

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-85308; File No. SR-ISE-2019-05)

March 13, 2019

Self-Regulatory Organizations; Nasdaq ISE, LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to No Longer Offer Complex Order Quoting Functionality or Legging Functionality for Stock-Option Orders and to Make Other Changes to Chapter 7

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 March 1, 2019, Nasdaq ISE, LLC (“ISE” or the “Exchange”) filed with the Securities and Exchange Commission (“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 no longer offer Complex Order quoting functionality or legging functionality for Stock-Option Orders on ISE. The Exchange also proposes other amendments, including modifying its Spread Feed, adopting a term “Professional Customer,” removing Mini Option language for Complex Orders, and reorganizing the Rulebook as well as other technical amendments.

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

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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: (1) remove rule text related to Complex Order quoting functionality; (2) remove rule text related to legging functionality for Stock-Option Orders; (3) amend the description of the Nasdaq ISE Spread Feed including adopting a definition specifically for Professional Customer; (4) remove Mini Options language related to Complex Orders; and (5) reorganize the Rulebook and make other technical amendments. Each change will be discussed below.

Universal Changes

In addition to the amendments described below, the Exchange proposes to make several changes throughout its rules. In particular, the Exchange proposes to capitalize references to “member” to reflect the defined term “Member”³ and capitalize references to “system” to reflect the defined term “System.”⁴

³ The term “Member” means an organization that has been approved to exercise trading rights associated with Exchange Rights. See Rule 100(a)(30).

⁴ The term “System” means the electronic system operated by the Exchange that receives and disseminates quotes, executes orders and reports transactions. See Rule 100(a)(63).

In addition, with the proposal herein to remove rule text related to Complex Order quoting functionality on ISE, as described in more detail below, the Exchange proposes to remove any references to Complex Order quotes throughout these proposed rules because the System will no longer accept Complex Order quotes. Finally, the Exchange will amend certain cross-references in connection with relocating certain rules described herein.

Complex Order Legging functionality for Stock-Option Orders

In 2017, ISE underwent a replatform to move its functionality to INET.⁵ At that time, ISE proposed to delay the re-introduction of legging functionality for Stock-Option Orders for one year from the date of filing.⁶ Subsequently, ISE filed to delay the re-introduction of legging functionality until March 21, 2019.⁷ At this time, the Exchange proposes to not offer this functionality on ISE. If the Exchange determines to re-introduce legging functionality for Stock-Option Orders it will file a new proposal with the Commission. The legging functionality allows Members to leg into the regular market where they may trade against bids and offers for the individual legs pursuant to Rule 722(d)(2) and (3) and Supplementary Material .01 and .02 to Rule 722 (“legging”). With this proposed amendment to not offer this functionality, Stock-Option Orders will only be permitted to trade with other Stock-Option Orders in the complex order book. The Exchange will issue an Options Trader Alert notifying Members that legging functionality for Stock-Option Orders will no longer be available.

⁵ INET is the proprietary core technology utilized across Nasdaq’s global markets. The migration of ISE to the Nasdaq INET architecture has resulted in higher performance, scalability, and more robust architecture.

⁶ See Securities Exchange Act Release No. 80316 (March 27, 2017) 82 FR 16084 (March 31, 2017) (SR-ISE-2017-28).

⁷ See Securities Exchange Act Release No. 82961 (March 28, 2018), 83 FR 14302 (April 3, 2018) (SR-ISE-2018-21).

The Exchange proposes to not implement legging functionality for Stock-Option Orders because of concerns with obtaining executions for the stock portion of the order in a timely fashion in order to execute the Stock-Option Order on ISE. Previously, when this functionality was offered on ISE prior to the replatform to INET, the stock portion of the Stock-Option Order was obtained at a stock venue through a broker-dealer for Stock-Option Orders that attempted to execute the stock component of the order. A necessary delay was created when executing this order type because the option portion of the order could not execute until such time as the stock portion was executed. The added complexity of waiting for a third-party broker to obtain the stock portion of the order, check for compliance with Regulation SHO, post the trade to the tape and deliver the execution back to ISE, resulted in low fill rates for Stock-Option Orders because the stock portion was not always available immediately with mandated Regulation SHO compliance checks in place by the broker-dealer. The option portion of the Stock-Option Order was cancelled when the stock could not be obtained. The Exchange has considered the legging of Stock-Option Orders and has determined not to reintroduce the functionality in light of the complexity with obtaining the stock from a third party. Members may continue to execute Stock-Option Orders that trade with other Stock-Option Orders in the complex order book or hedge a stock against the option order in separate transactions. Further, the Exchange notes this functionality is not available on other markets that offer complex order functionality.⁸

With this proposal, Stock-Option Orders entered on the Exchange will not automatically execute against bids and offers on the Exchange for the individual legs pursuant to Rule 722(d)(1) and (3) and Supplementary Material .01 and .02 to Rule 722. Stock-Option Orders may execute against other Stock-Option Orders in the Complex Order Book, thereby providing

⁸ Phlx does not offer legging functionality for stock-option orders.

an opportunity for Members to have their Stock-Option Orders executed on the Exchange. In addition complex [sic] orders continue to leg into the single-leg market as is the case today.

