



**8011-01**

**SECURITIES AND EXCHANGE COMMISSION**

**[Release No. 34-83001; File No. SR-ISE-2018-29]**

**Self-Regulatory Organizations; Nasdaq ISE, LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to the Delay of Complex Order Quoting Functionality**

April 5, 2018.

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 March 28, 2018, Nasdaq ISE, LLC (“ISE” 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 extend the delay for re-introduction of functionality which permits Market Makers to enter quotes in certain symbols for complex strategies on the complex order book in their appointed options classes by an additional one year.

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

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

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

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

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

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

1. Purpose

The purpose of the proposed rule change is to extend the delay for re-introduction of functionality which permits Market Makers to enter quotes in certain symbols for complex strategies on the complex order book in their appointed options classes by an additional one year. The Exchange filed a rule change to designate that a symbol would not be eligible for Market Maker quotes in the complex order book after the symbol migrated to the INET<sup>3</sup> platform (“May 2017 Rule Change”).<sup>4</sup> In conjunction with the May 2017 Rule Change, the Exchange issued an Options Trader Alert notifying Members that complex order quoting functionality would no longer be available.<sup>5</sup> The rule change provided that within a year from the date of filing the May

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<sup>3</sup> INET is the proprietary core technology utilized across Nasdaq’s global markets and utilized on The Nasdaq Options Market LLC (“NOM”), Nasdaq PHLX LLC (“Phlx”) and Nasdaq BX, Inc. (“BX”) (collectively, “Nasdaq Exchanges”). The migration of ISE to the Nasdaq INET architecture has resulted in higher performance, scalability, and more robust architecture.

<sup>4</sup> See Securities Exchange Act Release No. 80613 (May 5, 2017), 82 FR 22022 (May 11, 2017) (SR-ISE-2017-37).

<sup>5</sup> Even though the complex quoting functionality would not be available, Market Makers would still be able to submit complex orders.

2017 Rule Change, the Exchange would offer complex quoting functionality on the ISE INET platform.<sup>6</sup>

By way of background, prior to the delay in re-introducing the quoting functionality, ISE's rules permitted Market Makers to enter quotes in certain symbols for complex strategies on the complex order book in their appointed options classes. Market Maker quotes for complex strategies were not automatically executed against bids and offers on the Exchange for the individual legs nor marked for price improvement.<sup>7</sup> Market Makers were not required to enter quotes on ISE's complex order book. Quotes for complex orders were not subject to any quotation requirements that are applicable to Market Maker quotes in the regular market for individual options series or classes, nor was any volume executed in complex orders taken into consideration when determining whether Market Makers met quotation obligations applicable to Market Maker quotes in the regular market for individual options series.

When the Exchange initially delayed this functionality which permitted Market Makers to enter quotes in certain symbols for complex strategies on the complex order book in their appointed options classes, the Exchange noted that it would re-introduce the functionality within one year from the date of that filing. The Exchange filed the initial rule change on April 26, 2017, with a one year delay, and the additional one year delay would extend the implementation timeframe for this functionality to April 26, 2019. The extended delay would provide the Exchange additional time to develop and test this functionality on INET. The Exchange will issue an Options Trader Alert notifying Members when this functionality would be available. Furthermore, in connection with this change, the Exchange also proposes to amend Supplementary Material .03 to Rule 722 to remove language about the migration of symbols to

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<sup>6</sup> See note 4 above.

<sup>7</sup> See Supplementary Material .03 to Rule 722.

INET as this migration has been completed and all symbols listed by the Exchange are currently trading on the INET platform.

The Exchange is also proposing to amend a typographical error to correct a misspelled word in the current Rule text at Supplementary Material .03 to Rule 722.

## 2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,<sup>8</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act,<sup>9</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 because the Exchange desires to rollout the complex order quoting functionality at a later date to allow additional time to rebuild this technology on the new platform. Although the Exchange is now fully operating on the Nasdaq INET platform, additional time is necessary to re-implement this functionality.

Delaying the reintroduction of the quoting functionality will provide additional time to test and implement this functionality. Today, symbols trade in price/time. Within a year from the date of filing this rule change, the Exchange will offer complex quoting functionality. Thereafter, the Exchange may offer the complex quoting for specified symbols from time to time with notice to members. At the time the Exchange designates a symbol as available for complex quoting, it would also designate the allocation methodology for that symbol pursuant to ISE Rule 722(b)(3)(i).

Even though the complex quoting functionality will not be available, Market Makers will still be able to submit complex orders. The Exchange has not experienced any significant impact

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<sup>8</sup> 15 U.S.C. 78f(b).

<sup>9</sup> 15 U.S.C. 78f(b)(5).

with respect to execution quality. The Exchange notes that Phlx does not offer complex order quoting functionality.<sup>10</sup>

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 does not believe that the proposed rule change will impact the intense competition that exists in the options market. The Exchange does not believe that the proposed delay will impose any significant burden on inter-market competition as it does not impact the ability of other markets to offer or not offer competing functionality. Members will be able to continue to submit complex orders on ISE. The Exchange does not believe that the proposed rule change will impose any burden on intra-market competition because all members uniformly will not be able to submit Market Maker quotes in the complex order book.

Within a year from the date of filing this rule change, the Exchange will offer complex quoting functionality. Thereafter, the Exchange may offer complex quoting for specified symbols from time to time with notice to members. At the time the Exchange designates a symbol as available for complex quoting, it will also designate the allocation methodology for that symbol pursuant to ISE Rule 722(b)(3)(i).

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;

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<sup>10</sup> See Phlx Rule 1098.

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>11</sup> and subparagraph (f)(6) of Rule 19b-4 thereunder.<sup>12</sup>

A proposed rule change filed under Rule 19b-4(f)(6) normally does not become operative for 30 days after the date of the filing. However, Rule 19b-4(f)(6)(iii)<sup>13</sup> permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest. In its filing, ISE requests that the Commission waive the 30-day operative delay to allow the proposed one-year extension of the time for re-introducing the complex quoting functionality to begin at the conclusion of the current delay period, which is scheduled to end on April 26, 2018. As noted above, ISE states that extending the delay for re-introducing the complex quoting functionality will provide ISE with additional time to develop and test this functionality. ISE further states that it has not experienced any significant impact with respect to execution quality due to the delayed implementation of the complex quoting functionality. The Commission believes that waiving the operative delay is consistent with the protection of investors and the public interest because it will provide ISE with additional time to develop and test the complex quoting functionality. Accordingly, the Commission waives the 30-day operative delay and designates the proposed rule change operative upon filing.<sup>14</sup>

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<sup>11</sup> 15 U.S.C. 78s(b)(3)(A)(iii).

<sup>12</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.

<sup>13</sup> 17 CFR 240.19b-4(f)(6)(iii).

<sup>14</sup> 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).

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

#### IV. Solicitation of Comments

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

##### Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-ISE-2018-29 on the subject line.

##### Paper Comments:

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

All submissions should refer to File Number SR-ISE-2018-29. 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. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-ISE-2018-29, and should be submitted on or before **[INSERT DATE 21 DAYS AFTER DATE OF PUBLICATION IN THE FEDERAL REGISTER]**.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>15</sup>

**Eduardo A. Aleman,**  
*Assistant Secretary.*

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<sup>15</sup> 17 CFR 200.30-3(a)(12) and (59).

[FR Doc. 2018-07407 Filed: 4/10/2018 8:45 am; Publication Date: 4/11/2018]