

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-89162; File No. SR-GEMX-2020-16)

June 26, 2020

Self-Regulatory Organizations; Nasdaq GEMX, LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend Options 3, Section 3 to Conform the Rule to Section 3.1 of the Plan for the Purpose of Developing and Implementing Procedures Designed to Facilitate the Listing and Trading of Standardized Options

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on June 23, 2020, Nasdaq GEMX, LLC (the “Exchange”) filed with the Securities and Exchange Commission (the “Commission”) the proposed rule change as described in Items I and II below, which Items have been prepared by the Exchange. The Exchange filed the proposal as a “non-controversial” proposed rule change pursuant to Section 19(b)(3)(A)(iii) of the Act<sup>3</sup> and Rule 19b-4(f)(6) thereunder.<sup>4</sup> 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 Options 3, Section 3 to conform the rule to Section 3.1 of the Plan for the Purpose of Developing and Implementing Procedures Designed to Facilitate the Listing and Trading of Standardized Options (the “OLPP”).

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

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

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

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

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

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

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at 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 this rule change is to amend Options 3, Section 3 (Minimum Trading Increments) to align the rule with the recently approved amendment to the OLPP.

Background

On January 23, 2007, the Commission approved on a limited basis a Penny Pilot in option classes in certain issues ("Penny Pilot"). The Penny Pilot was designed to determine whether investors would benefit from options being quoted in penny increments, and in which classes the benefits were most significant. The Penny Pilot was initiated at the then existing option exchanges in January 2007<sup>5</sup> and was expanded and extended numerous times over the last

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<sup>5</sup> See Securities Exchange Act Release Nos. 55154 (January 23, 2007), 72 FR 4743 (February 1, 2007) (SR-CBOE-2006-92); 55161 (January 24, 2007), 72 FR 4754 (February 1, 2007) (SR-ISE-2006-62); 54886 (December 6, 2006), 71 FR 74979 (December 13, 2006) (SR-Phlx-2006-74); 54590 (October 12, 2006), 71 FR 61525 (October 18, 2006) (SR-NYSEArca-2006-73); and 54741 (November 9, 2006), 71 FR

13 years.<sup>6</sup> In each instance, these approvals relied upon the consideration of data periodically provided by the Exchanges that analyzed how quoting options in penny increments affects spreads, liquidity, quote traffic, and volume. Today, the Penny Pilot includes 363 option classes, which are among the most actively traded, multiply listed option classes. The Penny Pilot is scheduled to expire by its own terms on June 30, 2020.<sup>7</sup>

In light of the imminent expiration of the Penny Pilot on June 30, 2020, the Exchange, together with other participating exchanges, filed, on July 18, 2019 a proposal to amend the OLPP.<sup>8</sup> On April 1, 2020 the Commission approved the amendment to the OLPP to make permanent the Pilot Program (the “OLPP Program”).<sup>9</sup>

The OLPP Program replaces the Penny Pilot by instituting a permanent program that would permit quoting in penny increments for certain option classes. Under the terms of the OLPP Program, designated option classes would continue to be quoted in \$0.01 and \$0.05 increments according to the same parameters for the Penny Pilot. In addition, the OLPP Program would: (i) establish an annual review process to add option classes to, or to remove option

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67176 (November 20, 2006) (SR-Amex-2006-106).

<sup>6</sup> The Penny Pilot was established on the Exchange in July 2013 as part of the Exchange’s Form 1 application for registration as a national securities exchange, and was last extended in December 2019. See Securities Exchange Act Release Nos. 70050 (July 26, 2013), 78 FR 46622 (August 1, 2013) (File No. 10-209); and 87753 (December 16, 2019), 84 FR 70243 (December 20, 2019) (SR-GEMX-2019-19).

<sup>7</sup> See Securities Exchange Act Release No. 87753 (December 16, 2019), 84 FR 70243 (December 20, 2019) (SR-GEMX-2019-19).

<sup>8</sup> See Securities Exchange Act Release No. 87681 (December 9, 2019), 84 FR 68960 (December 17, 2019) (“Notice”).

<sup>9</sup> See Securities Exchange Act Release No. 88532 (April 1, 2020), 85 FR 19545 (April 7, 2020) (File No. 4-443) (“Approval Order”).

classes from, the OLPP Program; (ii) to allow an option class to be added to the OLPP Program if it is a newly listed option class and it meets certain criteria; (iii) to allow an option class to be added to the OLPP Program if it is an option class that has seen a significant growth in activity; (iv) to provide that if a corporate action involves one or more option classes in the OLPP Program, all adjusted and unadjusted series and classes emerging as a result of the corporate action will be included in the OLPP Program; and (v) to provide that any series in an option class participating in the OLPP Program that have been delisted, or are identified by OCC as ineligible for opening Customer transactions, will continue to trade pursuant to the OLPP Program until they expire.

