule to BX’s IOC rule, thereby promoting consistency across the rules of the Nasdaq affiliated options exchanges. Specifically, the proposed changes to remove the word “limit” will make clear that IOC orders may be sent as either a Market or Limit Order today, identical to BX IOC orders.<sup>118</sup> The

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<sup>117</sup> See supra note 41.

<sup>118</sup> See supra note 42.



proposed changes to state that IOC orders are not eligible for routing, and that IOC orders may be entered through FIX, OTTO, Precise, or SQF, will codify current IOC behavior in a manner that is consistent with BX's IOC rule.<sup>119</sup>

As it relates to the proposed changes to memorialize the various risk protections that are excluded from applying to Market Maker IOC orders entered through SQF, the Exchange believes this is appropriate because only Market Makers utilize SQF to enter IOC orders. As discussed above, Market Makers are professional traders with more sophisticated infrastructures than other market participants, and are able to manage their risk through their own risk settings in addition to the risk protections required by the Exchange. The Exchange will continue to apply the specified risk protections on IOC orders entered through FIX, OTTO, and Precise, which are used by the other market participants. The proposed changes will harmonize the Exchange's IOC rule with BX's IOC rule.<sup>120</sup> Further, the proposal to add substantially similar exclusionary language into the SQF rule itself at Supplementary Material .03(c) to Options 3, Section 7 will make clear that these risk protections will not apply to IOC orders entered through SQF.

Specifying in the proposed IOC rule that orders entered into the Exchange's various auction and crossing mechanisms are considered to have a TIF of IOC memorializes current System behavior, and is intended to bring greater transparency in how these order types are handled today. As noted above, BX currently has substantially similar language in its IOC rule for BX PRISM orders in BX Options 3, Section 7(b)(2).

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<sup>119</sup> See supra notes 43 – 44.

<sup>120</sup> See supra notes 49 – 50.

Lastly, the Exchange believes that the adjustments to the relocated OPG rule in proposed Supplementary Material .02(e) to Options 3, Section 7 will add granularity and clarity to how OPG orders operate, and will conform the OPG rule with the level of detail currently in BX's OPG rule in BX Options 3, Section 7(b)(1). As discussed above, the Exchange is proposing to enhance OPG functionality to allow both Market and Limit OPG orders whereas today, only Limit OPG orders are allowed. This harmonizes OPG functionality with BX OPG functionality. The other modifications to replace "opening rotation" with "Opening Process," stating OPG orders may not route, and indicating that OPG orders are not subject to the protections listed in Options 3, Section 15 (except Size Limitation) all memorialize current OPG behavior, and align to the current BX OPG rule. As discussed above, the Exchange does not apply any of the risk protections in Options 3, Section 15 (except Size Limitation) because the Opening Process itself has boundaries within which orders will be executed.

### **Opening Process**

The Exchange believes that the proposed changes to the Opening Process in Options 3, Section 8 are consistent with the Act. As discussed above, the Exchange is proposing to remove the current limitation that only allows Public Customers interest to route during the opening, and will instead allow all market participant interest to route. The proposed changes will serve to more closely align the Exchange's Opening Process with BX's Opening Process. Like BX, the Exchange believes that it will be beneficial to provide all market participants with the opportunity to have their interest executed on away markets during the Opening Process. The Exchange further believes that the related changes to remove references to "Public Customer" throughout Options 3, Section

8, and to update the cross-cite currently pointing to the Priority Customer priority overlay to the more general priority rule, will add clarity, transparency, and internal consistency to Exchange rules regarding the proposed handling of routable interest during the Opening Process.

The Exchange believes that its proposal to no longer round in the direction of the previous trading day's closing price and simply round up to the MPV, if the mid-point of the highest and lowest of the Potential Opening Prices is not expressed as a permitted MPV, will simplify and bring greater transparency to the Opening Process, to the benefit of investors. Market participants can now have a better sense of how the Potential Opening Price will be calculated without having to account for the closing price of each options series. The Exchange believes this may promote greater efficiency in the marketplace especially in view of the continued growth in the number of options today.

The Exchange further believes that the proposed changes to replace “are marketable against the ABBO” with “cross the ABBO” will better articulate how the Exchange currently determines the OQR boundaries in the scenario specified in Options 3, Section 8(i)(3). Lastly, the Exchange believes that the non-substantive change in paragraph (j)(3)(B) of Options 3, Section 8 will bring greater clarity to the Rulebook.

### **Auction Mechanisms**

#### ***Facilitation and Solicited Order Mechanisms***

The Exchange believes that its proposal to relocate the rule text relating to Responses from Supplementary Material .02 to Options 3, Section 11 into the introductory paragraph of Options 3, Section 11, and adding that Responses can be modified, is consistent with the Act. The Exchange is relocating this language into the

introductory paragraph of Options 3, Section 11 after the definition of “Response” for better readability. The proposed change to add “or modified” to indicate that Responses may be canceled or modified any time prior to execution better aligns the rule text to current System behavior. As noted above, the rules for the complex Facilitation and Solicited Order Mechanisms in Options 3, Sections 11(c)(7) and (e)(4), respectively, already provide for this concept.

### ***Price Improvement Mechanism***

The Exchange’s proposal to amend Options 3, Section 13(b)(4) to clarify the current rule text by adding the words “or modified” after “canceled” is consistent with the Act because the additional text will make clear that a Crossing Transaction may not be modified unless the Counter-Side Order is being improved during the exposure period.

The Exchange’s proposal to add clarifying rule text within Options 3, Section 13(b)(5) which states, “Crossing Transactions submitted at or before the opening of trading are not eligible to initiate an Auction and will be rejected” is consistent with the Act because it will bring greater clarity to when a Crossing Transaction is currently eligible to initiate a PIM. The PIM considers both the NBBO and local book for its entry price validation and therefore requires an opening for the PIM to begin.

The Exchange’s proposal to amend the current PIM functionality within Options 3, Section 13(c)(3) to permit Improvement Orders to be canceled or modified is consistent with the Act. The Exchange proposes to amend this functionality so that Improvement Orders may be canceled or modified similar to functionality on BX today within Options 3, Section 13(ii)(a)(8). Today, during the exposure period, Improvement Orders may not be canceled and Improvement Orders may be modified to (i) increase the

size at the same price, or (ii) improve the price of the Improvement Order for any size up to the size of the Agency Order. The modification and cancellation of an Improvement Order through OTTO will be similar to the manner in which a Cancel and Replace Order would be handled outside of the auction process. For Improvement Orders through SQF, the modification and cancellation of such orders will be handled by sending new Improvement Orders that overwrite the existing Improvement Order with updated price/quantity instructions. Improvement Orders are not visible to other auction participants, including the Agency Order. The Exchange believes that providing responders with flexibility to cancel or modify their Improvement Orders may encourage market participants to respond to more auctions, including PIM.

The proposal to amend Options 3, Section 13(d)(5) to permit an auction to automatically terminate upon the occurrence of a trading halt with execution solely with the Counter-Side Order is consistent with the Act. This functionality would be similar to rule text within BX Options 3, Section 13(ii)(C). The Exchange believes that utilizing the price of the Counter-Side Order to execute the Crossing Transaction promotes just and equitable principles of trade, and fosters cooperation and coordination with persons engaged in facilitating transactions in securities since the Counter-Side Order has guaranteed that an execution will occur at the same price as the Crossing Transaction, or better, prior to the trading halt, and Improvement Orders offer no such guarantee, the Counter-Side Order is the only valid price at which to execute the Crossing Transactions, and the Counter-Side Order is the appropriate contra-side.<sup>121</sup>

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<sup>121</sup> The Exchange notes that trading on the Exchange in any option contract will be halted whenever trading in the underlying security has been paused or halted by the primary listing market.

The Exchange believes that the proposed System change to adopt a new same side execution price check for PIM in new subsection (d)(6) of Options 3, Section 13 is consistent with the Act. As discussed above, this feature would be functionally identical to BX PRISM in BX Options 3, Section 13(ii)(I). Like BX, the proposed price check is designed to ensure that the Exchange would not trade at prices that would lock or cross interest on the same side of the market as the Agency Order where limit orders have rested and obtained priority to execute at that price. In the event where a limit order arrives on the same side of the market as the Agency Order and is at the same or better price than the initiating Crossing Transaction price, the Exchange would execute the entire PIM transaction at the initiating Crossing Transaction price. The execution takes place at this price because the PIM is guaranteed an execution and the PIM agency side instructions would not allow an execution to take place at a higher (lower) price than submitted for a buying (selling) agency side PIM order. Considering that the limit order has arrived either at or better on the same side as the Agency Order than the agency side price, the initiating Crossing Transaction price is the only price at which the guaranteed execution can take place.