Amendments to the rule text of ISE Rule 722 are explained below.

Complex Order Quoting

In 2017, in conjunction with the replatform of ISE to INET, ISE filed a rule change to delay the re-introduction of functionality that enabled ISE to designate symbols eligible for Market Maker quotes in the Complex Order book for one year from the date of filing.⁹

Subsequently, ISE filed to delay the re-introduction of Complex Order quoting until April 26, 2019.¹⁰ At this time, the Exchange proposes to not offer this functionality on ISE. If the Exchange determines to re-introduce Complex Order quoting functionality on ISE it will file a new proposal with the Commission. The Exchange will issue an Options Trader Alert notifying Members that Complex Order quoting functionality will no longer be available.

The Exchange does not believe that there is sufficient demand for this offering at this time from Market Makers. At the time this functionality was offered prior to the replatform to INET, only twelve symbols were available for Complex Order Quoting. The Exchange provided notice to Members on two occasions¹¹ with respect to delaying the Complex Order Quoting functionality. The Exchange did not receive any response from Market Makers with respect to the delay in offering this functionality. The Exchange has notified Members that it will not offer

⁹ See Securities Exchange Act Release No. 80613 (May 5, 2017), 82 FR 22022 (May 11, 2017) (SR-ISE-2017-37).

¹⁰ See Securities Exchange Act Release No. 83001 (April 5, 2018), 83 FR 15653 (April 11, 2018) (SR-ISE-2018-29).

¹¹ See Options Traders Alerts 2016-8 and 2016-10 (these prior option trade alerts are no longer publically available because the content is obsolete. The alerts were also superseded by Options Trader Alert 2019-3).

this functionality going forward and once again,¹² no response was received from Market Makers. Further, the Exchange notes that other markets that offer complex functionality do not offer complex quoting.¹³ Market Makers may utilize orders in lieu of quotes to execute Complex Orders.

Prior to the delay in re-introducing the Complex Order 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.¹⁴ Market Makers were not required to enter quotes on ISE's Complex Order book. Quotes for Complex Orders have not been 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.

Nasdaq ISE Spread Feed

The Exchange proposes to amend ISE Rule 718, titled "Data Feeds and Trade Information" to reflect its current practice. The Exchange also proposes a few technical amendments, including adding numbering to ISE Rule 718(a)(5) to bring greater clarity to the description and deleting a reference to Complex Order quotes. The Exchange proposes to add the word "data" before "aggregated" in the first sentence to give more context to the word. With this change, the first sentence will provide in part that the "Nasdaq ISE Spread Feed ("Spread

¹² See Options Trader Alert 2019-3.

¹³ Phlx does not offer complex quoting.

¹⁴ See Supplementary Material .03 to Rule 722.

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 prices levels (BBO) on both the bid and offer side of the market; and (3) last trades information.” The Exchange proposes to delete the words “as well as” from the first sentence because those words are not necessary to convey the information in the feed. The Exchange also proposes to add detail to the second sentence to reflect its current practice. The second sentence as amended will state that, “The Spread Feed provides updates, including prices, side, size, and capacity, for every Complex Order placed on the ISE Complex Order book.” The second sentence is reworded to remove the words “In addition,” which are no longer necessary and replace “...for every time a new Complex Limit Order that is not immediately executable at the BBO...” with “...every Complex Order placed on the ISE Complex Order book.” The phrase “immediately executable at the BBO” is not the trigger for the update; instead the booking of a Complex Order to the order book is the trigger to update the Spread Feed. This proposed new language is more accurate with respect to updates. Also, the Exchange is replacing the phrase “Complex Limit Order” with the broader term “Complex Order” which more accurately reflects the types of Complex Orders on the ISE Spread Feed.¹⁵ Today, the Nasdaq ISE Spread Feed includes price, side, size, and capacity, for every Complex Order. The Exchange believes that this proposed language brings greater transparency to information contained in the data feed. Adding references to the additional information, price, side, size and capacity for every Complex Order as well as auction notifications, contained in the ISE Spread Feed is consistent with the Act because it will provide

¹⁵ There are circumstances where Complex Market Orders, provided for in Rule 722(b)(1), will rest on the Complex Order Book. For example a Complex Market Order will remain on the Complex Order Book if there is no complex interest available for a complex strategy to execute against and the synthetic market for the complex strategy is beyond the trade through allowance provided for in Supplementary Material .07(a)(1) to ISE Rule 722.

market participants with clear information as to the type of data available in the Spread Feed. By providing the details of the content of the Spread Feed, market participants will be better informed as to the type of information they may choose to access to obtain information about the Order Book and this will in turn promote just and equitable principles of trade.

