SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-83729; File No. SR-ISE-2018-65)

July 27, 2018

Self-Regulatory Organizations; Nasdaq ISE, LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Codify the Definitions of the Protocols That Members Can Use to Enter Quotes and Orders

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),[1] and Rule 19b-4 thereunder,[2] notice is hereby given that on July 16, 2018, Nasdaq ISE, LLC ("ISE" or "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 codify the definitions of the protocols that Members can use to enter quotes and orders on the Exchange.

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.

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

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[1]   15 U.S.C. 78s(b)(1).

[2]   17 CFR 240.19b-4.

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

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

        1.   <u>Purpose</u>

The purpose of the proposed rule change is to codify the definitions of the protocols that Members use to enter quotes and orders on the Exchange, specifically, the Specialized Quote Feed ("SQF"), Ouch to Trade Options ("OTTO"), Financial Information eXchange ("FIX"), and Nasdaq Precise ("Precise"). On June 23, 2017, the Exchange filed a proposed rule change that established the ports that Members use to connect to the Exchange, including ports used for quote and order entry – i.e., SQF, OTTO and FIX.[3] The Exchange has also filed several proposed fee and other rule changes that briefly describe the availability of Precise, which is the Exchange's proprietary front-end interface used by Electronic Access Members ("EAMs") and their Sponsored Customers[4] to send orders to the Exchange and perform other related functions.[5] The protocols used by Members to submit quotes and orders play an important role in the

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[3]   <u>See</u> Securities Exchange Act Release No. 81095 (July 7, 2017), 82 FR 32409 (July 13, 2017) (SR-ISE-2017-62).

[4]   A "Sponsored Customer" is a non-member of the Exchange that trades under a sponsoring member's execution and clearing identity pursuant to a sponsorship arrangement between such non-member and sponsoring member, as set forth in Supplementary Material to Rule 706. Market makers must connect to the Exchange via SQF, which is the Exchange's quoting protocol, and are therefore not eligible to use Precise.

[5]   <u>See</u> Securities Exchange Act Release No. 53788 (May 11, 2006), 71 FR 28728 (May 17, 2006) (SR-ISE-2006-19) (proposed fee change establishing Precise). SR-ISE-2006-19 described Precise as ISE's proprietary front-end interface used by EAMs to send orders to ISE and view market data. <u>See</u> <u>also</u> Securities Exchange Act Release No. 81034 (June 27, 2017), 82 FR 30923 (July 3, 2017) (SR-ISE-2017-58) (proposed rule change regarding how Immediate-or-Cancel Orders will be handled); and Securities Exchange Act Release No. 81971 (October 27, 2017), 82 FR 50907 (November 2, 2017) (SR-ISE-2017-94) (proposed rule change related to the Kill Switch risk protection).

operation of the trading system as critical Exchange functionality used by Members to transact in options and stock tied to options is offered through these protocols. The Exchange therefore believes that codifying definitions of these protocols in its rules will increase transparency around its operations.

As it relates to FIX, OTTO, and SQF, the proposed language is substantially similar to the language included in SR-ISE-2017-62 with changes to more clearly and accurately reflect the certain information included on each protocol, such as by separating out different categories of messages (e.g., auction orders, auction notifications, and auction responses). Furthermore, the proposed definitions will be harmonized where appropriate with definitions to be included in the rules of the Exchange's affiliated options markets, including by using consistent terms to define the buckets of information transmitted, or the features available, on each protocol.[6] Although the Exchange is changing how it categorizes various features included on FIX, OTTO, and SQF as part of its harmonization effort, the list of features included in the proposed definitions are intended to be exhaustive with respect to the buckets of information provided on each protocol. The Exchange also seeks to memorialize Precise to reflect the specific categories of features that are available on the Precise front-end today (e.g., order and execution management, market data, and risk management). Overall, the Exchange believes that the proposed changes will allow Members to more easily understand what information is available on which protocol.

As proposed, Supplementary Material .03 to Rule 715 (i.e., Types of Orders) will provide that the Exchange offers Members the following protocols for entering orders and quotes respectively:

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[6]   The Exchange's affiliates – i.e., Nasdaq GEMX, LLC ("GEMX"), Nasdaq MRX, LLC ("MRX"), Nasdaq PHLX LLC ("Phlx"), Nasdaq Options Market ("NOM"), and Nasdaq BX, LLC ("BX") – intend to file similar rule changes as part of this exercise.

A. Financial Information eXchange Ports

When the Exchange initially filed to adopt order and quote entry protocols, it described the FIX protocol as follows: "FIX is an interface that allows market participants to connect and send orders and auction orders into the Exchange. Data includes the following: (1) Options Symbol Directory Messages; (2) System Event Messages (e.g., start of messages, start of system hours, start of quoting, start of opening); (3) Option Trading Action Messages (e.g., halts, resumes); (4) Execution Messages; (5) Order Messages (order messages, risk protection triggers or purge notifications)."

