SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-81204; File No. SR-MRX-2017-02)

July 25, 2017

Self-Regulatory Organizations; Nasdaq MRX, LLC; Order Approving Proposed Rule Change to Amend Various Rules in Connection with a System Migration to Nasdaq INET Technology

I.      Introduction

On May 17, 2017, the Nasdaq MRX, LLC ("MRX" or "Exchange") filed with the

Securities and Exchange Commission ("Commission"), pursuant to Section 19(b)(1) of the

Securities Exchange Act of 1934 ("Act"),[1] and Rule 19b-4 thereunder,[2] a proposed rule change

to amend various Exchange rules in connection with a system migration to Nasdaq, Inc.

("Nasdaq") supported technology.  The proposed rule change was published for comment in the

Federal Register on June 5, 2017.[3]  On July 14, 2017, the Commission designated a longer period

for Commission action on the proposed rule change, until September 3, 2017.[4]  The Commission

received no comment letters on the proposed rule change.  This order approves the proposed rule

change.

II.     Discussion and Commission Findings

After careful review, the Commission finds that the proposed rule change is consistent

with the requirements of the Act and the rules and regulations thereunder applicable to a national

securities exchange.[5]  In particular, the Commission finds that the proposed rule change is

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

[2]      17 CFR 240.19b-4.

[3]      See Securities Exchange Act Release No. 80815 (May 30, 2017), 82 FR 25827 ("Notice").

[4]      See Securities Exchange Act Release No. 81151 (July 14, 2017, 82 FR 33527 (July 20, 2017).

[5]      In approving this proposed rule change, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation.  See 15 U.S.C. 78c(f).

consistent with Section 6(b)(5) of the Act,[6] which requires, among other things, that the rules of a national securities exchange be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, 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. As noted above, the Commission received no comment letters regarding the proposed rule change.

The Exchange proposes to amend various Exchange rules to reflect the MRX system migration to a Nasdaq INET technology.[7] In connection this system migration, as discussed below, the Exchange intends to adopt certain trading functionality currently utilized on Nasdaq Exchanges.[8]

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[6]     15 U.S.C. 78f(b)(5).

[7]     INET is utilized across Nasdaq's markets, including The NASDAQ Options Market LLC ("NOM"), NASDAQ PHLX LLC ("Phlx"), and NASDAQ BX, Inc. (collectively, the "Nasdaq Exchanges"). See Notice, supra note 3, at 25827. The Commission also recently approved Nasdaq ISE, LLC's (formerly International Securities Exchange, LLC) ("ISE") and Nasdaq GEMX, LLC's (formerly ISE Gemini, LLC) migrations to INET. See Securities Exchange Act Release Nos. 80225 (March 13, 2017), 82 FR 14243 (March 17, 2017) (SR-ISE-2017-02); 80432 (April 11, 2017), 82 FR 18191 (April 17, 2017) (SR-ISE-2017-03); 80011 (February 10, 2017), 82 FR 10927 (February 16, 2017) (SR-ISEGemini-2016-17); 80014 (February 10, 2017), 82 FR 10952 (February 16, 2017) (SR-ISEGemini-2016-18).

[8]     See Notice, supra note 3, at 25827. The Exchange anticipates that it will begin implementation of the proposed rule changes in the third quarter of 2017. See id. According to the Exchange, the system migration will be on a symbol by symbol basis. The Exchange will issue an alert to members in the form of an Options Trader Alert to provide notification of the symbols that will migrate and the relevant dates. See id. The Exchange has also separately filed a companion proposed rule change to amend the Exchange's opening process in connection with the system migration to INET technology. See Securities Exchange Act Release No. 80937 (June 15, 2017), 82 FR 28113 (June 20, 2017) (SR-MRX-2017-01). The Exchange proposes to replace its current opening process at Rule 701 with Phlx's opening process. See Phlx Rule 1017.