The Exchange also is amending the last sentence of the current rule text in Rule 718(a)(5). Currently, ISE Rule 718(a)(5) provides, “The Spread Feed shows aggregate bid/ask quote size for Public Customer¹⁶ and Priority Customer¹⁷ option orders for ISE traded options.” The Exchange proposes to amend this sentence to state, “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 is separating out this information to make clear that three separate types of information are available: (1) the local quote size (BBO) in the aggregate, (2) the local quote size for Professional Customer Orders and (3) the local quote size for Priority Customers. The Exchange believes that separating out the feed information to demonstrate the various pieces of information included in the data feed clarifies the description. In addition, the Exchange proposes to introduce a new term “Professional Customer” to replace the word “Public Customer.” The Exchange proposes to add a new definition for the term “Professional Customer” at proposed new Rule 100(a)(51A). This new term would mean a non-broker/dealer participant who enters at least 390 orders per day on average during a calendar month for its own beneficial account(s).

¹⁶ The term “Public Customer” means a person or entity that is not a broker or dealer in securities. See Rule 100(a)(52).

¹⁷ The term “Priority Customer” means a person or entity that (i) is not a broker or dealer in securities, and (ii) does not place more than 390 orders in listed options per day on average during a calendar month for its own beneficial account(s). See Rule 100(a)(49).

The concept of a Professional is established on ISE,¹⁸ this new term permits a Professional Customer to be more specifically identified within the Rules. The term “Public Customer” means a person or entity that is not a broker or dealer in securities.¹⁹ The current feed – which refers to the aggregate quote sizes for Public Customers and Priority Customers – does not make clear that local Professional Customer and local Priority Customer quote sizes are separately available. Under the current description, it may appear that a quote size with both Professional Customer and Priority Customer interest is available along with a separate quote size for Priority Customer interest; however this is not the case. The more precise new defined term “Professional Customer” would make clear that manner in which the quote size information is segregated. As rewritten, the Exchange is representing that there are three separate streams of quote information and the “Professional Customer” and “Priority Customer” streams of quote information are separated. By adopting the new term “Professional Customer” the Exchange believes that the quote information being offered will be clear. The Exchange is not amending the information contained in the Spread Feed, rather these changes are intended to more accurately represent the information currently in the Spread Feed. It is consistent with the Act to provide clear information about the types of aggregated quotes available on the Spread Feed so that market participants are able to avail themselves of that information if they choose and also to better understand the information that is available to other market participants. The Exchange believes that adding this detail will add transparency to the data feed and promote just and equitable principles of trade.

¹⁸ See Rule 100(a)(51).

¹⁹ See note 15 above. The terms Public Customer includes both Priority Customers and Professional Customers.

Finally, the Exchange is also noting that the feed contains Complex Order auction notifications, which adds additional detail to the rule. It is consistent with the Act to include auction notifications in the feed to allow Members to be aware of ongoing auctions so they have an opportunity to participate in the auctions. The Exchange is not amending any Spread Feed pricing with this proposal.²⁰

Mini Options

The Exchange proposes to remove the entire provision related to trading Mini Options for Complex Orders in Supplementary Material .06²¹ and the provision within .08(i)²² to ISE Rule 722 which describe the manner in which listed Mini Options are handled for purposes of Complex Order trading. Today, while the Exchange's rules permit the listing of Mini Options, the Exchange does not list Mini Options for trading and has not listed Mini Options in some time. Accordingly, ISE proposes to delete the provisions addressing Mini Options in Complex Orders. The Exchange proposes to no longer list Mini Options for trading because the Exchange believes the demand for this product does not exist.²³ The Exchange would file a proposal to adopt rules to list Mini Options if it determines in the future that it desires to list these options.

²⁰ The Spread Feed pricing is reflected in Options 7, Section 10, at I.

²¹ Supplementary Material .06 to Rule 722 provides, "If any leg of a complex strategy is a Mini Option contract as provided in Supplementary Material .13 to Rule 504, all options legs of such complex strategy must also be Mini Option contracts."

²² Supplementary Material .08(i) to Rule 722 provides, "The minimum contract threshold shall be adjusted for Mini Options by a multiple of ten (10) and shall be as follows: (i) each leg of a Complex Options Order executed in the Complex Facilitation Mechanism must be for 500 or more Mini Option contracts; (ii) each leg of a Complex Options Order executed in the Complex Solicited Order Mechanism must be for 5,000 or more Mini Option contracts; and (iii) each leg of a Complex Qualified Contingent Cross Order must be for 10,000 or more Mini Option contracts coupled with a contra-side order or orders totaling an equal number of Mini Option contracts."

²³ The Exchange will separately file to remove listing and other rules associated with Mini Options.

Additionally, the Exchange would file appropriate trading rules to govern the trading of Mini Options.

Reorganization of the Rulebook and Other Technical Amendments

Rule 715

The Exchange proposes to capitalize the defined term “system” within Rule 715(u) as explained in the beginning of the proposal.