The Exchange's proposal to amend Options 3, Section 13(e)(4)(ii) to permit Improvement Complex Orders to be canceled or modified is consistent with the Act. Further, similar to the proposed change for simple PIM, the Exchange notes that the modification and cancellation of an Improvement Complex Order will be similar to the manner in which a Cancel and Replace Order would be handled outside of the auction process. Improvement Complex Orders are not visible to other auction participants, including the Agency Complex Order. Further, similar to the proposed changes for

simple PIM, the Exchange believes that providing responders with flexibility to cancel or modify their Improvement Complex Orders may encourage market participants to respond to more auctions, including Complex PIM.

The Exchange's proposal to amend Options 3, Section 13(e)(4)(iv) at new "(D)" to provide that the exposure period for a Complex PIM will automatically terminate when a resting Complex Order in the same complex strategy on either side of the market becomes marketable against the Complex Order book or bids and offers for the individual legs is consistent with the Act. The proposed changes will codify current System behavior and will provide greater transparency to market participants for situations in which early termination would occur for Complex PIMs today. As noted above, Complex Order Exposure currently early terminates in similar situations, so the proposed language for Complex PIM closely tracks existing Complex Exposure language in Supplementary Material .01(b)(ii) to Options 3, Section 14.<sup>122</sup> The Exchange believes that it is appropriate to early terminate Complex PIM under these circumstances for the following reasons. When the resting Complex Order is on the same side as the Agency Complex Order, interest that becomes marketable against the resting Complex Order would also be marketable against the Complex PIM order. Therefore, early terminating

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<sup>122</sup> Supplementary Material .01(b)(ii) of ISE Options 3, Section 14 provides that exposure period for a Complex Order will end immediately: (A) upon the receipt of a Complex Order 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; (B) upon the receipt of a non-marketable Complex Order 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; or (C) when a resting Complex Order for the same complex strategy on either side of the market becomes marketable against interest on the Complex Order book or bids and offers for same individual legs of the complex strategy.

the Complex PIM would allow the Complex PIM order to interact with this interest given that the Complex PIM order is at a superior price compared to the resting Complex Order, thus providing an opportunity for price improvement for the Agency Complex Order. Additionally, when the resting Complex Order is on the opposite side of the Agency Complex Order, interest that arrives marketable against the resting Complex Order is now at a superior price to the Agency Complex Order. The Exchange would therefore early terminate in this scenario and execute the Complex PIM order with its contra side order because it is no longer at top of book.

The Exchange's proposal to relocate the last sentence of Options 3, Section 13(e)(3) into Options 3, Section 13(e)(4)(iv) at new "(E)" is consistent with the Act. This non-substantive amendment will relocate the rule text to a more logical place within the Complex PIM rule.

The Exchange believes that its proposal to codify existing Complex PIM behavior in Options 3, Section 13(e)(5) to articulate that the complex mid-way price will be rounded to the \$0.01 increment that favors the Agency Complex Order will promote clarity and transparency in the Exchange's rules by better aligning the rule text with the current operation of the System. As noted above, the simple PIM rule already articulates that the mid-way price will be rounded to the \$0.01 increment that favors the Agency Order in Options 3, Section 13(d)(4). The rounding for Complex PIM currently operates the same way as simple PIM in this respect, so the proposed Complex PIM language closely tracks the simple PIM language

Finally, the proposal to amend Supplementary Material .02 to Options 3, Section 15 to add a sentence which provides, "It will be considered a violation of this Rule and



will be deemed conduct inconsistent with just and equitable principles of trade and a violation of Options 9, Section 1 if an Electronic Access Member submits a PIM Order (initiating an auction) and also submits its own Improvement Order in the same auction,” is consistent with the Act. BX has a similar prohibition within Options 3, Section 13(iii). The proposed new rule is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, by providing guidance to Members where certain behavior within a PIM will not be considered a bona fide transaction.

### **Order Price Protection**

The Exchange believes that its proposal to replace its current Limit Order Price Protection with a similar “fat finger” check called Order Price Protection in Options 3, Section 15(a)(1)(A) is consistent with the Act. The proposed OPP would similarly prevent the execution of limit orders at prices outside pre-set numerical or percentage parameters, and is designed to prevent limit orders entered at clearly unintended prices from executing in the System to the detriment of market participants. The proposed risk protection is also functionally similar to BX’s OPP in BX Options 3, Section 15(a)(1), and therefore is not novel.<sup>123</sup> Similar to BX, the Exchange believes that the proposed fixed dollar amount and percentage parameters will protect against erroneous executions, while also allowing orders to execute within a reasonable range.

The Exchange believes that using the Reference BBO (i.e., better of the NBBO or the internal market BBO) to calculate the proposed OPP, identical to current BX OPP

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<sup>123</sup> As noted above, the Exchange is proposing to adopt an OPP rule that more accurately describes the proposed functionality than BX’s current OPP rule, so BX will align its current OPP rule to the Exchange’s proposed rule text in a separate rule filing.

functionality, will similarly protect investors and the public interest where the internal market BBO is better than the NBBO.

The Exchange further believes that its proposal to add language allowing Exchange discretion to temporarily deactivate OPP on an intra-day basis is consistent with the Act. BX has identical language today in BX Options 3, Section 15(a)(1)(A)(i), and similar to BX, the Exchange believes that having this discretion will be useful if the Exchange determined that unusual market conditions warranted deactivation in the interest of a fair and orderly market. Like BX, the Exchange believes that it will be useful to have the flexibility to temporarily disable OPP intra-day in response to an unusual market event (e.g., if dissemination of data was delayed and resulted in unreliable underlying values needed for the Reference BBO) to maintain a fair and orderly market. This will promote just and equitable principles of trade and ultimately protect investors.

#### **Post-Only Quoting Protection**

The Exchange's proposal to adopt a new Post-Only Quote Configuration in Options 3, Section 15(a)(3)(C) to permit Market Makers to prevent their quotes from removing liquidity from the Exchange's order book promotes equitable principles of trade and protects investors and the public interest by enhancing the risk protections available to Market Makers. This optional risk protection would enable Market Maker to better manage their risk when quoting on the Exchange. As noted above, BX offers identical functionality today in BX Options 3, Section 15(c)(3).

The proposed risk protection allows Market Makers the ability to avoid removing liquidity from the Exchange's order book if their quote would otherwise lock or cross any

resting order or quote on the Exchange's order book upon entry, thereby protecting investors and the general public as Market Makers transact a large number of orders on the Exchange and bring liquidity to the marketplace. Market Makers would utilize the proposed risk protection to avoid unintentionally taking liquidity with resting interest<sup>124</sup> on the order book. As a result of taking liquidity, Market Makers would incur a taker fee that may impact the Market Maker's ability to provide liquidity and meet quoting obligations. Market Makers are required to add liquidity on the Exchange and, in turn, are rewarded with lower pricing<sup>125</sup> and enhanced allocations.<sup>126</sup> Specifically, the risk protection would permit Market Makers to add liquidity only and avoid removing resting interest on the order book, which will lead to enhanced liquidity on the Exchange and in turn will benefit and protect investors and the public interest through the potential for greater volumes of orders and executions on the Exchange.

The Exchange does not believe that introducing this Post-Only Quote Configuration will unfairly discriminate among market participants. Today, all Members may utilize the existing Add Liquidity Order type to prevent orders from removing liquidity from the Exchange's order book upon entry. The Post-Only Quote Configuration is available to Market Makers only as a risk protection. Unlike other market participants, Market Makers have certain obligations on the market, such as

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<sup>124</sup> As noted above, this would include any re-priced orders as described in the Re-Pricing Filing as proposed Options 3, Section 5(d), ALOs as described in proposed Options 3, Section 7(n), and any re-priced quotes as described in Options 3, Section 4(b)(6). As discussed above, ALOs may re-price.

<sup>125</sup> See Options 7, Section 3.

<sup>126</sup> See Options 3, Section 10.

requirements to provide continuous two-sided quotes on a daily basis<sup>127</sup> and are subject to various obligations associated with providing liquidity on the market.<sup>128</sup> Market Makers are liquidity providers on the Exchange and, therefore, are offered certain quote risk protections noted to allow them to manage their risk more effectively.<sup>129</sup> The proposed Post-Only Quote Configuration is another risk protection afforded to Market Makers to assist them in managing their risk while continuing to comply with their obligations. The Exchange notes that enhancing the ability of Market Makers to add liquidity and avoid taking liquidity from the order book promotes just and equitable principles of trade on the Exchange and protects investors and the public interest, thereby enhancing market structure by allowing Market Makers to add liquidity only. Greater liquidity benefits all market participants by providing more trading opportunities and attracting greater participation by Market Makers. Also, an increase in the activity of Market Makers in turn facilitates tighter spreads.

### **Kill Switch**

The Exchange does not believe that the proposed decommission of the GUI Kill Switch for order cancellation will affect the protection of investors or the public interest or the maintenance of a fair and orderly market because no Members have used the GUI Kill Switch risk protection in 2022.<sup>130</sup> The Exchange does not charge any fees for the

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<sup>127</sup> See Options 2, Section 5(e).

<sup>128</sup> See Options 2, Section 4.

<sup>129</sup> Options 3, Section 15(a)(3) currently sets forth the Anti-Internalization and Quotation Adjustments Protections that are available today to Market Makers.

