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SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-81359; File No. SR-MRX-2017-14)

August 9, 2017

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

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹, and Rule 19b-4 thereunder,² notice is hereby given that on July 26, 2017, Nasdaq MRX, LLC (“MRX” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I and II, below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

The Exchange proposes to amend Rule 804, entitled “Market Maker Quotations.”

The text of the proposed rule change is available on the Exchange’s website at www.ise.com, at the principal office of the Exchange, and at the Commission’s Public Reference Room.

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

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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

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

1. Purpose

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

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

The Exchange proposes to adopt a new rule that continues to require Market Makers to provide parameters by which the Exchange will automatically remove a Market Maker's

quotations in all series of an options class. The Exchange proposes to amend this rule text to apply to the automated quotation removal protections in the current rule.³

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

The Exchange elaborates in the proposed rule that a Market Maker is required to specify a period of time not to exceed 30 seconds ("Specified Time Period") during which the system will automatically remove a Market Maker's quotes in all series of an options class. The limitation of not to exceed 30 seconds is new for MRX Members. In order to establish a reasonable limit to the allowable Specified Time Period, an MRX Member will be limited to the setting their Specified Time period to no more than 30 seconds for these Thresholds. A Specified Time Period will commence for an options class every time an execution occurs in any series in such options class and will continue until the System removes quotes as described in proposed MRX Rule 804(g)(2) or (3) or the Specified Time Period expires. This is the case

³ The Exchange notes that it separately filed a proposed rule change to MRX Rule 804(g)(1) to provide that a Market Maker must provide parameters by which the Exchange will automatically remove a Market Maker's quotations in all series of an options class. If a Market Maker does not provide parameters then the Exchange will apply default parameters announced to members. See Securities Exchange Act Release No. 81204 July 25, 2017) (SR-MRX-2017-02) (not yet published) [sic] (Order Approving Proposed Rule Change to Amend Various Rules in Connection with a System Migration to Nasdaq INET Technology). The proposed rule text seeks to reword and relocate the proposed amended language concerning the parameters to include that language in the revised rule text.

today, and is not changing. The Specified Time Periods will be the same value described in subsections (A) – (D). Also, as is the case today, a Specified Time Period operates on a rolling basis among all series in an options class in that there may be Specified Time Periods occurring simultaneously for each Threshold and such Specified Time Periods may overlap. If a Market Maker does not provide parameters, the Exchange will apply default parameters, which default settings will be announced to Members via an Options Trader Alert.

Proposed Rule 804(g)(1)(A) describes in greater detail the operation of the Percentage Threshold. As is the case today, a Market Maker must provide a specified percentage of quote size (“Percentage Threshold”), of not less than 1%, by which the System will automatically remove a Market Maker’s quotes in all series of an options class. The Exchange is adding more detail about the manner in which the System will calculate percentages and amending the current rule to change its operation.

For each series in an options class, the System will determine (i) during a Specified Time Period and for each side in a given series, a percentage calculated by dividing the size of a Market Maker’s quote size executed in a particular series (the numerator) by the Market Maker’s quote size available at the time of execution plus the total number of the Market Market’s quote size previously executed during the unexpired Specified Time Period (the denominator) (“Series Percentage”); and (ii) the sum of the Series Percentages in the options class (“Issue Percentage”) during a Specified Time Period. The System will track and calculate the net impact of positions in the same option issue; long call percentages are offset by short call percentages, and long put percentages are offset by short put percentages in the Issue Percentage. The Exchange also notes that in calculating the Percentage the System will compare the number of contracts executed in that series relative to the size of the quote at the time of the execution plus the number of

executed contracts that have occurred in the current time period. The current system calculates the Percentage risk parameter by comparing the number of contracts executed in that series relative to the size of the original quote only at the time of the execution. This difference is captured within the proposed rule text.