Rule 716

The Exchange proposes to retitle Rule 716, currently titled “Block Trades,” as “Auction Mechanisms” because the new title more accurately describes the rule text contained in this rule. The Exchange proposes to relocate the text of Rule 716(a) within current Rule 716(c) and re-letter that Rule as 716(a). The Exchange also proposes to make clear that the Block Order Mechanism applies only to single-leg transactions and therefore does not apply to Complex Orders. The Exchange notes that it offers a Complex Order Exposure auction, which is described within Supplementary Material .01 to Rule 722.

The Exchange proposes to remove the “(b)” from Rule 716 so that the following text would apply to the entirety of Rule 716 and all mechanisms within the rule, including proposed relocated text, “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.” This rule text, as written, is being amended so that it is clear that the rule text applies to all mechanisms within this rule, including the mechanisms proposed to be relocated within the rule. In addition, the Exchange proposes to

relocate and expand rule text within Supplementary Material .04 to Rule 716²⁴ to this introductory paragraph so that with the relocation it also would apply to the entire rule. The Exchange proposes to provide, “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 circular, but no less than 100 milliseconds and no more than 1 second.” Today, this rule text applies to all mechanisms within the rule, the Block Order Mechanism, Facilitation Mechanism and Solicitation Mechanism. As amended, the rule text would apply to all the relocated mechanisms as well.

The Exchange proposes to amend the Facilitation Mechanism to re-letter “(d)” as “(b).” The Exchange proposes to relocate rule text related to the Complex Facilitation Mechanism from Supplementary Material .08(a) to ISE Rule 722 to Rule 716(c).²⁵ [sic] ISE proposes to relocate the Complex Solicited Order Mechanism from Supplementary .08(b) to ISE Rule 722 to Rule 716(e). The Exchange notes that references to Complex Order quotes were not relocated with the rule text as the Exchange proposes to eliminate Complex Order quoting.

The Exchange also proposes to relocate the paragraph related to Limitations on Concurrent Complex Strategy Auctions, currently located in Supplementary Material .08(g) of ISE Rule 722, to Rule 716(f). The Exchange also proposes to relocate rule text relating to Concurrent Complex Order and single leg auctions, currently located Supplementary Material .08(h) of ISE Rule 722, to Rule 716(g).

²⁴ Supplementary Material .04 to Rule 716 provides, “The time given to Members to enter Responses under paragraphs (c)(1), (d)(1) and (e)(1) shall be designated by the Exchange via circular, but no less than 100 milliseconds and no more than 1 second.”

The Exchange proposes to eliminate Supplementary Material .03, which is currently reserved, and .04 to Rule 716, which is being relocated as discussed above. The Exchange proposes to amend Supplementary Material .05 to Rule 716 to renumber it .03. The Exchange proposes to renumber Supplementary Material .06 to Rule 716 as .04. The Exchange proposes to eliminate references to Supplementary Material .07 and .08 to Rule 716, which are currently reserved. The Exchange proposes to renumber Supplementary Material .09 to Rule 716 as .07.

Rule 721

The Exchange proposes to amend Rule 721, Crossing Orders. The Exchange proposes to add a title within Rule 721(a), “Customer Cross Orders.” This will distinguish this paragraph from new proposed Rule 721(b), titled “Complex Customer Cross Orders.” The Exchange notes that references to Complex Order quotes were not relocated with the rule text, as discussed below, as the Exchange proposes to eliminate Complex Order quoting.

The Exchange proposes to relocate rule text from Supplementary Material .08(d) to ISE Rule 722 to proposed Rule 721(b). The Exchange proposes to re-letter 721(b) as 721(c) and add a title “Qualified Contingent Cross Orders” to distinguish it from new proposed Rule 721(d), which the Exchange proposes to title “Complex Qualified Contingent Cross Orders.” The Exchange proposes to relocate rule text from Supplementary Material .08(e) to ISE Rule 722 to proposed Rule 721(d). The Exchange proposes to relocate certain rule text regarding Qualified Contingent Cross (“QCC”) Orders with Stock from Supplementary Material .01 -.03 to ISE Rule 721 to proposed Rule 721(e)(4) – (6). The Exchange is renumbering current Rule 721(c) as “(e)” and adding a new title, “Qualified Contingent Cross (“QCC”) with Stock.” The Exchange proposes to relocate rule text from Supplementary Material .08(f) to ISE Rule 722 to proposed Rule 721(f) and add the title “Complex QCC with Stock Orders.” The Exchange notes that

current Supplementary Material .08(f)(4) to ISE Rule 722 cross-references current Rule 721 at Supplementary Material .01 - .03. The Exchange notes that it is deleting Supplementary Material .08(f)(4) to ISE Rule 722 because its sole purpose is to cross-reference Rule 721 and this provision is no longer necessary as ISE is relocating the rule text to Rule 721.