To conform its Rules to the OLPP Program, the Exchange proposes to delete the current rule text in Supplementary Material.01 to Options 3, Section 3 (the “Penny Pilot Rule”), and replace it with the requirements for the proposed Penny Interval Program from the OLPP Program, which is described below, and to replace references to the “Penny Pilot” in several Exchange rules with “Penny Interval Program.”

The Exchange also proposes to amend Options 3, Section 3 to adopt new subparagraphs (a)(3)(A) – (C) to conform the Exchange’s rules regarding the minimum price variations for options in the proposed Penny Interval Program with similar rules of other options exchanges.<sup>10</sup> Specifically, the Exchange proposes to provide in new subparagraphs (a)(3)(A) – (C) that for options series traded pursuant to the proposed Penny Interval Program as described in Supplementary Material .01 to Options 3, Section 3, the following minimum quoting increments will apply: (A) one cent (\$0.01) for all options contracts in QQQ, SPY, and IWM; (B) one cent

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<sup>10</sup> See e.g., NYSE Arca Rule 6.72-O; and Nasdaq Options Market Supplementary Material .01 to Options 3, Section 3.

(\$0.01) for all other options contracts included in the Penny Interval Program that are trading at less than \$3.00; and (C) five cents (\$0.05) for all other options contracts included in the Penny Interval Program that are trading at or above \$3.00. The Exchange notes that the Commission previously approved minimum quoting increments of one cent (\$0.01) for all options contracts in QQQ, IWM, and SPY, regardless of price, over the course of the expansion of the Penny Pilot rules.<sup>11</sup> Accordingly, the Exchange proposes to align its rules regarding minimum price variations for options contracts in the Penny Interval Program with other options exchanges.

The Exchange also proposes to delete obsolete and superfluous language in Options 3, Section 3(a) regarding amendments to the minimum increments that may be established by the Board and designated as a stated policy, practice or interpretation within the meaning of the Act, and the process for such amendments by rule filing.<sup>12</sup> Today, the Exchange may determine to establish a change to the minimum increments within its Rules and must submit proposed rule changes for such amendments to the Commission.<sup>13</sup> Accordingly, Options 3, Section 3(a), as

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<sup>11</sup> See Securities Exchange Act Release Nos. 55156 (January 23, 2007), 72 FR 4759 (February 1, 2007) (SR-NYSEArca-2006-73) (Order Granting Approval to Proposed rule Change as Modified by Amendment No. 1 Thereto, To Create an Options Penny Pilot Program); 61061 (November 24, 2009), 74 FR 62857 (December 1, 2009) (SRNYSEArca-2009-44) (Order Granting Partial Approval of a Proposed Rule Change, as Modified by Amendment No. 4 Thereto, Expanding the Penny Pilot Program).

<sup>12</sup> See Options 3, Section 3(a), which specifically provides: “The Board may establish minimum trading increments for options traded on the Exchange. Such changes by the Board will be designated as a stated policy, practice, or interpretation with respect to the administration of this Rule within the meaning of paragraph (3)(A) of Section 19(b) of the Exchange Act and will be filed with the SEC as a rule change for effectiveness upon filing.”

<sup>13</sup> Decisions to change the minimum increments relate to Exchange trading and operations, and thus are made by Exchange management via delegated authority from the Board, rather than the Board itself, which is generally not involved in determinations related to day-to-day operations of the Exchange.

amended, will simply provide that the following minimum quoting increments (as enumerated within Options 3, Section 3(a)) shall apply to options contracts traded on the Exchange.

#### Penny Interval Program

The Exchange proposes to codify the OLPP Program in Supplementary Material .01 to Options 3, Section (Requirements for Penny Interval Program) (the “Penny Program”), which will replace the Penny Pilot Rule and permanently permit the Exchange to quote certain option classes in minimum increments of one cent (\$0.01) and five cents (\$0.05) (“penny increments”), as set forth in proposed subparagraphs (a)(3)(A) – (C) of Options 3, Section 3. The penny increments that currently apply under the Penny Pilot<sup>14</sup> will continue to apply for options classes included in the Penny Program.<sup>15</sup>

The Penny Program would initially apply to the 363 most actively traded multiply listed option classes, based on National Cleared Volume at The Options Clearing Corporation (“OCC”) in the six full calendar months ending in the month of approval (i.e., November 2019 - April 2020) that currently quote in penny increments, or overlie securities priced below \$200, or any index at an index level below \$200. Eligibility for inclusion in the Penny Program will be determined at the close of trading on the monthly Expiration Friday of the second full month following April 1, 2020 (i.e., June 19, 2020).