<sup>130</sup> As noted above, the Exchange will provide prior notice of the decommission to all Members via Options Trader Alert.

GUI Kill Switch. In addition, the Exchange notes that the use of this tool is completely optional, and the Exchange will continue to offer substantially similar Kill Switch functionality through FIX, Precise, and OTTO. As set forth in the Kill Switch rule, the GUI Kill Switch allows for the cancellation and restriction of orders for the requested Identifier(s) on a user or group level, whereas the port Kill Switch allows for cancellation and restriction of orders for the requested Identifier(s) on a user level.<sup>131</sup> While the GUI Kill Switch had more optionality around how Members may combine the Kill Switch request by Identifier(s), no Members have used the GUI Kill Switch risk protection this year. Furthermore, Members will retain the ability to contact market operations staff to manually purge their orders from the market. In addition, the Exchange will continue to implement System-enforced risk mechanisms that automatically remove orders for the Member once certain pre-set thresholds or conditions are met (i.e., market wide risk protection and cancel on disconnect).

Also, the Exchange believes that the low usage rate for the GUI Kill Switch does not warrant the continuous resources necessary for System support of such tools. As a result, the Exchange believes that the proposal will remove impediments to and perfect the mechanism of a free and open market and a national market system by allowing the Exchange to reallocate System capacity and resources currently used to maintain this functionality to the development and maintenance of other business initiatives and risk management products.

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<sup>131</sup> See Options 3, Section 17(a)(1) and (2).

As noted above, the Exchange previously amended its rules to decommission the quote removal Kill Switch that was available to Market Makers through the GUI.<sup>132</sup> Similar to the GUI Kill Switch for quote removal, the Exchange has found that no Members use the GUI Kill Switch to cancel their orders, but rather, utilize other means to purge their existing orders from the System. The Exchange therefore believes that eliminating the GUI Kill Switch all together (including for orders as proposed herein) will streamline the Exchange's risk protection offerings in a manner that reflects Member use.

### **Data Feeds and Trade Information**

The Exchange believes that the proposed changes to the current data feed offerings in Options 3, Section 23(a) are consistent with the Act. Specifically, the Exchange believes that the proposed changes to its Depth of Market Feed to provide full depth-of-market information will serve to more closely align the information provided on the Exchange's Depth of Market Feed with that of BX's Depth of Market Feed in BX Options 3, Section 23(a)(1), thereby ensuring a more consistent technology offering across the Nasdaq affiliated options exchanges. The Exchange also believes that the modified Depth of Market Feed will help to protect a free and open market by providing additional data to the marketplace. The Exchange further believes that the proposed changes to add more specificity around what would be provided in the opening/reopening order imbalance information, and to correct an erroneous reference to "ISE" in the Depth of Market Feed rule will promote transparency and clarity in the Exchange's rules.

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<sup>132</sup> See supra note 89.

The Exchange believes that the proposed changes to the Order Feed around what type of information would be available on this data feed offering, as further described above, will promote clarity and transparency in the Exchange's rules. Furthermore, the proposed data elements in the Order Feed are based on data elements that currently exist on other markets. For instance, the specificity around what would be provided in the opening/reopening order imbalance information, as well as the auction and exposure notifications are identical to the content within BX's Depth of Market Feed in BX Options 3, Section 23(a)(1). As noted above, the Attributable Order content is similar to the data elements on Cboe's current multicast PITCH feed.<sup>133</sup>

The Exchange believes that the proposed changes to the existing Top Quote Feed to rebrand into the Top Feed, to no longer provide information for opening price, daily trading volume, and high and low prices for the day, will serve to further align the Exchange's Top Feed with BX's Top Feed in BX Options 3, Section 23(a)(2), thereby ensuring a more consistent technology offering across the Nasdaq affiliated options exchanges.

The proposed changes to the Trades Feed to no longer provide information for opening price, daily trading volume, and high and low prices for the day are intended to align to the proposed changes to the Top Feed described above. The Exchange believes that removing this language will promote clarity and transparency in the Exchange's rules.

The proposed changes to the Spread Feed to provide full depth-of-book information rather than at the first five price levels are intended to align to the proposed

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<sup>133</sup> See supra note 93.

changes to the Depth of Market Feed described above. The proposed full depth language will also be substantially similar to the full depth language in BX's Depth of Market Feed in BX Options 3, Section 23(a)(1) and in the Exchange's proposed Depth of Market Feed in proposed Options 3, Section 23(a)(1), except the proposed language herein will be tailored to complex functionality. Furthermore, the proposed Attributable Complex Order content is similar to the content currently on Cboe's Complex Multicast PITCH feed.<sup>134</sup> The Exchange believes that the modified Spread Feed will help to protect a free and open market by providing additional data to the marketplace. The Exchange also believes that the proposed changes to reorganize and incorporate existing concepts in the Spread Feed rule a manner that is more consistent with the other amended data feed rules in Options 3, Section 23(a) will make the rules easier to navigate for market participants.

The Exchange believes that it is consistent with the Act to no longer offer TradeInfo when the Exchange migrates over the enhanced Nasdaq functionality, as there is a lack of demand from Members.<sup>135</sup> The Exchange does not assess a fee for TradeInfo. As noted above, Members use FIX, FIX DROP, and CTI to obtain order information currently available in TradeInfo, and to cancel orders through FIX. The Exchange further believes that the proposed decommission of TradeInfo will remove impediments to and perfect the mechanism of a free and open market and a national market system by allowing the Exchange to reallocate System capacity and resources currently used to maintain this functionality to the development and maintenance of other business initiatives and risk management products.

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<sup>134</sup> See supra note 98.

<sup>135</sup> As noted above, the Exchange will provide prior notice of the decommission to all Members through an Options Trader Alert.



The Exchange's proposal to eliminate TradeInfo pricing from Options 7, Section 7.C(ii)(3) in its entirety is reasonable, equitable, and not unfairly discriminatory because TradeInfo would no longer be available to any Member. It is reasonable to remove all references to TradeInfo pricing from the Exchange's Pricing Schedule as the Exchange is removing this functionality from its Rulebook. As discussed above, the Exchange does not assess a fee for TradeInfo today. Additionally, it is equitable and not unfairly discriminatory to remove the references to TradeInfo pricing from the Pricing Schedule because no Member would be able to utilize this functionality once it is removed from the System.

### **Optional Risk Protections**

The Exchange believes that introducing the optional quantity and notional value risk protections as described above will protect investors and the public interest, and maintain fair and orderly markets, by providing market participants with another tool to manage their order risk. As noted above, BX offers functionally identical optional risk protections in BX Options 3, Section 28.<sup>136</sup> In addition, providing Members with more tools for managing risk will facilitate transactions in securities because Members will have more confidence that risk protections are in place. As a result, the new functionality has the potential to promote just and equitable principles of trade.

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<sup>136</sup> As noted above, while the proposed rule text in Options 3, Section 28 adds more granularity, including around how orders are rejected when the value thresholds for the options risk protections are exceeded, the Exchange understands that the BX optional risk protections operate in the same manner. In addition, BX's rule does not include Precise as this order entry port is not available on BX today.

**Corrective Changes**

The Exchange believes that the proposed changes to Supplementary Material .04 to Options 3, Section 7 to add Precise will make clear that Members may also use Precise (in addition to FIX) to route their orders using FIND or SRCH, or mark orders as DNR. The Exchange therefore believes that the proposed changes will add greater transparency to the Rulebook, which would benefit market participants and investors by reducing potential confusion. The Exchange similarly believes that the technical change to fix the incorrect cross-reference to the minimum trading increment rule in Options 3, Section 10(b)(1) will add greater transparency to the Rulebook and reduce any potential confusion.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. The Exchange operates in a competitive market and regularly competes with other options exchanges for order flow. As discussed above, the Exchange is re-platforming its System in connection with the technology migration to enhanced Nasdaq functionality, which the Exchange believes would promote competition among options exchanges by potentially attracting additional order flow to the Exchange with the enhanced trading platform.

As it relates to the elimination of fees for TradeInfo from Options 7, the Exchange believes that its proposal does not impose an undue burden on competition because TradeInfo would no longer be available to any Members.