Rule 722

The Exchange proposes to delete the introductory text within ISE Rule 722, which provides,

Stock-Option Orders will not be automatically executed against bids and offers on the Exchange for the individual legs ("legging") pursuant to subparagraphs (d)(1) and (d)(3) of Rule 722 and Supplementary Material .01 and .02 to Rule 722.

Stock-Option Orders will continue to execute against other Stock-Option Orders in the Complex Order Book. The Exchange will recommence legging for Stock-Option Orders on ISE on or before March 21, 2019. The Exchange will issue an Options Trader Alert notifying Members when this functionality will be available.

Only one Complex Order auction pursuant to Supplementary Material .01 and Supplementary Material .08(a) - (c) to Rule 722 may be ongoing at any given time in a complex strategy. Such Complex Order auctions will not queue or overlap in any manner. The Exchange will reject a Complex Order auction of the same or different auction type submitted pursuant to Supplementary Material .08(a) -(c) to Rule 722 while another Complex Order auction is ongoing in that complex strategy. When there is an ongoing auction in a complex strategy, a subsequent Complex Order for that strategy will not initiate an auction pursuant to Supplementary Material .01 to Rule 722 and will be processed as a Complex

Order that is not marked for price improvement, unless the member requested the order to be cancelled after the exposure period, in which case the Complex Order will be cancelled back to the member.

The Exchange proposes herein to not offer legging functionality for Stock-Option Orders and therefore the first paragraph describing the delay is no longer necessary. The Exchange is proposing herein to remove all references to legging functionality for Stock-Option Orders. The second paragraph concerning concurrent auctions is no longer necessary because the Exchange details this behavior within its current rules in the section titled “Limitations on Concurrent Complex Strategy Auctions” currently located in Supplementary Material .08(g) of ISE Rule 722 and proposed to be relocated to Rule 716(f). Also, the paragraph titled “Concurrent Complex Order and single leg auctions” currently located within Supplementary Material .08(h) of ISE Rule 722 and proposed to be relocated to Rule 716(g), describes this behavior.

The Exchange proposes to eliminate Rule 722(b)(4) which is “reserved” and renumber the remainder of Rule 722(b). The Exchange proposes to amend ISE Rule 722(d) to change certain references, where applicable, from “complex strategies” to “Complex Options Orders” to reflect the removal of the legging of Stock-Option Orders. The Exchange notes as proposed, the Exchange would no longer offer legging functionality for Stock-Option Orders. The terms “complex strategies” includes Complex Options Strategies, Stock-Option Strategies, and Stock-Complex Strategies.²⁶ The Exchange proposes to modify portions of this rule, described herein, such as Rule 722(d)(2) to make clear the type of behavior that applies to Complex Options Orders as compared to the type of behavior that applies to Stock Options Orders and Stock Complex Orders that no longer would leg as proposed herein. The Exchange proposes to add a

²⁶ See Rule 722(a)(4).

sentence to this paragraph (d)(2) which provides, “Stock Option Orders and Stock Complex Orders will be executed at the best net price available from Complex Order Exposure pursuant to Supplementary Material .01 to Rule 722 and executable Complex Orders on the Complex Order Book” to accurately reflect how Stock Option Orders and Stock Complex Orders would be executed.

Today, ISE Rule 722(d)(2) sets forth three allocation models which may be utilized: (1) 722(d)(2)(i) time priority; (2) 722(d)(2)(ii) “pursuant to Nasdaq ISE Rule 713(e) and Supplementary Material .01(a) to Nasdaq ISE Rule 713 except that there shall be no participation rights for the Primary Market Maker as provided in Supplementary Material to Rule 713, paragraph .01(b) and (c)”; and (3) 722(d)(2)(iii) pro-rata based on size. The allocation method set forth in current Rule 722(d)(2)(ii) provides that a Primary Market Maker entering Complex Order Quotes is not entitled to the enhanced allocation provided for in Rule 713(e) for a Primary Market Maker quoting in the single-leg market. As noted herein, unlike the quoting obligation applicable to a Primary Market Maker in the single-leg market, a Primary Market Maker entering Complex Order Quotes has no corresponding quoting obligations. The Exchange proposes to remove the rule text contained within ISE Rule 722(d)(2)(ii) as this methodology was intended to be put in place if Complex Order Quoting was available to Market Makers. With this proposal, the Exchange will no longer offer Complex Order Quoting and this method of allocation would become obsolete because it would only apply with respect to Market Maker allocations in connection with Complex Order quoting. The Exchange also proposes to renumber ISE Rule 722(d)(2)(iii) as “(ii).”

The Exchange proposes to remove certain rule text within ISE Rule 722(d)(3). This paragraph of Rule 722(d)(3) addresses a situation when there is no executable contra-side

complex interest on the Complex Order Book at a particular price and explains how executable Complex Options Orders legs may be executed against bids and offers for the individual options series. The current rule text provides, “and the options leg(s) of executable Stock-Option Orders or executable Stock-Complex Orders with up to a maximum number of options legs (determined by the Exchange as either two legs, three legs or four legs).” As proposed herein, the Exchange will no longer leg Stock-Option Orders, therefore this rule text that is currently described within ISE Rule 722(d)(3) would no longer be applicable and is proposed to be removed.