A.    Trading Halts

1.    Cancellation of Quotes

The Exchange proposes to amend MRX Rule 702 (Trading Halts) to conform the treatment of orders and quotes on the Exchange to Phlx Rule 1047(f).  Specifically, the Exchange proposes to amend Rule 702(a)(2) to provide that during a halt the Exchange will maintain existing orders on the book but not existing quotes.  Pursuant to the revision, during the halt, the Exchange will accept orders and quotes and, for such orders and quotes, process cancels and modifications.  Currently, the Exchange maintains existing orders and quotes during a trading halt.  With respect to cancels and modifications during a trading halt, the Exchange represents that the current process on MRX will not change under the proposed rule change.[9]

The Exchange represents that its proposal to maintain existing orders on the book but not existing quotes during a halt would provide market participants with clarity as to the manner in which interests will be handled by the system.[10]  The Exchange believes that, during a trading halt, the market may move and create risk to market participants with respect to resting interests.[11]

The Commission believes that that cancelling existing quotes during a trading halt would provide market participants the opportunity to update potentially stale quotes.  Further, the Commission notes that the Exchange will process cancels and modifications for orders as well as quotes received during a halt.  Finally, the Commission further notes that the proposed treatment of quotes during a halt is consistent with existing Phlx Rule 1047(f).

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9     See Notice, supra note 3, at 25827.

10    See Notice, supra note 3, at 25834.

11    See id.

2. Limit Up-Limit Down

The Exchange proposes to replace existing MRX Rule 703A (Trading During Limit Up-Limit Down States in Underlying Securities) with proposed MRX Rule 702(d).[12] Specifically, proposed MRX Rule 702(d) will provide that during a Limit State and Straddle State in the underlying NMS stock[13] the Exchange will not open an affected option.[14] However, provided the Exchange has opened an affected option for trading, the Exchange will: (i) reject Market Orders[15] and notify members of the reason for such rejection;[16] (ii) continue to process Market Orders exposed at the NBBO, pursuant to Supplementary Material .02 to ISE Rule 1901, pending in the system, and cancel such Market Order if at the end of the exposure period the affected underlying is in a Limit or Straddle State;[17] and (iii) elect Stop Orders if the condition as provided in MRX Rule 715(d) is met, and, because such orders become Market Orders, cancel

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[12] The Exchange represents that proposed MRX Rule 702(d) is similar to Phlx Rule 1047(d). See Notice, supra note 3, at 25828.

[13] Proposed MRX Rule 702(d) states that capitalized terms used in Rule 702(d) will have the same meaning as provided for in the Plan to Address Extraordinary Market Volatility Pursuant to Rule 608 of Regulation NMS, as it may be amended from time to time.

[14] See proposed MRX Rule 702(d)(1). The Exchange states that its rules do not currently address the opening rotation in the event that the underlying NMS stock is open but has entered into a Limit or Straddle State. See Notice, supra note 3, at 25828.

[15] For the definition of the term "Market Orders," see MRX Rule 715(a).

[16] See proposed MRX Rule 702(d)(2).

[17] See proposed MRX Rule 702(d)(2). If the affected underlying is no longer in a Limit or Straddle State after the exposure period, the Market Order will be processed with normal handling. See id. The Exchange currently cancels Market Orders pending in the system upon initiation of a Limit or Straddle State. See Notice, supra note 3, at 25828.

them back and notify members of the reason for such rejection.[18] Moreover, when the security

underlying an option class is in a Limit State or Straddle State, the Exchange will suspend the

maximum quotation spread requirements for market maker quotes in MRX Rule 803(b)(4) and

the continuous quotation requirements in MRX Rule 804(e).[19] Additionally, the Exchange will

not consider the time periods associated with Limit States and Straddle States when evaluating

whether a market maker has complied with its continuous quotation requirements in MRX Rule

804(e).[20]