The Exchange notes that with the upcoming migration from MRX's current system to the INET system the manner in which the System offsets will change. The current MRX system does not offset, in that long call percentages are not offset by short call percentages, and long put percentages are not offset by short put percentages, [sic] The proposed System however will track and calculate the net impact,⁴ [sic] The Exchange notes this difference in the calculation and seeks to memorialize the change in the process upon the migration to INET. The proposed rule will provide participants with greater clarity as to the operation of the Percentage risk feature on INET. The proposed text indicates that if the Issue Percentage exceeds the Percentage Threshold the System will automatically remove a Market Maker's quotes in all series of the options class.

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

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

⁴ The net impact of positions takes into account the offsets noted herein.

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

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

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

Proposed Rule 804(g)(3) provides more detail about the manner in which the System resets the counting of the various risk parameters. Notwithstanding the automatic removal of

quotes described in the rule, if a Market Maker requests the System to remove quotes in all options series in an options class, the System will automatically reset all Thresholds.

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

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

Finally, proposed Rule 804(g)(6) describes the interaction between the four Thresholds and the market wide parameter. In addition to the Thresholds described in Rule 804(g)(1)(A) - (D) above, a Market Maker must provide a market wide parameter by which the Exchange will automatically remove a Market Maker's quotes in all classes when, during a time period established by the Market Maker, the total number of quote removal events specified in Rule 804(g)(1)(A) – (D) exceeds the market wide parameter provided to the Exchange by the Market Maker.

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

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

Series of Underlying XYZ

Size on bid x offer for MM1

100 Strike Call

300x300

100 Strike Put	50x50
110 Strike Call	200x200
110 Strike Put	150x150

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

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

In this example, assume Market Maker #1 has Percentage Threshold set at 100% with a Specified Time Period over 5 seconds. Assume at 12:00:00, Market Maker #1 is quoting the

XYZ 20 strike calls at 1.00 (10) – 1.20 (10). An incoming Order to buy 5 contracts for 1.20 trades against Market Maker #1’s quote. Based on this trade, the Series Percentage Threshold calculation is $5/[(10)+(0)] = 5/10 = 50\%$. Since this is the only execution during the Time Period, 50% also represents the Issue Percentage, therefore Market Maker #1’s quote is now 1.00 (10) – 1.20 (5).

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

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

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

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

In this example, assume the Specified Time Period designated by the Market Maker # 1 is 10 seconds and the designated number of contracts permitted for the Volume-Based Threshold is 250 contracts. Assume at 12:00:00, the Market Maker # 1 executes all of his offer size, 200 contracts, in the 110 Strike Calls. The System will initiate the Specified Time Period and for 10 seconds the System will count all volume executed in series of options class XYZ. If at any point during that 10 second period, the Market Maker # 1 executes additional contracts in any series of the options class XYZ, those contracts will be added to the initial execution of 200 contracts. To illustrate, assume at 12:00:05 the Market Maker # 1 executes 60 contracts of his offer in the 100 Strike Calls. The total volume executed is now 260 contracts. Since that volume exceeds the Market Maker #1's designated number of contracts for the Volume Threshold (250 contracts), all of his quotes in all series of the options class XYZ over the Specialized Quote Feed⁵ will be removed from the System; no further quotes will be executed until re-entry. The Volume Specified Time Period will be reset for Market Maker #1 in options class XYZ and Market Maker #1 will need to send a re-entry indicator in order to re-enter quotes in options series for options class XYZ into the System.

⁵ The Specialized Quote Feed ("SQF") interface allows Market Makers to connect and send quotes, sweeps and auction responses into MRX. SQF Data includes the following: (1) Options Auction Notifications (e.g., opening imbalance, Flash, PIM, Solicitation and Facilitation or other information); (2) Options Symbol Directory Messages; (3) System Event Messages (e.g., start of messages, start of system hours, start of quoting, start of opening); (4) Option Trading Action Messages (e.g., halts, resumes); (5) Execution Messages; and (6) Quote Messages (quote/sweep messages, risk protection triggers or purge notifications).