The Exchange proposes to amend Supplementary Material .01(c) Rule 722 to add a new sentence to describe the manner in which Stock Option Orders would be handled since the Exchange would no longer offer legging for Stock Option Orders, as proposed. The new sentence would provide, “Notwithstanding the foregoing, Supplementary Material .01(c)(ii) shall not be applicable with respect to Stock Option Orders and Stock Complex Orders.” The Exchange notes that Supplementary Material .01(c)(ii) to Rule 722 provides, “At the end of the exposure period, if the Complex Order still improves upon the best price for the complex strategy on the same side of the market, it is automatically executed to the greatest extent possible pursuant to Rule 722(d)(2)-(3), taking into consideration...bids and offers on the Exchange for the individual options series (including interest received during the exposure period).” The Exchange notes that the bids and offers for the individual options series would only be taken into account for Complex Options Orders and not for Stock Option Orders and Stock Complex Orders, which, under the proposal, will no longer leg.

The Exchange is removing Supplementary Material .03, .04 and .05 to ISE Rule 722 as these sections relate to Market Maker quotes, which functionality is proposed to be removed

with this proposal. The Exchange is removing Supplementary Material .06 to ISE Rule 722 as described in the section pertaining to Mini Options.

Supplementary Material .07 to ISE Rule 722 is being relocated to new Rule 724 as described in that section. Supplementary Material .08 to ISE Rule 722 is being relocated to Rules 716, 721 and 723 as described in those sections.

The Trade Value Allowance would be renumbered from Supplementary Material .09 to .03 of ISE Rule 722 to account for the removal of Supplementary Materials .03 to .08 of Rule 722.

The Complex Opening Process would be renumbered from Supplementary Material .10 to .04 of ISE Rule 722. The Complex Opening Price Determination would be renumbered from Supplementary Material .11 to .05 of ISE Rule 722. The word “order” is being capitalized within proposed Supplementary Material .05(d)(1) to ISE Rule 722, currently Supplementary Material .11(d)(i) of ISE Rule 722, because it is part of the defined term “Priority Customer Order.” The Exchange is also reformatting the numbering of this rule section to conform it to the remainder of the rule.

The Exchange is amending the uncrossing language within proposed Supplementary Material .05(d)(6) of ISE Rule 722, currently Supplementary Material .11(d)(vi) of ISE Rule 722, to amend the term “complex strategy” to “Complex Option Order.” Supplementary Material .10 of Rule 722 states,

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

Complex Strategies will be opened pursuant to the Complex Uncrossing Process described in Supplementary Material .12 to Rule 722.

To further distinguish that the uncrossing language within proposed Supplementary Material .05(d)(6) of ISE Rule 722 does not apply to Stock-Option Strategies and Stock-Complex Strategies, the Exchange proposes to amend the more generic term “complex strategy” to replace that term with the more specific reference to “Complex Options Orders.”

The Complex Uncrossing Process would be renumbered from Supplementary Material .12 to .06. of ISE Rule 722 . The Exchange proposes to amend the term “Complex Order” within proposed Supplementary Material .06(b)(2) and replace it with the more specific defined term “Complex Options Order” because this section references legging which cannot be accomplished, as proposed herein with Stock Option Orders and Stock Complex Orders.

Finally, the title “Qualified Contingent Trade Exemption” is being added to Supplementary Material .13 of ISE Rule 722 and Supplementary Material .13 is proposed to be renumbered as Supplementary Material .07 of ISE Rule 722.

Rule 723

The Exchange proposes to relocate the text of Supplementary Material .08(c) to ISE Rule 722 to proposed Rule 723(e).²⁷ The Exchange proposes to amend proposed Rule 723(e)(4)(vi) to replace the term “complex strategy” with “Complex Order.” A Complex Price Improvement Mechanism in a complex strategy may be ongoing at the same time as a Price Improvement Auction pursuant to Rule 723 or during an exposure period pursuant to Supplementary Material .02 to Rule 1901 in a component leg(s) of such Complex Order. The Exchange is amending the term because with this proposal, Stock Option Orders and Stock Complex Orders may not leg.

²⁷ The Exchange notes that references to Complex Order quotes were not carried over with the rule text as the Exchange proposes to eliminate Complex Order quoting.