The basis for the majority of the proposed rule changes are the rules of the Nasdaq affiliated options exchanges, which have been previously filed with the

Commission as consistent with the Act. As it relates to bulk messaging for quotes as proposed in Options 3, Section 4(b)(3), the Exchange notes that Cboe similarly allows for bulk messaging in Cboe Rule 1.1, except Cboe also allows bulk messaging for orders, unlike the Exchange. As it relates to the proposal in Options 3, Section 7(g)(4) to codify the refresh features into the Exchange's Reserve Order rule, the Exchange notes that Cboe's Reserve Order functionality has similar refresh features in Cboe Rule 5.6(c). As it relates to the proposal in Options 3, Section 23(a) to add Attributable Order and Attributable Complex Order content in the Order Feed and Spread Feed, respectively, Cboe currently has similar data elements available on its Multicast PITCH feed and Complex Multicast PITCH feed.<sup>137</sup>

The proposed rule changes are based on the following rules of the Nasdaq affiliated exchanges:

- The Market Order proposal in Options 3, Section 7(a) will be materially identical to BX's Market Orders in BX Options 3, Section 7(a)(5).
- The ISO proposal in Options 3, Section 7(b)(5) will be substantially similar to BX's ISO in BX Option 3, Section 7(a)(6). Unlike BX, the Exchange's ISO proposal will not refer to how ISOs may be entered on the Exchange as the Exchange intends address that in a separate rule filing.
- The Exchange's AON proposal will be substantially similar to BX's Contingency Order rule in BX Options 3, Section 7(a)(4)(A) (except BX's rule also describes Minimum Quantity Orders, which the Exchange does not offer today) and BX's AON rule in BX Options 3, Section 7(a)(7).

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<sup>137</sup> See supra notes 93 and 98.

- The Stop Order proposal in Options 3, Section 7(d) will be substantially similar to Phlx Options 3, Section 7(b)(4), except Phlx does not currently explicitly state that Phlx Stop Orders may only be entered through FIX or Precise because Phlx only offers one order entry protocol (FIX), unlike the Exchange, which offers three (FIX, Precise, and OTTO).
- The Stop Limit Order proposal in Options 3, Section 7(e) will be substantially similar to Phlx Options 3, Section 7(b)(4)(A), except Phlx does not currently explicitly state that Phlx Stop Limit Orders may only be entered through FIX or Precise for the same reasons stated for Stop Orders above.
- The Preferred Order proposal in Options 3, Section 7(l) will be materially identical to Phlx's Directed Order rule in Phlx Options 3, Section 7(b)(11).
- The ALO proposal in Options 3, Section 7(n) will be materially identical to BX ALOs in BX Options 3, Section 7(a)(12).
- The Opening Sweep proposal in Options 3, Section 7(u) will be materially identical to the Phlx Opening Sweep in Phlx Options 3, Section 7(b)(6).
- The Day order proposal in Supplementary Material .02(a) to Options 3, Section 7 will be substantially similar to BX Options 3, Section 7(b)(3), except BX's rule does not refer to OTTO or Precise because BX does not offer OTTO or Precise functionality today.
- The IOC proposal in Supplementary Material .02(d) to Options 3, Section 7 will be substantially similar to BX's IOC in BX Options 3, Section 7(b)(2), except the BX rule does not refer to OTTO, Precise, or Complex Order Price Protection as BX does not offer these features today.

- The OPG proposal in Supplementary Material .02(e) to Options 3, Section 7 will be materially identical to BX's OPG in BX Options 3, Section 7(b)(1).
- The Opening Process proposal in Options 3, Section 8 to allow all market participant interest to route will be identical to BX's Opening Process in BX Options 3, Section 8.
- The following proposed changes to PIM are based on BX PRISM: (1) proposed Options 3, Section 13(b)(5) will be materially identical to BX Options 3, Section 13(i)(E); (2) proposed Options 3, Section 13(c)(3) will be materially identical to BX Options 3, Section 13(ii)(A)(8); (3) proposed Options 3, Section 13(d)(5) will be functionally similar to BX Options 3, Section 13(ii)(C); (4) proposed Options 3, Section 13(d)(6) will be functionally similar to BX Options 3, Section 13(ii)(I); (5) proposed Options 3, Section 13(e)(4)(ii) will be functionally similar to BX Options 3, Section 13(ii)(A)(8) with respect to the ability to cancel or modify PIM responses (Improvement Orders); and (6) proposed Supplementary Material .02 to Options 3, Section 13 will be materially identical to BX Options 3, Section 13(iii).
- The proposed OPP risk protection in Options 3, Section 15(a)(1)(A) will be functionally similar to BX OPP in BX Options 3, Section 15(a)(1).<sup>138</sup>
- The proposed Post-Only Quote Configuration in Options 3, Section 15(a)(3)(C) will be functionally identical to the BX Post-Only Quote Configuration in BX Options 3, Section 15(c)(3).

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<sup>138</sup> As noted above, BX will file a separate rule change to conform its OPP rule to the Exchange's proposed rule.

- The Depth of Market Feed proposal in Option 3, Section 23(a)(1) will be substantially similar to the BX Depth of Market Feed in BX Options 3, Section 23(a)(1), except the Exchange will not offer auction and exposure notifications on its Depth of Market Feed like BX does today.
- The Order Feed proposal in Options 3, Section 23(a)(2) will contain data elements that are identical to those on BX's Depth of Market Feed in BX Options 3, Section 23(a)(1), specifically around what would be provided in the opening/reopening order imbalance information (i.e., the size of matched contracts and size of the imbalance), and auction and exposure notifications.
- The Top Feed proposal in Options 3, Section 23(a)(3) will be substantially similar to the BX Top Feed in BX Options 3, Section 23(a)(2), except the Exchange will continue to provide aggregated size information unlike BX.
- The Spread Feed proposal in Options 3, Section 23(a)(5) will contain full depth language that is substantially similar to BX's Depth of Market Feed in BX Options 3, Section 23(a)(1), except the proposed language in the Spread Feed will be tailored to complex functionality.
- The proposed optional quantity and notional value risk protections in Options 3, Section 28 will be functionally identical to the protections in BX Options 3, Section 28.<sup>139</sup>

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<sup>139</sup> As noted above, while the proposed rule text in Options 3, Section 28 adds more granularity, including around how orders are rejected when the value thresholds for the options risk protections are exceeded, the Exchange understands that the BX optional risk protections operate in the same manner. In addition, BX's rule does not include Precise as this order entry port is not available on BX today.

The Exchange reiterates that the proposed rule change is being proposed in the context of the technology migration to enhanced Nasdaq functionality. The Exchange further believes the proposed rule change will benefit Members by providing a more consistent technology offering, as well as consistent rules, for market participants on the Nasdaq affiliated options exchanges. In addition, the proposed rule change relates to adding clarity and consistency in the Exchange's Rulebook, and are designed to reduce any potential investor confusion as to the features and applicability of certain functionality presently available on the Exchange.

The Exchange does not believe that the proposed rule change will impose any burden on intra-market competition that is not necessary or appropriate in furtherance of the purposes of the Act, as the majority of the proposed changes will apply to all Members. As it relates to the proposed rule change relating to bulk message functionality, while the Exchange currently offers this functionality to Market Makers only, bulk messaging is intended to provide Market Makers with an additional tool to meet their various quoting obligations in a manner they deem appropriate. As such, the Exchange believes that this functionality may facilitate Market Makers' provision of liquidity, thereby benefiting all market participants through additional execution opportunities at potentially improved prices. Furthermore, while the Exchange will offer the proposed Post-Only Quote Configuration to Market Makers only, the proposed risk protection will enhance the ability of Market Makers to add liquidity and avoid removing liquidity from the Exchange's order book in the manner described above. Greater liquidity benefits all market participants by providing more trading opportunities and attracting greater participation by Market Makers. The Exchange also does not believe

that the proposed decommission of the GUI Kill Switch for order cancellation will impose any burden on intra-market competition that is not necessary or appropriate in furtherance of the purposes of the Act. As discussed above, the Exchange previously amended its rules to decommission the quote removal Kill Switch that was available to Market Makers through the GUI.<sup>140</sup> The Exchange therefore believes that eliminating the GUI Kill Switch for order cancellation will streamline the Exchange's risk protection offerings in a manner that reflects Member use. The Exchange will continue to offer substantially similar Kill Switch functionality through FIX, Precise, and OTTO.

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

No written comments were either solicited or received.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Because the foregoing proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A)(iii) of the Act<sup>141</sup> and subparagraph (f)(6) of Rule 19b-4 thereunder.<sup>142</sup>

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<sup>140</sup> See supra note 89.

<sup>141</sup> 15 U.S.C. 78s(b)(3)(A)(iii).

<sup>142</sup> 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6) requires a self-regulatory organization to give the Commission written notice of its intent to file the proposed rule change at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.



At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

#### IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

##### Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-ISE-2023-06 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-2023-06. 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-2023-06 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.<sup>143</sup>

J. Matthew DeLesDernier  
Assistant Secretary

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<sup>143</sup> 17 CFR 200.30-3(a)(12).

**EXHIBIT 5**

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

**Nasdaq ISE, LLC Rules**

\* \* \* \* \*

**Options 3 Options Trading Rules**

\* \* \* \* \*

**Section 4. Entry and Display of Quotes**

\* \* \* \* \*

(b) Quotes are subject to the following requirements and conditions:

\* \* \* \* \*

(3) Market Makers may enter bids and/or offers in the form of a two-sided quote. Only one quote may be submitted at a time for an option series. Quotes may be submitted as a bulk message.

(i) A “bulk message” means a single electronic message submitted to the Exchange which may contain a specified number of quotations as designated by the Exchange. The bulk message, submitted via SQF, may enter, modify, or cancel quotes. Bulk messages are handled by the System in the same manner as it handles a single quote message.