The Commission believes that the proposed Rule 702(d) would provide certainty to

market participants regarding the manner in which Limit or Straddle States would impact the

opening process as well as Market Orders and Stop Orders. The Commission believes that the

rejection of Market Orders (including elected Stop Orders) is reasonably designed to potentially

prevent executions of un-priced orders during times of significant volatility.[21] The Commission

also notes that processing rather than cancelling existing Market Orders is reasonable because

these Market Orders are only pending in the system if they are exposed at the NBBO pursuant to

Supplementary Material .02 to ISE Rule 1901 and would, in any case, be cancelled if at the end

of the exposure period the affected underlying is still in a Limit or Straddle State.[22] Further, the

Commission believes that it is reasonable to permit the election of Stop Orders that are pending

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[18]  See proposed MRX Rule 702(d)(3). MRX currently does not elect Stop Orders that are pending in the system during a Limit or Straddle State. Under the proposal, the Exchange will elect Stop Orders that are pending in the system during a Limit or Straddle State, if conditions for such election are met; however, because such orders become Market Orders, they will be cancelled back to the member with a reason for such rejection. See Notice, supra note 3, at 25828.

[19]  See proposed MRX Rule 702(d)(4).

[20]  See id.

[21]  See Notice, supra note 3, at 25834.

[22]  See Notice, supra note 3, at 25835.

in the system during a Limit or Straddle State, since, upon election, the orders would be

cancelled back to the members.[23]  Lastly, the Commission notes that proposed MRX Rule

702(d)(4) is substantively identical to existing MRX Rule 703A(c), which is being deleted.

### 3.    Auction Handling During a Trading Halt

The Exchange proposes to amend certain rules to account for the impact of a trading halt

on the Exchange's auction mechanisms.  First, the Exchange proposes to amend MRX Rule 723

(Price Improvement Mechanism for Crossing Transactions) regarding the manner in which a

trading halt will impact an order entered into the Price Improvement Mechanism ("PIM").

Today, if a trading halt is initiated after an order is entered into the PIM, the Exchange

terminates such auction and eligible interest is executed.[24]  The Exchange proposes to amend the

current process by terminating the auction and not executing eligible interest when a trading halt

occurs.[25]  Similarly, the Exchange also proposes to amend to MRX Rule 716 (Block Trades) to

state that, if a trading halt is initiated after an order is entered into the Block Order Mechanism,

Facilitation Mechanism, or Solicited Order Mechanism, the Exchange will automatically

terminate such auction without execution.[26]

The Exchange believes that its proposal to terminate the PIM auction, Block Order

Mechanism, Facilitation Mechanism, and Solicited Order Mechanism and not execute eligible

interest when a trading halt occurs will provide certainty to participants regarding how their

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[23]    See id.

[24]    See Notice, supra note 3, at 25829.

[25]    See proposed MRX Rule 723(d)(5).

[26]    See proposed subsections (c)(3), (d)(3)(iv), and (e)(2)(iv) of MRX Rule 716.  The
Exchange represents that this proposed amendment represents the current process on
MRX and is generally consistent with Phlx Rule 1047(c).  See Notice, supra note 3, at
25829.

interest will be handled.[27]  The Exchange believes that, during a trading halt, the market may

move and create risk to market participants with respect to resting interest.[28]  The Commission

believes that the proposed rule is consistent with the Act and provides transparency and clarity

regarding the handling of these orders during a trading halt.

B.      Market Order Spread Protection

The Exchange proposes to amend MRX Rule 711 (Acceptance of Quotes and Orders) by

adopting a new mandatory risk protection entitled Market Order Spread Protection which will

apply to Market Orders.[29]  Pursuant to proposed MRX Rule 711(c), if the NBBO is wider than a

preset threshold at the time a Market Order is received by the Exchange, the Exchange will reject

the order.  The Exchange will notify members of the threshold with a notice, and, thereafter, will

notify members of any subsequent changes to the threshold.[30]  The Exchange represents that the

Market Order Spread Protection will be the same for all options traded on the Exchange and is

applicable to all members that submit Market Orders.[31]

The Exchange believes, and the Commission concurs, that the proposed Market Order

Spread Protection would help mitigate risks associated with trading errors and help reduce the

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[27]    See Notice, supra note 3, at 25835.