Also, the Exchange is amending the last sentence of this same paragraph to provide, " If a Complex Price Improvement Mechanism is early terminated pursuant to paragraph (iv) above, and the incoming Complex Order that causes the early termination in the complex strategy is also marketable against a component leg(s) of the complex strategy that is the subject of a concurrent ongoing Price Improvement Auction pursuant to Rule 723 or an exposure period pursuant to Supplementary Material .02 to Rule 1901, then the concurrent Complex Price Improvement Mechanism and component leg auction(s) are processed in the following sequence: ...and (3) legging of residual incoming Complex Order interest occurs, **except with respect to Stock Option Orders and Stock Complex Orders.**" The Exchange similarly notes that this addition is consistent with the proposal to not offer legging for Stock Option Orders.

Supplementary Material .07 to Rule 723 and Supplementary Material .09 to Rule 723 are being eliminated as they are reserved. Supplementary Material .08 to Rule 723 is being renumbered as .07 and Supplementary Material .10 to Rule 723 is being renumbered as .08.

Rule 724

The Exchange proposes to relocate Supplementary Material .07 to ISE Rule 722 to new Rule 724 titled "Complex Order Risk Protections." The Exchange proposes to add the following sentence to this rule, "The following are Complex Order risk protections on ISE." This will distinguish these risk protections from those in Rule 714, which apply to single-leg transactions. The Exchange notes that references to Complex Order quotes were not relocated with the rule text as the Exchange proposes to eliminate Complex Order quoting.

The Exchange proposes to amend proposed new Rule 724(b)(2)(A) to amend the term “Market Order” to the defined term within Rule 722(b)(1) “Market Complex Order”²⁸ as this rule applies to Complex Orders. Additionally, as noted in the beginning of this proposal, references to Complex Order quotes are being removed. The Exchange proposes not to relocate the sentence within Supplementary .07(c)(1) of ISE Rule 722 which states, “This limit order price protection applies only to orders and does not apply to quotes.” There is no need to state that the limit order price protection applies only to orders since that is the only possibility with the removal of Complex Order quoting.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,²⁹ in general, and furthers the objectives of Section 6(b)(5) of the Act,³⁰ 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 for the reasons described below.

Complex Order Legging functionality for Stock-Option Orders

The Exchange’s proposal to not offer legging functionality for Stock-Option Orders is consistent with the Act because Members can continue to submit these orders to the Exchange where they can be executed against other Stock-Option Orders on the Complex Order book. No Members have notified the Exchange of any impact on execution quality as a result of the

²⁸ A Market Complex Order is a Complex Order to buy or sell a complex strategy that is to be executed at the best price obtainable. If not executable upon entry, such orders will rest on the Complex Order Book unless designated as fill-or-kill or immediate-or-cancel. See ISE Rule 722(b)(1).

²⁹ 15 U.S.C. 78f(b).

³⁰ 15 U.S.C. 78f(b)(5).

delayed implementation of legging functionality for Stock-Option Orders since the INET replatform, and therefore the Exchange does not believe that no longer offering this functionality will have a significant impact on market participants.

The Exchange is not implementing this functionality because the Exchange believes that obtaining the stock portion of the order is difficult given liquidity concerns. The Exchange believes its concerns surrounding historically low fill rates for this type of business model warrant the Exchange not offering this functionality, which is currently not available on other markets that offer complex functionality.³¹ On ISE, when this functionality was offered prior to the ISE replatform to INET, the option order would be cancelled if the stock could not be obtained from a third party within a certain timeframe. The Exchange believes this decision to not offer this functionality promotes 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 because the Exchange has concerns with liquidity and historically low fill rates in offering legging functionality for Stock-Option Orders.

Complex Order Quoting

The Exchange's proposal to not offer Complex Order quoting on ISE is consistent with the Act because even though the Complex Order quoting functionality will not be available, Market Makers will still be able to submit Complex Orders. The Exchange has not experienced any impact with respect to execution quality in the time since the INET replatform. The Exchange notes that Phlx does not offer Complex Order quoting functionality.³²

The Exchange does not believe that there is sufficient demand for this offering at this time from Market Makers. Members may utilize orders in lieu of quotes to execute Complex

³¹ Phlx does not offer legging functionality for stock-option orders.

³² See Phlx Rule 1098.

Orders and therefore not offering Complex Order quoting functionality does not create an impediment to a free and open market and a national market system.

Nasdaq ISE Spread Feed

The Exchange's proposal to add more specificity to the Nasdaq ISE Spread Feed in Rule 718(a)(5) will bring greater transparency to the data feed. The Exchange proposes to amend ISE Rule 718, titled "Data Feeds and Trade Information" to reflect its current practice. The technical amendments will add context to the rule. Adding references to the additional information, price, side, size and capacity for every Complex Order as well as auction notifications, contained in ISE Spread Feed is consistent with the Act because it will provide market participants with clear information as to the type of data available in the Spread Feed. By providing the details of the content of the Spread Feed, market participants will be better informed as to the type of information they may choose to access to obtain information about the Order Book and this will in turn promote just and equitable principles of trade.