Implementation

The Exchange will begin a system migration to Nasdaq INET in Q3 of 2017.⁶ The migration will be on a symbol by symbol basis as specified by the Exchange in a notice to Members. The Exchange is proposing to implement this rule change on the INET platform as the symbols migrate to that platform.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,⁷ in general, and furthers the objectives of Section 6(b)(5) of the Act,⁸ in particular, in that it is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general to protect investors and the public interest, by memorializing, with greater detail, the risk protections available to Market Makers. The described Thresholds serve to decrease risk and increase stability. Additionally, because the Exchange offers these risk tools to Market Makers, in order to encourage them to provide as much liquidity as possible and encourage market making generally, the proposal removes impediments to and perfects the mechanism of a free and open market and a national market system and protects investors and the public interest. The Exchange believes that amending Rule 804(g) to add more clarifying text, which explains in greater detail the manner in which the four Thresholds operate will bring more transparency to the rule which serves to protect investors and the public interest, because Market Makers will be more informed about the manner in which the functionality operates.

⁶ See Securities Exchange Act Release No. 81204 July 25, 2017) (SR-MRX-2017-02) (not yet published) [sic] (Order Approving Proposed Rule Change to Amend Various Rules in Connection with a System Migration to Nasdaq INET Technology).

⁷ 15 U.S.C. 78f(b).

⁸ 15 U.S.C. 78f(b)(5).

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

The Exchange further represents that its proposal will continue to operate consistently with the firm quote obligations of a broker-dealer pursuant to Rule 602 of Regulation NMS and that the functionality is mandatory. Specifically, any interest that is executable against a Market Maker's quotes that are received⁹ by the Exchange prior to the time any of these functionalities are engaged will be automatically executed at the price up to the Market Maker's size, regardless of whether such execution results in executions in excess of the Market Maker's pre-set parameters.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. Specifically, the proposal will not impose a burden on intra-market or inter-market competition, rather it provides Market Makers with the continued opportunity to avail themselves of risk tools, [sic]

⁹ The time of receipt is the time such message is processed by the Order Book.

The proposal does not impose a burden on inter-market competition, because participants may choose to become Market Makers on a number of other options exchanges, which may have similar but not identical features.¹⁰ The proposed rule change is meant to continue to protect Market Makers from inadvertent exposure to excessive risk. Accordingly, the proposed rule change will have no impact on competition.

The Exchange's proposal to amend the current Percentage Based risk feature to: (i) calculate offsets; and (ii) calculate the Percentage Threshold during a Specified Time Period and for each side in a given series, a percentage, by dividing the size of a Market Maker's quote size executed in a particular series (the numerator) by the Market Maker's quote size available at the time of execution plus the total number of the Market Market's quote size previously executed during the unexpired Specified Time Period, does not impose an undue burden on competition and is non-controversial because the Exchange offers a Percentage Threshold today. The proposed changes to the Percentage risk tool simply add more precision to the existing calculation to permit Market Makers to better control their risk with respect to quoting.

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

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

No written comments were either solicited or received.

¹⁰ See BATS Rule 21.16, BOX Rules 8100 and 8110, C2 Rule 8.12, CBOE Rule 8.18, MIAX Rule 612, NYSE MKT Rule 928NY and NYSE Arca Rule 6.40.

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 Act¹¹ and subparagraph (f)(6) of Rule 19b-4 thereunder.¹²

In its filing, MRX requests that the Commission waive the 30-day operative delay in order to enable the Exchange to coordinate the implementation of the proposed rule changes with its planned migration to the INET platform, which will commence in Q3 of 2017. Although the Exchange proposes certain technical changes to how the risk parameters will operate (e.g., limiting the Specified Time Period to 30 seconds), the proposed changes are largely intended to provide more detail about the operation of the existing risk parameters. Accordingly, the Commission believes that granting a waiver of the operative delay is consistent with the protection of investors and the public interest and therefore designates the proposed rule change to be operative upon filing.¹³

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such

¹¹ 15 U.S.C. 78s(b)(3)(A)(iii).

¹² 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.

¹³ For purposes only of waiving the 30-day operative delay, the Commission has also considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

action is necessary or appropriate in the public interest; for the protection of investors; or otherwise in furtherance of the purposes of the Act.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-MRX-2017-14 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-MRX-2017-14. 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 website (<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-MRX-2017-14, and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹⁴

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Assistant Secretary

¹⁴ 17 CFR 200.30-3(a)(12).

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