[28]    See id.

[29]    The Exchange states that this mandatory feature is currently offered on NOM to protect
        Market Orders from being executed in very wide markets.  See Notice, supra note 3, at
        25829.  See also NOM Rules at Chapter VI, Section 6(c).

[30]    See Notice, supra note 3, at 25829.  The Exchange proposes to initially set the threshold
        to $5, similar to the threshold set on NOM.  See id.  The Exchange states that NOM set
        the differential at $5 to match the maximum bid/ask differential permitted for quotes on
        that exchange.  See id.  MRX also uses a similar $5 differential.  See id.

[31]    See Notice, supra note 3, at 25829.

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number of executions at dislocated prices.[32]  The Commission also notes that the protection is

similar to a mandatory feature currently offered on NOM.[33]

> C.  Acceptable Trade Range

Today, MRX offers a Price Level Protection that places a limit on the number of price

levels at which an incoming order or quote to sell (buy) would be executed automatically when

there are no bids (offers) from other exchanges at any price for the options series.[34]  The

Exchange proposes to replace the current Price Level Protection with Phlx's Acceptable Trade

Range.[35]  The Exchange states that the proposed Acceptable Trade Range is a mechanism

designed to prevent the system from experiencing dramatic price swings by preventing the

market from moving beyond set thresholds.[36]  The system will calculate an Acceptable Trade

Range to limit the range of prices at which an order or quote will be allowed to execute.[37]  Upon

receipt of a new order or quote, the Acceptable Trade Range is calculated by taking the reference

price, plus or minus a value to be determined by the Exchange, where the reference price is the

National Best Bid ("NBB") for sell orders/quotes and the National Best Offer ("NBO") for buy

orders/quotes.  Accordingly, the Acceptable Trade Range is:  the reference price - (x) for sell

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[32]     See Notice, supra note 3, at 25835.

[33]     See NOM Rules at Chapter VI, Section 6(c).

[34]     See Notice, supra note 3, at 25829; MRX Rule 714(b)(1).

[35]     See Phlx Rule 1080(p).  Unlike Phlx, MRX does not offer a general continuous re-pricing mechanism.  See id.  Accordingly, the Exchange states that the proposed Acceptable Trade Range will not include the posting period functionality available today on Phlx. See Notice, supra note 3, at 25830, n.15.  The Exchange will not post interest that exceeds the outer limit of the Acceptable Trade Range; rather the interest will be cancelled.  See Notice, supra note 3, at 25830.  Orders that do not exceed the outer limit of the Acceptable Trade Range will post to the order book and will reside on the order book at such price until they are either executed in full or cancelled by the member.  See id.

[36]     See Notice, supra note 3, at 25830.

[37]     See proposed MRX Rule 714(b)(1)(i).

orders/quotes; and the reference price + (x) for buy orders.[38]  If an order or quote reaches the

outer limit of the Acceptable Trade Range (the "Threshold Price") without being fully executed,

then any unexecuted balance will be cancelled.[39]  The Acceptable Trade Range will not be

available for All-or-None Orders.[40]

The Exchange represents that it will set the Acceptable Trade Range at levels to ensure

that it is triggered infrequently.[41]  While the Acceptable Trade Range settings will be tied to the

option premium, other factors will be considered when determining the exact settings.[42]  For

example, the Exchange states that acceptable ranges may change if market-wide volatility is high

or if overall market liquidity is low based on historical trends.[43]  To ensure a well-functioning

market, the Exchange believes that different market conditions may require adjustments to the

threshold amounts from time to time.[44]  Further, while the Acceptable Trade Range settings will

generally be the same across all options traded on the Exchange, MRX proposes to set them

separately based on characteristics of the underlying security.[45]  For example, the Exchange has

generally observed that options subject to the Penny Pilot program quote with tighter spreads

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[38]    The Exchange states that the Acceptable Trade Range settings are tied to the option premium.  See Notice, supra note 3, at 25830, n.16.  A table consisting of several steps based on the premium of an option will be displayed on the Exchange website and used to determine how far the market for a given option will be allowed to move.  See Notice, supra note 3, at 25831.  Updates to the table would be announced via an Exchange alert, generally the prior day.  See id.