Separating out the various types of information available and replacing the word "Public Customer" with the more precise new defined term "Professional Customer" will bring greater transparency to the rule. The Exchange's proposal to introduce the term "Professional Customer" and define that term to make clear that the current feed contains segregated local Professional Customer and segregated local Priority Customer quote sizes separately available is consistent with the Act. The Spread Feed is not being amended, rather the rule text is being amended to make clear what information is being disseminated over the feed. The information being received does contain separate data for Professional Customers and Priority Customers. By amending the rule text and making clear what specific data is contained in the Spread Feed the Exchange believes that it would promote just and equitable principles of trade, to [sic]

remove impediments to and perfect the mechanism of a free and open market because market participant would have a better understanding of the data contained in the Spread Feed. It is consistent with the Act to provide clear information about the types of aggregated quotes available on the Spread Feed so that market participants are able to avail themselves of that information if they choose to receive the data feed, better understand the information that they are currently receiving on the data feed and also understand the information that is available to other market participants. The Exchange believes that adding this detail will add transparency to the data feed and promote just and equitable principles of trade.

Mini Options

The Exchange's proposal to remove language related to trading Mini Options in Supplementary Material .06 and .08(i) to ISE Rule 722 is consistent with the Act because it will avoid confusion since the Exchange no longer lists Mini Options for trading. The demand for this product has diminished and the Exchange will separately remove listing rules related to this product. The Exchange notes it has not listed Mini Option in some time. Removing this rule text will bring greater transparency to the Exchange's Rulebook.

Reorganization of the Rulebook and Other Technical Amendments

The Exchange's proposal to relocate various provisions is consistent with the Act because the reorganization is intended to bring greater transparency and ease of reference to the ISE Rulebook. Also, making technical non-substantive amendments to capitalize terms and amend cross-references will also bring greater clarity and transparency to the ISE Rulebook.

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.

Complex Order Legging functionality for Stock-Option Orders

The Exchange does not believe that its proposal to not offer legging for Stock-Option Orders will impose an undue burden on intra-market competition because legging for Stock-Option Orders will not be available uniformly to any Member on ISE. Similarly, the Exchange does not believe that the proposal to not offer legging for Stock-Option Orders 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.

Complex Order Quoting

The Exchange does not believe that its proposal to not offer Complex Order quoting will impose an undue burden on intra-market competition because all Members uniformly will not be able to submit Market Maker quotes in the complex order book. All Members will be able to continue to submit Complex Orders on ISE. Similarly, the Exchange does not believe that the proposal will impose any significant burden on inter-market competition as it does not impact the ability of other markets to offer such quoting functionality.

Nasdaq ISE Spread Feed

The Exchange's proposal to add more specificity to the Nasdaq ISE Spread Feed in Rule 718(a)(5) will bring greater transparency to the data feed. The Exchange's proposal does not impose an undue burden on inter-market competition because today other options exchanges that offer complex orders offer similar data. The Exchange's proposal would not impose a burden on intra-market competition because adding references to the additional information, price, side, size and capacity for every Complex Order as well as auction notifications will provide all

Members with clear information as to the type of data available in the Spread Feed. By providing the details of the content of the Spread Feed, Members will be better informed as to the type of information they may choose to access to obtain information about the Order Book.

The Exchange's proposal to separate the various types of information available and replace the word "Public Customer" with the more precise new defined term "Professional Customer" will bring greater transparency to the rule. The Exchange's proposal to introduce the term "Professional Customer" and define that term to make clear that the current feed contains segregated local Professional Customer and segregated local Priority Customer quote sizes separately available will make clear what specific data is contained in the Spread Feed. Members would have a better understanding of the data that is available in the Spread Feed. The revised rule text will provide information about the types of aggregated quotes available on the Spread Feed so that Members may better understand the information that they may currently obtain on the feed.

Mini Options

The Exchange's proposal to remove language related to trading Mini Options in Supplementary Material .06 and .08(i) to ISE Rule 722 will not impose an undue burden on inter-market competition as the Exchange no longer lists these types of options for trading and has no plans for listing them in the future. Other markets may continue to list mini options pursuant to their own trading rules. The Exchange's proposal does not impose an undue burden on intra-market competition because no ISE Member will be able to transact mini options.

Reorganization of the Rulebook and Other Technical Amendments

The Exchange's proposal to relocate various rules with similar topics and create new rules with the text will not impose an undue burden on intra-market or inter-market competition

because the reorganization is intended to bring greater transparency and ease of reference to the ISE Rulebook. Also, making technical non-substantive amendments to capitalize terms and amend cross-references will also bring greater clarity and transparency to the ISE Rulebook.

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 Act³³ and subparagraph (f)(6) of Rule 19b-4 thereunder.³⁴

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.

³³ 15 U.S.C. 78s(b)(3)(A)(iii).

³⁴ 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.

IV. Solicitation of Comments

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

Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-ISE-2019-05 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-2019-05. 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 such 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-2019-05, 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.³⁵

Eduardo A. Aleman
Deputy Secretary

³⁵ 17 CFR 200.30-3(a)(12).