The Exchange now proposes to codify the following definition of FIX in its rulebook: "Financial Information eXchange" or "FIX" is an interface that allows Members and their Sponsored Customers to connect, send, and receive messages related to orders and auction orders to the Exchange. Features include the following: (1) execution messages; (2) order messages; (3) risk protection triggers and cancel notifications; and (4) post trade allocation messages.

B. Ouch to Trade Options Ports

When the Exchange initially filed to adopt order and quote entry protocols, it described the OTTO protocol as follows: "OTTO is an interface that allows market participants to connect and send orders, auction orders and auction responses into the Exchange. Data includes the following: (1) Options Auction Notifications (e.g., Flash, PIM, Solicitation and Facilitation or other information); (2) Options Symbol Directory Messages; (3) System Event Messages (e.g., start of messages, start of system hours, start of quoting, start of opening); (5) Option Trading Action Messages (e.g., halts, resumes); (6) Execution Messages; (7) Order Messages (order messages, risk protection triggers or purge notifications)."

The Exchange now proposes to codify the following definition of OTTO in its rulebook: "Ouch to Trade Options" or "OTTO" is an interface that allows Members and their Sponsored Customers to connect, send, and receive messages related to orders, auction orders, and auction responses to the Exchange. Features include the following: (1) options symbol directory messages (e.g., underlying and complex instruments); (2) system event messages (e.g., start of trading hours messages and start of opening); (3) trading action messages (e.g., halts and resumes); (4) execution messages; (5) order messages; (6) risk protection triggers and cancel notifications; (7) auction notifications; (8) auction responses; and (9) post trade allocation messages.

C. Specialized Quote Feed Ports

When the Exchange initially filed to adopt order and quote entry protocols, it described the SQF protocol as follows: "SQF is an interface that allows market makers to connect and send quotes, sweeps and auction responses into the Exchange. Data includes the following: (1) Options Auction Notifications (e.g., opening imbalance, Flash, PIM, Solicitation and Facilitation or other information); (2) Options Symbol Directory Messages; (3) System Event Messages (e.g., start of messages, start of system hours, start of quoting, start of opening); (4) Option Trading Action Messages (e.g., halts, resumes); (5) Execution Messages; (6) Quote Messages (quote/sweep messages, risk protection triggers or purge notifications)."

The Exchange now proposes to codify the following definition of SQF in its rulebook: "Specialized Quote Feed" or "SQF" is an interface that allows market makers to connect, send, and receive messages related to quotes, Immediate-or-Cancel Orders, and auction responses to the Exchange. Features include the following: (1) options symbol directory messages (e.g., underlying and complex instruments); (2) system event messages (e.g., start of trading hours

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messages and start of opening); (3) trading action messages (e.g., halts and resumes); (4)

execution messages; (5) quote messages; (6) Immediate-or-Cancel Order messages; (7) risk

protection triggers and purge notifications; (8) opening imbalance messages; (9) auction

notifications; and (10) auction responses. The SQF Purge Interface only receives and notifies of

purge requests from the market maker.[7]

D. Nasdaq Precise

"Nasdaq Precise" or "Precise" is a front-end interface that allows Electronic Access

Members and their Sponsored Customers to send orders to the Exchange and perform other

related functions. Features include the following: (1) order and execution management: enter,

modify, and cancel orders on the Exchange, and manage executions (e.g., parent/child orders,

inactive orders, and post-trade allocations); (2) market data: access to real-time market data (e.g.,

NBBO and Exchange BBO); (3) risk management: set customizable risk parameters (e.g., kill

switch); and (4) book keeping and reporting: comprehensive audit trail of orders and trades (e.g.,

order history and done away trade reports).

Precise is a software application that is offered by the Exchange to EAMs and their

Sponsored Customers. Use of Precise is completely voluntary. The Exchange makes Precise

available to EAMs and their Sponsored Customers as a convenience for entering and managing

orders, but the protocol is not an exclusive means for any user to send orders to ISE. Precise is

merely a front-end interface to the Exchange's existing trading system, and is designed as an

alternative to the Exchange's other protocols (i.e., FIX, OTTO, and SQF) for the sending of

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[7]   All of the notification messages available on SQF ports as described above (i.e., options
      symbol directory messages, system event messages, trading action messages, etc.) are
      configurable in that market makers can select the specific types of notifications they wish
      to receive on their SQF ports. As such, SQF Purge Interface ports are a subpart of SQF
      ports that have been configured to only receive and notify of purge requests.

orders to ISE. Precise is also an alternative to similar front-end order and execution management systems currently offered by other technology providers as well as other exchanges.[8]

Precise provides users with access to ISE's regular and complex order books. The protocol offers order and execution features that allow users to send, modify, and cancel their orders, and manage executions. For example, the protocol offers users the capability to stage larger orders and divide them into smaller orders for execution (i.e., parent/child orders), or stage multiple orders to send for execution at a later time (i.e., inactive orders). Precise also offers post trade allocation, including the capability for users to directly adjust clearing information on the front-end protocol. Precise users can also access and display real-time market data such as the National Best Bid and Offer ("NBBO") and the Exchange Best Bid and Offer ("Exchange BBO").