[39]    See proposed MRX Rule 714(b)(1)(ii).

[40]    See proposed MRX Rule 714(b)(1)(ii).  Today, MRX's Price Level Protection rule is also not available for All-or-None Orders.  See Notice, supra note 3, at 25830, n.17.

[41]    See Notice, supra note 3, at 25830.

[42]    See Notice, supra note 3, at 25831.

[43]    See id.

[44]    See id.

[45]    See id.

than options not subject to the Penny Pilot. Accordingly, the Exchange will set Acceptable

Trade Ranges for three categories of options: (1) Penny Pilot Options trading in one cent

increments for options trading at less than $3.00 and increments of five cents for options trading

at $3.00 or more; (2) Penny Pilot Options trading in one-cent increments for all prices; and (3)

Non-Penny Pilot Options.[46]

The Exchange represents that the Acceptable Trade Range should prevent the system

from experiencing dramatic price swings by preventing the market from moving beyond set

thresholds.[47] The Commission believes that the Acceptable Trade Range is reasonably designed

to prevent executions of orders and quotes at prices that are significantly worse than the NBBO

at the time of an order's submission and may reduce the potential negative impacts of

unanticipated volatility in individual options. Further, the Commission notes that the proposed

Acceptable Trade Range is similar to an existing mechanism on Phlx.[48]

D.    PMM Order Handling and Opening Obligations

The Exchange proposes to eliminate the Primary Market Maker ("PMM") order handling

and opening obligations in MRX Rule 803(c).[49] As described above, with the migration of MRX

to the Nasdaq INET architecture, the Exchange is adopting the Acceptable Trade Range and

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[46]    See proposed MRX Rule 714(b)(1)(iii).

[47]    See Notice, supra note 3, at 25835.

[48]    See Notice, supra note 3, at 25829; Phlx Rule 1080(p).

[49]    MRX Rule 803(c) provides that, in addition to the obligations contained in Rule 803 for market makers generally, for options classes to which a market maker is the appointed PMM, the PMM shall have the responsibility to: (1) as soon as practical, address Priority Customer Orders that are not automatically executed pursuant to Rule 714(b)(1) in a manner consistent with its obligations under Rule 803(b) by either (i) executing all or a portion of the order at a price that at least matches the NBBO and that improves upon the Exchange's best bid (in the case of a sell order) or the Exchange's best offer (in the case of a buy order); or (ii) releasing all or a portion of the order for execution against bids and offers on the Exchange; and (2) initiate trading in each series pursuant to Rule 701 (Trading Rotations).

opening rotation functionality currently offered on NOM and Phlx, which do not contain similar requirements for the PMMs as in MRX Rule 803(c).

The Exchange represents that PMMs' current obligations are no longer necessary due to the introduction of the Acceptable Trade Range and proposed changes to the Exchange's opening process.[50] The Exchange states that its proposal to conform the Exchange's opening process to Phlx Rule 1017 will result in an opening initiated by the receipt of an appropriate number of valid width quotes by the PMM or Competitive Market Maker, instead of an opening process initiated by a PMM.[51] Similarly, the Exchange believes the proposed Acceptable Trade Range functionality will continue to provide order protection to members without imposing any PMM obligations.[52] The Exchange further represents that NOM and Phlx do not impose similar PMM order handling and opening obligations.[53] Accordingly, the Commission believes that these changes are consistent with the Act.

E. Back-Up PMM

The Exchange proposes to amend Supplementary Material .03 to MRX Rule 803 to eliminate Back-Up PMMs. Today, any MRX member that is approved to act in the capacity of a PMM or an "Alternative Primary Market Maker" may voluntarily act as a Back-Up PMM in an options series in which it is quoting as a Competitive Market Maker ("CMM").[54] With the technology migration, the Exchange believes that a Back-Up PMM is no longer necessary because under INET the Exchange will not utilize the order handling obligations present on the

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[50] See Notice, supra note 3, at 25832. See also supra note 8.