\* \* \* \* \*

**Section 7. Types of Orders and Order and Quote Protocols**

The Exchange may determine to make certain order types and time-in-force, respectively, available on a class or System basis.

(a) *Market Orders*. A [m]Market [o]Order is an order to buy or sell a stated number of options contracts that is to be executed at the best price obtainable when the order reaches the Exchange. Members can designate that their Market Orders not executed after a pre-established period of time, as established by the Exchange, will be cancelled back to the Member, once an options series has opened for trading. Market Orders on the order book would be immediately cancelled if an options series is halted, provided the Member designated the cancellation of Market Orders.

(b) *Limit Orders*. A limit order is an order to buy or sell a stated number of options contracts at a specified price or better.

\* \* \* \* \*

[(3) *Immediate-or-Cancel Orders*. An immediate-or-cancel order is a limit order that is to be executed in whole or in part upon receipt. Any portion not so executed is to be treated as cancelled. An immediate-or-cancel order entered by a Market Maker through the Specialized Quote Feed protocol will not be subject to the (i) Limit Order Price Protection and Size Limitation Protection as defined in Options 3, Section 15(b)(2) and (3); or (ii) Limit Order Price Protection as defined in Supplementary Material .07(d) to Options 3, Section 14.]

[[4]3] *Intermarket Sweep Orders*. An Intermarket Sweep Order (“ISO”) is a limit order that meets the requirements of Options 5, Section 1(h). Orders submitted to the Exchange as ISO are not routable and will ignore the ABBO and trade at allowable prices on the Exchange. ISOs must have a TIF designation of IOC. ISOs may not be submitted during the Opening Process.

(c) *All-Or-None Orders*. An All-Or-None (“AON”) [o]Order is a limit or market order that is to be executed in its entirety or not at all. An [All-Or-None]AON Order may only be entered as an Immediate-or-Cancel Order. AON Orders will only execute against multiple, aggregated orders if the executions would occur simultaneously. AON Orders may not be submitted during the Opening Process.

(d) *Stop Orders*. A stop order is an order that becomes a market order when the stop price is elected. A stop order to buy is elected when the option is bid or trades on the Nasdaq ISE at, or above, the specified stop price. A stop order to sell is elected when the option is offered or trades on the Nasdaq ISE at, or below, the specified stop price. A Stop Order shall be cancelled if it is immediately electable upon receipt. Stop Orders may only be entered through FIX or Precise.

(e) *Stop Limit Orders*. A stop limit order is an order that becomes a limit order when the stop price is elected. A stop limit order to buy is elected when the option is bid or trades on the Nasdaq ISE at, or above, the specified stop price. A stop limit order to sell becomes a sell limit order when the option is offered or trades on the Nasdaq ISE at, or below, the specified stop price. A Stop Limit Order shall be cancelled if it is immediately electable upon receipt. Stop Limit Orders may only be entered through FIX or Precise.

(f) [Reserved.]*Cancel and Replace Orders*. Cancel and Replace Orders shall mean a single message for the immediate cancellation of a previously received order and the replacement of that order with a new order. If the previously placed order is already filled partially or in its entirety, the replacement order is automatically canceled or reduced by the number of contracts that were executed. The replacement order will retain the priority of the cancelled order, if the order posts to the Order Book, provided the price is not amended or size is not increased. In the case of Reserve Orders, the replacement order will retain the priority of the cancelled order, if the order posts to the Order Book, provided the price is not amended or size (displayed and non-displayed) is not changed. If the replacement portion of a Cancel and Replace Order does not satisfy the System's

price or other reasonability checks (e.g. Options 3, Section 15(a)(1)(A) and (a)(1)(B); and Options 3, Section 16(a)(1), (b) and (c)(1)) the existing order shall be cancelled and not replaced.

(g) *Reserve Orders*. A Reserve Order is a limit order that contains both a displayed portion and a non-displayed portion.

(1)[.] Both the displayed and non-displayed portions of a Reserve Order are available for potential execution against incoming marketable orders. A non-marketable Reserve Order will rest on the order book.

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

(3)[.] The displayed portion of a Reserve Order will trade in accordance with Options 3, Section 10(c)(1)(A) for Priority Customer Orders, and Options 3, Section 10(c)(1)(E) for non-Priority Customer Orders.

(4) Reserve Orders may be entered with an instruction for the displayed portion of the order to be refreshed: (A) upon full execution of the displayed portion or upon any partial execution; and (B) up to the initial size of the displayed portion or with a random refresh quantity within a range determined by the Member.

(5)[4.] When the displayed portion of a Reserve Order is decremented, either in full or in part, it shall be refreshed from the non-displayed portion of the resting Reserve 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 Options 3, Section 10(c)(1)(A) for Priority Customer Orders, and Options 3, Section 10(c)(1)(E) for non-Priority Customer Orders.

(6)[5.] The initial non-displayed portion of a Reserve Order rests on the 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 [4](5) above. The non-displayed portion of any Reserve Order is available for execution only after all displayed interest has been executed. The non-displayed portion of any Reserve Order will trade in accordance with Options 3, Section 10(c)(1)(A) for Priority Customer Orders, and Options 3, Section 10(c)(1)(E) for non-Priority Customer Orders.

(h) *Attributable Order*. An Attributable Order is a market or limit order which displays the user firm ID for purposes of electronic trading on the Exchange. Use of Attributable Orders is voluntary. Attributable Orders may not be available for all Exchange Systems.

The Exchange will issue an Options Regulatory Alert specifying the Systems [and the class of securities] for which the Attributable Order type shall be available.

(i) *Customer Cross Orders*. A Customer Cross Order is comprised of a Priority Customer Order to buy and a Priority Customer Order to sell at the same price and for the same quantity. Such orders will trade in accordance with Options 3, Section 12(a).

(j) *Qualified Contingent Cross Order*. A Qualified Contingent Cross (“QCC”) Order is comprised of an originating order to buy or sell at least 1000 contracts that is identified as being part of a qualified contingent trade, as that term is defined in Supplementary Material .01 below, coupled with a contra-side order or orders totaling an equal number of contracts. QCC Orders will trade in accordance with Options 3, Section 12(c). QCC Orders may only be entered through FIX or Precise.

\* \* \* \* \*

(l) *Preferred Order*. A Preferred Order is as described in Options 2, Section 10.[Day Order. An order to buy or sell which, if not executed, expires at the end of the day on which it was entered. All orders by their terms are Day Orders unless otherwise specified.]

\* \* \* \* \*

(n) *Add Liquidity Order*. An Add Liquidity Order is a limit order that is to be executed in whole or in part on the Exchange (i) only after being displayed on the Exchange's limit order book; and (ii) without routing any portion of the order to another market center. Members may specify whether an Add Liquidity Order shall be cancelled or re-priced to the minimum price variation above the national best bid price (for sell orders) or below the national best offer price (for buy orders) if, at the time of entry, the order (i) is executable on the Exchange; or (ii) the order is not executable on the Exchange, but would lock or cross the national best bid or offer. If at the time of entry, an Add Liquidity Order would lock or cross one or more non-displayed orders or quotes on the Exchange, the Add Liquidity Order shall be cancelled or re-priced to the minimum price variation above the best non-displayed bid price (for sell orders) or below the best non-displayed offer price (for buy orders). Notwithstanding the aforementioned, if an Add Liquidity Order would not lock or cross an order or quote on the System but would lock or cross the NBBO, the order will be handled pursuant to Options 3, Section 5(d). [An Add Liquidity Order will only be re-priced once and will be executed at the re-priced price.] An Add Liquidity Order will be ranked in the Exchange's limit order book in accordance with Options 3, Section 10. Add Liquidity Orders may only be submitted when an options series is open for trading.

(o) *Reserved*[Opening Only Order. An Opening Only order is a limit order that can be entered for the opening rotation only. Any portion of the order that is not executed during the opening rotation is cancelled].

(p) Reserved[Good-Till-Date Order. A Good-Till-Date Order is a limit 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 order, or the expiration of the series].

(q) Reserved.

(r) Reserved[Good-Till-Canceled Order (GTC Order). An order to buy or sell that remains in force until the order is filled, canceled or the option contract expires; provided, however, that GTC Orders will be canceled in the event of a corporate action that results in an adjustment to the terms of an option contract].

\* \* \* \* \*

(t) *QCC with Stock Orders*. A QCC with Stock Order is a Qualified Contingent Cross Order, as defined in Options 3, Section 7(j), entered with a stock component to be communicated to a designated broker-dealer for execution pursuant to Options 3, Section 12([c]e).

(u) *Opening Sweep*. An Opening Sweep [is a Market Maker order submitted for execution against eligible interest in the System during the Opening Process pursuant to Options 3, Section 8(b)(1).] is a one-sided order entered by a Market Maker through SQF for execution against eligible interest in the System during the Opening Process. This order type is not subject to any protections listed in Options 3, Section 15, except for Automated Quotation Adjustments. The Opening Sweep will only participate in the Opening Process pursuant to Options 3, Section 8(b)(1) and will be cancelled upon the open if not executed.