Precise also provides risk management capabilities that allow users to set customizable risk parameters.[9] For example, Precise supports the kill switch risk protection feature, which is an optional tool that enables members to initiate a message(s) to the Exchange's trading system to promptly cancel orders and restrict entry of new orders until re-entry has been enabled.[10]

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[8]   For example, Cboe Exchange, Inc. currently offers a similar front-end order and execution management system called PULSe[SM] that allows users to send orders to Cboe Options Exchange, C2 Options, Cboe Futures Exchange, and other U.S. options and stock exchanges. See https://www.cboe.org/hybrid/pulsesalessheet.pdf.

[9]   The Exchange is characterizing the risk protections on Precise under a broader category of risk management compared to the risk protection categories on the other protocols because Precise also supports administrator capability for accessing and setting risk parameters for multiple users within a member firm.

[10]   See Rule 711(d). Precise is able to send a message to the Exchange to initiate the kill switch through Precise.

Lastly, Precise provides a comprehensive audit trail of orders and trades through its book keeping and reporting features, including order history reports and done away trade reports.[11]

        2.   Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Securities Exchange Act of 1934 (the "Act"),[12] in general, and furthers the objectives of Section 6(b)(5) of the Act,[13] in particular, in that it is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism for a free and open market and a national market system, and, in general, to protect investors and the public interest.

The Exchange believes that the proposed rule change is consistent with the protection of investors and the public interest as it codifies the protocols used to connect to the Exchange's trading system. As discussed above, the Exchange previously filed to establish FIX, OTTO, and SQF in SR-ISE-2017-62. These protocols will now be codified in the Exchange's rulebook. In addition, the Exchange has briefly described Precise in various proposed rule changes filed with the Commission. In the interest of transparency, the Exchange has included a more fulsome description of the functionalities offered via Precise in this proposed rule change, and is codifying language in its rules that would describe this protocol.

While no functional changes to the protocols are proposed in this filing, the Exchange believes that including a description of the protocols in its rulebook will benefit Members by increasing transparency around the operation of the Exchange. Furthermore, the proposed definitions being included in the rulebook will more clearly and accurately reflect the

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[11]   Done away trade reports allow Precise users to record orders and executions, including executions on a different venue than the Exchange.

[12]   15 U.S.C. 78f(b).

[13]   15 U.S.C. 78f(b)(5).

information included on the protocols, and will be harmonized with language to be included in the rules of its affiliated exchanges to the extent that the protocols operate in the same manner. The protocols described in this filing provide a range of important features to Members, including the ability to submit quotes and orders, and perform other functions necessary to manage trading on the Exchange. The Exchange believes codifying the quote and order entry protocols will increase transparency to the Members that use these protocols to connect to the Exchange.

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

In accordance with Section 6(b)(8) of the Act,[14] the Exchange does not believe that the proposed rule change will impose any burden on intermarket or intramarket competition that is not necessary or appropriate in furtherance of the purposes of the Act. As explained above, the Exchange is codifying the quote and order entry protocols that Members use to connect to the Exchange's trading system. The Exchange does not believe that codifying these protocols in the rulebook will have any competitive impact. FIX, OTTO, and SQF were established in SR-ISE-2017-62, and are already available to Members, who use these protocols to connect and manage their trading activity on the Exchange. Adding rule language that describes these Exchange offerings will increase transparency around the operation of the Exchange without having any impact on intermarket or intramarket competition. Furthermore, Precise is a voluntary piece of functionality that EAMs and their Sponsored Customers may use as a convenience for entering and managing orders and executions, as an alternative to the Exchange's other protocols (i.e., FIX, OTTO, and SQF). Precise is also an alternative to similar front-end order and execution management systems currently offered by other technology providers as well as other exchanges

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[14]   15 U.S.C. 78f(b)(8).

(e.g., PULSe). If market participants believe that other products available in the marketplace are more beneficial than Precise, they will simply use those products instead. For the foregoing reasons, the Exchange does not believe that its proposal to codify Precise will impose any burden on intermarket or intramarket competition that is not necessary or appropriate in furtherance of the purposes of the Act.

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

No written comments were either solicited or received.

III.   Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Because the foregoing proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A)(iii) of the Act[15] and subparagraph (f)(6) of Rule 19b-4 thereunder.[16]

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.

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[15]   15 U.S.C. 78s(b)(3)(A)(iii).

[16]   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-2018-65 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-2018-65. 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-2018-65 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.[17]

Robert W. Errett
Deputy Secretary

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[17]   17 CFR 200.30-3(a)(12).