Once in the Penny Program, an option class will remain included until it is no longer among the 425 most actively traded option classes at the time the annual review is conducted (described below), at which point it will be removed from the Penny Program. As described in more detail below, the removed class will be replaced by the next most actively traded multiply

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<sup>14</sup> See supra notes 10 and 11, with accompanying text.

<sup>15</sup> See proposed subparagraphs (a)(3)(A) – (C) of Options 3, Section 3.

listed option class overlying securities priced below \$200 per share, or any index at an index level below \$200, and not yet in the Penny Program. Advanced notice regarding the option classes included, added, or removed from the Penny Program will be provided to the Exchange's membership via Options Trader Alert and published by the Exchange on its website.

### Annual Review

The Penny Program would include an annual review process that applies objective criteria to determine option classes to be added to, or removed from, the Penny Program. Specifically, on an annual basis beginning in December 2020 and occurring every December thereafter, the Exchange will review and rank all multiply listed option classes based on National Cleared Volume at OCC for the six full calendar months from June 1<sup>st</sup> through November 30<sup>th</sup> for determination of the most actively traded option classes. Any option classes not yet in the Penny Program may be added to the Penny Program if the class is among the 300 most actively traded multiply listed option classes and priced below \$200 per share or any index at an index level below \$200.

Following the annual review, option classes to be added to the Penny Program would begin quoting in penny increments (i.e., \$0.01 if trading at less than \$3; and \$0.05 if trading at \$3 and above) on the first trading day of January. In addition, following the annual review, any option class in the Penny Program that falls outside of the 425 most actively traded option classes would be removed from the Penny Program. After the annual review, option classes that are removed from the Penny Program will be subject to the minimum trading increments set forth in Options 3, Section 3, effective on the first trading day of April.

### Changes to the Composition of the Penny Program Outside of the Annual Review

*Newly Listed Option Classes and Option Classes with Significant Growth in Activity*

The Penny Program would specify a process and parameters for including option classes in the Penny Program outside the annual review process in two circumstances. These provisions are designed to provide objective criteria to add to the Penny Program new option classes in issues with the most demonstrated trading interest from market participants and investors on an expedited basis prior to the annual review, with the benefit that market participants and investors will then be able to trade these new option classes based upon quotes expressed in finer trading increments.

First, the Penny Program provides for certain newly listed option classes to be added to the Penny Program outside of the annual review process, provided that (i) the class is among the 300 most actively traded, multiply listed option classes, as ranked by National Cleared Volume at OCC, in its first full calendar month of trading; and (ii) the underlying security is priced below \$200 or the underlying index is at an index level below \$200. Such newly listed option classes added to the Penny Program pursuant to this process would remain in the Penny Program for one full calendar year and then would be subject to the annual review process.

Second, the Penny Program would allow an option class to be added to the Penny Program outside of the annual review process if it is an option class that meets certain specific criteria. Specifically, new option classes may be added to the Penny Program if: (i) the option class is among the 75 most actively traded multiply listed option classes, as ranked by National Cleared Volume at OCC, in the prior six full calendar months of trading and (ii) the underlying security is priced below \$200 or the underlying index is at an index level below \$200. Any option class added under this provision will be added on the first trading day of the second full month after it qualifies and will remain in the Penny Program for the rest of the calendar year, after which it will be subject to the annual review process.

### *Corporate Actions*

The Penny Program would also specify a process to address option classes in the Penny Program that undergo a corporate action and is designed to ensure continuous liquidity in the affected option classes. Specifically, if a corporate action involves one or more option classes in the Penny Program, all adjusted and unadjusted series of an option class would continue to be included in the Penny Program.<sup>16</sup> Furthermore, neither the trading volume threshold, nor the initial price test would apply to option classes added to the Penny Program as a result of the corporate action. Finally, the newly added adjusted and unadjusted series of the option class would remain in the Penny Program for one full calendar year and then would become subject to the annual review process.

### *Delisted or Ineligible Option Classes*

Finally, the Penny Program would provide a mechanism to address option classes that have been delisted or those that are no longer eligible for listing. Specifically, any series in an option class participating in the Penny Program in which the underlying has been delisted, or is identified by OCC as ineligible for opening customer transactions, would continue to quote pursuant to the terms of the Penny Program until all options series have expired.