\* \* \* \* \*

### **Supplementary Material to Options 3, Section 7**

\* \* \* \* \*

[.02 Cancel and Replace Orders shall mean a single message for the immediate cancellation of a previously received order and the replacement of that order with a new order. If the previously placed order is already filled partially or in its entirety, the replacement order is automatically canceled or reduced by the number of contracts that were executed. The replacement order will retain the priority of the cancelled order, if the order posts to the Order Book, provided the price is not amended, size is not increased, or in the case of Reserve Orders, size is not changed. If the replacement portion of a Cancel and Replace Order does not satisfy the System's price or other reasonability checks (e.g. Options 3, Section 15(b)(1)(A) and (b)(1)(B); and Supplementary Material .07 (a)(1)(A), (b) and (c)(1) to Options 8, Section 14) the existing order shall be cancelled and not replaced.]

.02 Time in Force. The term “Time in Force” or “TIF” shall mean the period of time that the System will hold an order for potential execution, and shall include:

- (a) **Day.** An order to buy or sell entered with a TIF of “DAY,” which, if not executed, expires at the end of the day on which it was entered. All orders by their terms are Day orders unless otherwise specified. Day orders may be entered through FIX, OTTO, or Precise.
- (b) **Good-Till-Canceled.** An order to buy or sell entered with a TIF of “GTC” that remains in force until the order is filled, canceled or the option contract expires; provided, however, that GTC orders will be canceled in the event of a corporate action that results in an adjustment to the terms of an option contract. GTC orders may be entered through FIX or Precise.
- (c) **Good-Till-Date.** An order to buy or sell entered with a TIF of “GTD,” which, if not executed, will be cancelled at the sooner of the end of the expiration date assigned to the order, or the expiration of the series; provided, however, that GTD orders will be canceled in the event of a corporate action that results in an adjustment to the terms of an option contract. GTD orders may be entered through FIX or Precise.
- (d) **Immediate-or-Cancel.** An order entered with a TIF of “IOC” that is to be executed in whole or in part upon receipt. Any portion not so executed is to be treated as cancelled.
- (1) Orders entered with a TIF of IOC are not eligible for routing.
- (2) IOC orders may be entered through FIX, OTTO, Precise, or SQF, provided that an IOC order entered by a Market Maker through the SQF protocol will not be subject to the (A) Order Price Protection, Market Order Spread Protection, and Size Limitation Protection as defined in Options 3, Section 15(a)(1)(A), (1)(B), and (2)(B) respectively, for single leg orders, or (B) Complex Order Price Protection as defined in Options 3, Section 16(c)(1) for Complex Orders.
- (3) Block Orders, Facilitation Orders, Complex Facilitation Orders, SOM Orders, Complex SOM Orders, PIM Orders, Complex PIM Orders, QCC Orders, QCC Complex Orders, Customer Cross Orders, and Customer Cross Complex Orders are considered to have a TIF of IOC. By their terms, these orders will be: (1) executed either on entry or after an exposure period, or (2) cancelled.
- (e) **Opening Only.** An Opening Only (“OPG”) order is entered with a TIF of “OPG.” This order can only be executed in the Opening Process pursuant to Options 3, Section 8. Any portion of the order that is not executed during the Opening Process is cancelled. OPG orders may not route. This order type is not subject to any protections listed in Options 3, Section 15, except Size Limitation.



.03 The Exchange offers Members the following protocols for entering orders and quotes respectively:

- (a) **"Financial Information eXchange" or "FIX"** is an interface that allows Members and their Sponsored Customers to connect, send, and receive messages related to orders and auction orders to the Exchange. Features include the following: (1) execution messages; (2) order messages; (3) risk protection triggers and cancel notifications; and (4) post trade allocation messages.
- (b) **"Ouch to Trade Options" or "OTTO"** is an interface that allows Members and their Sponsored Customers to connect, send, and receive messages related to orders, auction orders, and auction responses to the Exchange. Features include the following: (1) options symbol directory messages (e.g., underlying and complex instruments); (2) System event messages (e.g., start of trading hours messages and start of opening); (3) trading action messages (e.g., halts and resumes); (4) execution messages; (5) order messages; (6) risk protection triggers and cancel notifications; (7) auction notifications; (8) auction responses; and (9) post trade allocation messages.
- (c) **"Specialized Quote Feed" or "SQF"** is an interface that allows Market Makers to connect, send, and receive messages related to quotes, Immediate-or-Cancel Orders, and auction responses to the Exchange. Features include the following: (1) options symbol directory messages (e.g., underlying and complex instruments); (2) System event messages (e.g., start of trading hours messages and start of opening); (3) trading action messages (e.g., halts and resumes); (4) execution messages; (5) quote messages; (6) Immediate-or-Cancel Order messages; (7) risk protection triggers and purge notifications; (8) opening imbalance messages; (9) auction notifications; and (10) auction responses. The SQF Purge Interface only receives and notifies of purge requests from the Market Maker. Market Makers may only enter interest into SQF in their assigned options series. Immediate-or-Cancel Orders entered into SQF are not subject to the (i) Order Price Protection, Market Order Spread Protection, and Size Limitation Protection in Options 3, Section 15(a)(1)(A), (1)(B), and (2)(B) respectively, for single leg orders, or (ii) Complex Order Price Protection as defined in Options 3, Section 16(c)(1) for Complex Orders.
- (d) **"Nasdaq Precise" or "Precise"** is a front-end interface that allows Electronic Access Members and their Sponsored Customers to send orders to the Exchange and perform other related functions. Features include the following: (1) order and execution management: enter, modify, and cancel orders on the Exchange, and manage executions (e.g., parent/child orders, inactive orders, and post-trade allocations); (2) market data: access to real-time market data (e.g., NBBO and Exchange BBO); (3) risk management: set customizable risk parameters (e.g., kill switch); and (4) book keeping and reporting: comprehensive audit trail of orders and trades (e.g., order history and done away trade reports).

.04 **Routing Strategies.** Orders may be entered on the Exchange with a routing strategy of FIND or SRCH, or, in the alternative, an order may be marked as Do-Not-Route (“DNR”) as provided in Options 5, Section 4 through FIX or Precise only.

## Section 8. Options Opening Process

\* \* \* \* \*

(b) Eligible interest during the Opening Process includes Valid Width Quotes, Opening Sweeps and orders, including Opening Only Orders, but excluding orders with a Time in Force of "Immediate-or-Cancel" and Add Liquidity Orders. Quotes other than Valid Width Quotes will not be included in the Opening Process. The displayed and non-displayed portions of Reserve Orders are considered for execution and in determining the Opening Price throughout the Opening Process. [Only Public Customer interest is routable during the Opening Process.]

\* \* \* \* \*

(g) **Potential Opening Price.** The Potential Opening Price indicates a price where the System may open once all other Opening Process criteria is met. To calculate the Potential Opening Price, the System will take into consideration all Valid Width Quotes and orders (including Opening Sweeps and displayed and non-displayed portions of Reserve Orders) for the option series and identify the price at which the maximum number of contracts can trade ("maximum quantity criterion"). In addition, paragraphs (h)(3)(A) and (i)(5) - (7) below contain additional provisions related to Potential Opening Price.

(1) *More Than One Potential Opening Price.* When two or more Potential Opening Prices would satisfy the maximum quantity criterion and leave no contracts unexecuted, the System takes the highest and lowest of those prices and takes the mid-point; if such mid-point is not expressed as a permitted minimum price variation, it will be rounded up to the minimum price variation [that is closest to the closing price for the affected series from the immediately prior trading session. If there is no closing price from the immediately prior trading session, the System will round up to the minimum price variation to determine the Opening Price].

\* \* \* \* \*

(i) The System will calculate an Opening Quote Range ("OQR") for a particular option series that will be utilized in the Price Discovery Mechanism described below, if the Exchange has not opened subject to any of the provisions above. OQR is constrained by the least aggressive limit prices within the broader limits of OQR. The least aggressive buy order or Valid Width Quote bid and least aggressive sell order or Valid Width Quote offer within the OQR will further bound the OQR.

\* \* \* \* \*

(3) If one or more away markets are disseminating a BBO that is not crossed, (the Opening Process will stop and an option series will not open if the ABBO becomes crossed pursuant to (c)(5)) and there are Valid Width Quotes on the Exchange that cross each other or [are marketable against]cross the ABBO:

(A) The minimum value for the OQR will be the highest away bid.

(B) The maximum value for the OQR will be the lowest away offer.

\* \* \* \* \*

(7) If the Exchange determines that non-routable interest can execute the maximum number of contracts against Exchange interest, after routable interest has been determined by the System to satisfy the away market, then the Potential Opening Price is the price at which the maximum number of contracts can execute, excluding the interest which will be routed to an away market, which may be executed on the Exchange as described in paragraph (g) above. The System will route routable [Public Customer] interest pursuant to Options 3, Section 10(c)[(1)(A)].

(j) **Price Discovery Mechanism.** If the Exchange has not opened pursuant to paragraphs (e) or (h) above, after the OQR calculation in paragraph (i), the Exchange will conduct the following Price Discovery Mechanism.

\* \* \* \* \*

(3) Next, provided the option series has not opened pursuant to paragraph (j)(2) above, the System will:

\* \* \* \* \*

(B) initiate a Route Timer, not to exceed one second. The Route Timer operates as a pause before an order is routed to an away market. If during the Route Timer, interest is received by the System which would allow the Opening Price to be within OQR without trading through away markets and without trading through the limit price(s) of interest within OQR which is [which is] unable to be fully executed, the System will open with trades and the Route Timer will simultaneously end. The System will monitor quotes and orders received during the Route Timer period and make ongoing corresponding changes to the permitted OQR and Potential Opening Price to reflect them.

\* \* \* \* \*

(6) The System will execute orders at the Opening Price that have contingencies (such as, without limitation, Reserve Orders) and non-routable orders, such as a "Do-Not-Route" or "DNR" Orders, to the extent possible. The System will only route non-

contingency [Public Customer] orders, except that [Public Customer] Reserve Orders may route up to their full volume.

\* \* \* \* \*

## Section 10. Priority of Quotes and Orders

\* \* \* \* \*

(b) *Priority on the Exchange.* The highest bid and lowest offer shall have priority on the Exchange.

(1) Zero-Bid Option Series. In the case where the bid price for any options contract is \$0.00, a Market Order accepted into the System to sell that series shall be considered a Limit Order to sell at a price equal to the minimum trading increment as defined in Options 3, Section 3. With respect to Market Orders to sell which are submitted prior to the Opening Process and persist after the Opening Process, those orders are posted at a price equal to the minimum trading increment as defined in Options 3, Section [10]3.

\* \* \* \* \*

## Section 11. Auction Mechanisms

For purposes of this Rule, a "broadcast message" means an electronic message that is sent by the Exchange to all Members, and a "Response" means an electronic message that is sent by Members in response to a broadcast message. Responses represent non-firm interest that can be canceled or modified at any time prior to execution. Responses are not displayed to any market participants. Also for purposes of this Rule, the time given to Members to enter Responses for any of the below auction mechanisms shall be designated by the Exchange via an Options Trader Alert, but no less than 100 milliseconds and no more than 1 second.

\* \* \* \* \*

### Supplementary Material to Options 3, Section 11

\* \* \* \* \*

.02 [Responses represent non-firm interest that can be canceled at any time prior to execution. Responses are not displayed to any market participants]Reserved.

\* \* \* \* \*

## Section 13. Price Improvement Mechanism for Crossing Transactions

\* \* \* \* \*

(b) 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.

\* \* \* \* \*

(4) The Crossing Transaction may not be canceled or modified, but the price of the Counter-Side Order may be improved during the exposure period.

(5) Crossing Transactions submitted at or before the opening of trading are not eligible to initiate an auction and will be rejected.

(c) Exposure Period. Upon entry of a Crossing Transaction into the Price Improvement Mechanism, a broadcast message that includes the series, price and size of the Agency Order, and whether it is to buy or sell, will be sent to all Members. This broadcast message will not be included in the Nasdaq ISE disseminated best bid or offer and will not be disseminated through OPRA.

\* \* \* \* \*

(3) During the exposure period, Improvement Orders may [not] be canceled or modified[, but may be modified to (i) increase the size at the same price, or (ii) improve the price of the Improvement Order for any size up to the size of the Agency Order].

\* \* \* \* \*

(d) **Execution.** At the end of the exposure period the Agency Order will be executed in full at the best prices available, taking into consideration orders and quotes in the Exchange market, Improvement Orders, and the Counter-Side Order. The Agency Order will receive executions at multiple price levels if there is insufficient size to execute the entire order at the best price.

\* \* \* \* \*

(5) If a trading halt is initiated after an order is entered into the Price Improvement Mechanism, such auction will be automatically terminated with[out] execution solely with the Counter-Side Order.

(6) If the PIM execution price would be the same or better than an order on the limit order book on the same side of the market as the Agency Order, the Agency Order may only be executed at a price that is at least \$0.01 better than the resting order's limit price. If such resting order's limit price is equal to or crosses the initiating Crossing Transaction price, then the entire Agency Order will trade at the initiating

Crossing Transaction price with all better priced counter-side interest being considered for execution at the initiating Crossing Transaction price.

(e) **Complex Price Improvement Mechanism.** Electronic Access Members may use the Price Improvement Mechanism according to this Rule 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").

\* \* \* \* \*

(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.

\* \* \* \* \*

(ii) During the exposure period, Improvement Complex Orders may [not] be canceled or modified[], 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].

\* \* \* \* \*

(iv) The exposure period will automatically terminate (A) at the end of the time period designated by the Exchange pursuant to subparagraph (4)(i) above, (B) upon the receipt of a Complex Order 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 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; (D) when a resting Complex Order in the same complex strategy on either side of the market becomes marketable against the Complex Order Book or bids and offers for the individual legs; or (E) 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.

\* \* \* \* \*

(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 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.

\* \* \* \* \*

(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. Transactions will be rounded, when necessary, to the \$0.01 increment that favors the Agency Complex Order.

\* \* \* \* \*

### Supplementary Material to Options 3, Section 13

\* \* \* \* \*

.02 The Price Improvement Mechanism may only be used to execute bona fide Crossing Transactions. It will be considered a violation of this Rule and will be deemed conduct inconsistent with just and equitable principles of trade and a violation of Options 9, Section 1 if an Electronic Access Member submits a PIM Order (initiating an auction) and also submits its own Improvement Order in the same auction.

\* \* \* \* \*

### Section 15. Simple Order Risk Protections

(a) The following risk protections are automatically enforced by the System. In the event of unusual market conditions and in the interest of a fair and orderly market, the Exchange may temporarily establish the levels at which the order protections contained in this paragraph are triggered as necessary and appropriate.

(1) The following are order risk protections on ISE:

(A) **Order Price Protection ("OPP").** OPP is a feature of the System that prevents limit orders at prices outside of pre-set standard limits from being accepted by the System.

(i) OPP is operational each trading day after the opening until the close of trading, except during trading halts. OPP may be temporarily deactivated on an intra-day basis at the Exchange's discretion.

(ii) OPP will reject incoming orders that exceed certain parameters according to the following algorithm:

(a) If the better of the NBBO or the internal market BBO (the "Reference BBO") on the contra-side of an incoming order is greater than \$1.00, orders with a limit more than the greater of the below will cause the order to be rejected by the System upon receipt.

(1) 50% less (greater) than such contra-side Reference Best Bid (Offer);  
or

(2) a configurable dollar amount not to exceed \$1.00 less (greater) than such contra-side Reference Best Bid (Offer) as specified by the Exchange announced via an Options Trader Alert.

(b) If the Reference BBO on the contra-side of an incoming order is less than or equal to \$1.00, orders with a limit more than the greater of the below will cause the order to be rejected by the System upon receipt.

(1) 100% less (greater) than such contra-side Reference Best Bid (Offer);  
or

(2) a configurable dollar amount not to exceed \$1.00 less (greater) than such contra-side Reference Best Bid (Offer) as specified by the Exchange announced via an Options Trader Alert.

**[Limit Order Price Protection.** There is a limit on the amount by which incoming limit orders to buy may be priced above the Exchange's best offer and by which incoming limit orders to sell may be priced below the Exchange's best bid. Limit orders that exceed the pricing limit are rejected. The limit is established by the Exchange from time-to-time for orders to buy (sell) as the greater of the Exchange's best offer (bid) plus (minus): (i) an absolute amount not to exceed \$2.00, or (ii) a percentage of the Exchange's best bid/offer not to exceed 10%. Limit Order Price Protection shall not apply to the Opening Process or during a trading halt.]

\* \* \* \* \*

(3) The following are Market Maker risk protections on ISE:

\* \* \* \* \*



(C) **Post-Only Quoting Protection.** Market Makers may elect to configure their SQF protocols to prevent their quotes from removing liquidity (“Post-Only Quote Configuration”). A Post-Only Quote Configuration would re-price or cancel a Market Maker’s quote that would otherwise lock or cross any resting order or quote on the order book upon entry. When configured for re-price, quotes would be re-priced and displayed by the System to one minimum price variation below the current best offer (for bids) or above the current best bid (for offers). Notwithstanding the aforementioned, if a quote with a Post-Only Quote Configuration would not lock or cross an order or quote on the System but would lock or cross the NBBO, the quote will be handled pursuant to Options 3, Section 4(b)(6). When configured for cancel, Market Makers will have their quotes cancelled whenever the quote would lock or cross the NBBO or be placed on the book at a price other than its limit price. This functionality shall not apply during an Opening Process.