### Technical Changes

The Exchange proposes to replace references to the Penny Pilot with references to the Penny Interval Program in Options 3, Section 8(a)(7) and in Options 3, Section 15(a)(2)(A)(iv).

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<sup>16</sup> For example, if Company A acquires Company B and Company A is not in the Penny Program but Company B is in the Penny Program, once the merger is consummated and an options contract adjustment is effective, then Company A would be added to the Penny Program and remain in the Penny Program for one calendar year.

The Exchange believes these technical changes would add clarity, transparency, and internal consistency to the Exchange's rules, making them easier for market participants to navigate.

### Implementation

The Exchange proposes to implement the Penny Program on July 1, 2020, which is the first trading day of the third month following the Approval Order issued on April 1, 2020 – i.e., July 1, 2020.

### 2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,<sup>17</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act,<sup>18</sup> in particular, in that it is designed to prevent fraudulent and manipulative acts and practices, 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.

In particular, the proposed rule change, which conforms the Exchange rules to the recently adopted OLPP Program, allows the Exchange to provide market participants with a permanent Penny Program for quoting options in penny increments, which maximizes the benefit of quoting in a finer quoting increment to investors while minimizing the burden that a finer quoting increment places on quote traffic.

Accordingly, the Exchange believes that the proposal is consistent with the Act because, in conforming the Exchange rules to the OLPP Program, the Penny Program would employ processes, based upon objective criteria, that would rebalance the composition of the Penny

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<sup>17</sup> 15 U.S.C. 78f(b).

<sup>18</sup> 15 U.S.C. 78f(b)(5).

Program, thereby helping to ensure that the most actively traded option classes are included in the Penny Program, which helps facilitate the maintenance of a fair and orderly market.

The Exchange notes that the proposed changes to Options 3, Section 8(a)(7) and Options 3, Section 15(a)(2)(A)(iv) to replace references to the Penny Pilot with references to the Penny Interval Program would provide clarity and transparency to the Exchange's rules, would promote just and equitable principles of trade, and remove impediments to, and perfect the mechanism of, a free and open market and a national market system. The proposed rule changes would also provide internal consistency within Exchange rules and operate to protect investors and the investing public by making the Exchange's rules easier to navigate and comprehend.

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 proposed Penny Program, which modifies the Exchange's rules to align them with the Commission approved OLPP Program, is not designed to be a competitive filing nor does it impose an undue burden on intermarket competition as the Exchange anticipates that the options exchanges will adopt substantially identical rules. Moreover, the Exchange believes that by conforming Exchange rules to the OLPP Program, the Exchange would promote regulatory clarity and consistency, thereby reducing burdens on the marketplace and facilitating investor protection. To the extent that there is a competitive burden on those option classes that do not qualify for the Penny Program, the Exchange believes that it is appropriate because the proposal should benefit all market participants and investors by maximizing the benefit of a finer quoting increment in those option classes with the most trading interest while minimizing the burden of greater quote traffic in option classes with less trading interest. The Exchange believes that adopting rules, which it anticipates will likewise be adopted by all option exchanges that are participants in the

OLPP, would allow for continued competition between Exchange market participants trading similar products as their counterparts on other exchanges, while at the same time allowing the Exchange to continue to compete for order flow with other exchanges.

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 after the date of the filing, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>19</sup> and Rule 19b-4(f)(6)<sup>20</sup> thereunder. The Exchange has proposed to implement the Penny Program on July 1, 2020 and has asked the Commission to waive the 30-day operative delay for this filing.

The Commission believes that waiving the 30-day operative delay is consistent with the protection of investors and the public interest because it will allow the Exchange to modify its rules to conform to the OLPP Program and implement the Penny Program on July 1, 2020, consistent with the Commission's approval of the OLPP Amendment. Accordingly, the Commission designates the proposed rule change as operative on July 1, 2020.<sup>21</sup>

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<sup>19</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>20</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>21</sup> For purposes only of waiving the operative delay for this proposal, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation.

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

#### IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act.

Comments may be submitted by any of the following methods:

##### Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>);
- or
- Send an e-mail [to rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-GEMX-2020-16 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-GEMX-2020-16. This file number should be included on the subject line if e-mail is used. To help the Commission process and

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See 15 U.S.C. 78c(f).

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-GEMX-2020-16 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>22</sup>

J. Matthew DeLesDernier  
Assistant Secretary

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<sup>22</sup> 17 CFR 200.30-3(a)(12).