\* \* \* \* \*

## **Section 17. Kill Switch**

(a) Kill Switch enables Members to initiate a message to the System to promptly cancel and restrict their order activity on Nasdaq ISE, or across both Nasdaq ISE and Nasdaq GEMX, as described in section[s] (a)(1) [and (a)(2)] below. Members may submit a Kill Switch request to the System for certain identifier(s) ("Identifier") on either a user or group level. Permissible groups must reside within a single Member firm. The System will send an automated message to the Member when a Kill Switch request has been processed by the Exchange's System.

(1) A Member may submit a request to the System through FIX, OTTO, or Precise to cancel all existing orders and restrict entry of additional orders for the requested Identifier(s) on a user level on Nasdaq ISE, or across both Nasdaq ISE and Nasdaq GEMX, in either case as set by the Member.

[(2) Alternatively, a Member may submit a request to the System through a graphical user interface to cancel all existing, and restrict entry of additional, orders for the requested Identifier(s) on either a user or group level on Nasdaq ISE, or across both Nasdaq ISE and Nasdaq GEMX, in either case as set by the Member.]

[[3]2] Once a Member initiates the Kill Switch pursuant to section (a)(1) [or (a)(2)] above, the Member will be unable to enter additional orders for the affected Identifier(s) until the Member has made a verbal request to the Exchange and Exchange staff has set a re-entry indicator to enable re-entry. Once enabled for re-entry, the System will send a Re-entry Notification Message to the Member. The applicable Clearing Member also will be notified of such re-entry into the System, provided the Clearing Member has requested to receive such notification.

\* \* \* \* \*

## Section 23. Data Feeds and Trade Information

(a) The following data feeds contain ISE trading information offered by ISE:

- (1) **Nasdaq ISE Depth of Market Data Feed ("Depth of Market Feed")** is a data feed that provides full order and quote depth information for individual orders and quotes on the Exchange book and last sale information for trades executed on the Exchange[provides aggregate quotes and orders at the top five price levels on ISE, and provides subscribers with a consolidated view of tradable prices beyond the BBO, showing additional liquidity and enhancing transparency for ISE traded options]. The data provided for each options series includes the symbols (series and underlying security), put or call indicator, expiration date, the strike price of the series, and whether the option series is available for trading on ISE and identifies if the series is available for closing transactions only. [In addition, subscribers are provided with total aggregate quantity, Public Customer aggregate quantity, Priority Customer aggregate quantity, price, and side (i.e., bid/ask). This information is provided for each of the top five price levels on the Depth Feed.] The feed also provides order imbalances on opening/reopening (size of matched contracts and size of the imbalance).
- (2) **Nasdaq ISE Order Feed ("Order Feed")** provides information on new orders resting on the book (e.g. price, quantity, [and] market participant capacity and Attributable Order tags when provided by a Member). [In addition, the feed also announces all auctions.] The data provided for each option series includes the symbols (series and underlying security), displayed order types, order attributes (e.g., OCC account number, give-up information, CMTA information), put or call indicator, expiration date, the strike price of the series, and whether the option series is available for trading on ISE and identifies if the series is available for closing transactions only. The feed also provides order imbalances on opening/reopening (size of matched contracts and size of the imbalance), auction and exposure notifications.
- (3) **Nasdaq ISE Top of Market[Quote] Feed ("Top [Quote] Feed")** calculates and disseminates ISE's best bid and offer position, with aggregated size (including total size in aggregate, for Professional Order size in the aggregate and Priority Customer Order size in the aggregate), based on displayable order and quote interest in the System. The feed also provides last trade information [along with opening price, daily trading volume, high and low prices for the day. The data provided] and for each option series includes the symbols (series and underlying security), put or call indicator, expiration date, the strike price of the series, and whether the option series is available for trading on ISE and identifies if the series is available for closing transactions only. The feed also provides order imbalances on opening/reopening.
- (4) **Nasdaq ISE Trades Feed ("Trades Feed")** displays last trade information [along with opening price, daily trading volume, high and low prices for the day]. The data

provided for each option series includes the symbols (series and underlying security), put or call indicator, expiration date, the strike price of the series, and whether the option series is available for trading on ISE and identifies if the series is available for closing transactions only.

- (5) **Nasdaq ISE Spread Feed ("Spread Feed")** is a feed that consists of: (1) options orders for all Complex Orders (i.e., spreads, buy-writes, delta neutral strategies, etc.); (2) [data aggregated at the top five price levels (BBO) on both the bid and offer side of the market]full Complex Order depth information, including prices, side, size, capacity, Attributable Complex Order tags when provided by a Member, and order attributes (e.g., OCC account number, give-up information, CMTA information), for individual Complex Orders on the Exchange book; (3) last trades information; and (4) calculating and disseminating ISE's complex best bid and offer position, with aggregated size (including total size in aggregate, for Professional Order size in the aggregate and Priority Customer Order size in the aggregate), based on displayable Complex Order interest in the System. [The Spread Feed provides updates, including prices, side, size and capacity, for every Complex Order placed on the ISE Complex Order book. The Spread Feed shows: (1) aggregate bid/ask quote size; (2) aggregate bid/ask quote size for Professional Customer Orders; and (3) aggregate bid/ask quote size for Priority Customer Orders for ISE traded options.] The feed also provides Complex Order auction notifications.

- (b) The following order and execution information is available to Members:

\* \* \* \* \*

- (2) Reserved[TradeInfo, a user interface, permits a Member to: (i) search all orders submitted in a particular security or all orders of a particular type, regardless of their status (open, canceled, executed, etc.); (ii) view orders and executions; and (iii) download orders and executions for recordkeeping purposes. TradeInfo users may also cancel open orders at the order, port or firm mnemonic level through TradeInfo].

\* \* \* \* \*

## **Section 28. [Reserved]Optional Risk Protections**

- (a) The following are optional order risk protections:

- (1) Notional dollar value per order (quantity x limit price x number of underlying shares);
- (2) Daily aggregate notional dollar value;
- (3) Quantity per order; and

(4) Daily aggregate quantity

(b) Members may elect one or more of the above optional risk protections by contacting Market Operations and providing a per order value (for (a)(1) and (a)(3)) or daily aggregate value (for (a)(2) and (a)(4)) for each order protection. Members may modify their settings through Market Operations.

(c) The System will reject all incoming aggregated Member orders for any of the (a)(2) and (a)(4) risk protections after the value configured by the Member is exceeded.

(d) The System will reject all incoming Member orders for any of the (a)(1) and (a)(3) risk protections upon arrival if the value configured by the Member is exceeded by the incoming order.

(e) If a Member sets a notional dollar value, a Market Order would not be accepted from that Member.

(f) The risk protections are only available for orders entered through FIX or Precise. Additionally, all settings are firm-level.

\* \* \* \* \*

**Options 5 Order Protection and Locked and Crossed Markets****Section 1. Definitions**

The following terms shall have the meaning specified in this Rule solely for the purpose of this Options 5:

\* \* \* \* \*

(h) "Intermarket Sweep Order ("ISO")" means a limit order for an options series that, simultaneously with the routing of the ISO, one or more additional ISOs, as necessary, are routed to execute against the full displayed size of any Protected Bid, in the case of a limit order to sell, or any Protected Offer, in the case of a limit order to buy, for the options series with a price that is superior to the limit price of the ISO. A Member may submit an Intermarket Sweep Order to the Exchange only if it has simultaneously routed one or more additional Intermarket Sweep Orders to execute against the full displayed size of any Protected Bid, in the case of a limit order to sell, or Protected Offer, in the case of a limit order to buy, for an options series with a price that is superior to the limit price of the Intermarket Sweep Order. [An ISO may be either an Immediate-Or-Cancel Order or an order that expires on the day it is entered.]

\* \* \* \* \*

**Options 7 Pricing Schedule**

\* \* \* \* \*

**Section 7. Connectivity Fees**

\* \* \* \* \*

**C. Ports and Other Services**

\* \* \* \* \*

(ii) The following order and execution information is available to Members.

<b>(1) CTI Port Fee</b>	\$500 per port per month, per account number
<b>(2) FIX DROP Port Fee</b>	\$500 per port per month, per account number
<b>[(3) TradeInfo ISE Interface]</b>	[\$0 per user, per month]

(iii) The following data port fees apply in connection with data subscriptions pursuant to ISE Rules at [Chapter VIII]Section 10. These ports are available to non-ISE Members and ISE Members.

<b>(1) Nasdaq ISE Depth of Market Data Port</b>	\$0 per port, per month
<b>(2) Nasdaq ISE Order Feed Port</b>	\$0 per port, per month
<b>(3) Nasdaq ISE Top [Quote] Feed Port</b>	\$0 per port, per month
<b>(4) Nasdaq ISE Trades Feed Port</b>	\$0 per port, per month
<b>(5) Nasdaq ISE Spread Feed Port</b>	\$0 per port, per month

\* \* \* \* \*

**Section 10. Market Data**

\* \* \* \* \*

**H. Nasdaq ISE Top [Quote] Feed**

\* \* \* \* \*