[51] See Notice, supra note 3, at 25831-32. See also supra note 8.

[52] See Notice, supra note 3, at 25832. The Exchange states that Phlx does not currently have similar roles for a Specialist on its market. See id.

[53] See Notice, supra note 3, at 25831.

[54] See MRX Rule 803, Supplementary Material .03.

Exchange today.[55] The Exchange further represents that the proposed new opening process obviates the importance of such a role because it would no longer rely on a market maker to initiate the opening process.[56] Accordingly, the Commission believes that these changes are consistent with the Act.

F.      Market Maker Speed Bump

The Exchange proposes to amend MRX Rule 804 (Market Maker Quotations) to establish default parameters for certain risk functionality. The Exchange currently offers a risk protection mechanism for market maker quotes that removes a member's quotes in an options class if a specified number of curtailment events occur during a set time period ("Market Maker Speed Bump").[57] In addition, the Exchange offers a market-wide risk protection that removes a market maker's quotes across all classes if a number of curtailment events occur ("Market-Wide Speed Bump").[58] MRX Rule 804(g) currently requires that market makers set curtailment parameters for both the Market Maker Speed Bump and the Market-Wide Speed Bump. Today, if a market maker does not set these parameters, for each Market Maker Speed Bump and the Market-Wide Speed Bump, the system rejects their quotes.[59] With the technology migration, the Exchange proposes to provide default curtailment parameters, which will be determined by the Exchange and announced to members.[60] The Commission believes that this change is consistent with the Act and notes that, although the Exchange will establish default curtailment settings, market

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[55]     See Notice, supra note 3, at 25832.

[56]     See Notice, supra note 3, at 25832. See also supra note 8.

[57]     See MRX Rule 804(g)(1).

[58]     See MRX Rule 804(g)(2).

[59]     See Notice, supra note 3, at 25832.

[60]     See id.

makers will have discretion to set different curtailment settings appropriate for their trading and

risk tolerance.

G.    Anti-Internalization

The Exchange proposes to amend Supplementary Material .03 to MRX Rule 804 (Market

Maker Quotations) to adopt an anti-internalization rule. Today, MRX's functionality prevents

Immediate-or-Cancel orders entered by a market maker from trading with the market maker's

own quote.[61] The Exchange proposes to replace this self-trade protection with anti-

internalization functionality currently offered on Phlx.[62] The Exchange proposes to provide that

quotes and orders entered by market makers using the same member identifier will not be

executed against quotes and orders entered on the opposite side of the market by the same market

maker using the same member identifier. In such a case, the system will cancel the resting quote

or order back to the entering party prior to execution. The proposed anti-internalization

functionality will not apply in any auction. The Exchange states that this proposed functionality

does not modify the duty of best execution owed to public customer orders.[63]

The Exchange represents that the proposal is designed to assist market makers in

reducing trading costs from unwanted executions potentially resulting from the interaction of

executable interest from the same firm performing the same market making function.[64] The

Commission believes that the proposed rule is reasonably designed to prevent the unwanted

execution of quotes and orders entered by market makers using the same member identifier.

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[61]    See id.

[62]    See Phlx Rule 1080(p)(2).

[63]    See Notice, supra note 3, at 25833.

[64]    See Notice, supra note 3, at 25833, n.33.

H.     Minimum Execution Quantity Orders

The Exchange proposes to amend MRX Rule 715 (Types of Orders) to remove minimum

quantity orders in subpart (q).[65]  The Exchange states that members have not adopted this

feature, and therefore proposes to remove this order type.[66]  Furthermore, the Exchange proposes

to remove two references to minimum quantity orders in Supplementary Material .02 to MRX

Rule 713 and in Supplementary Material .04 to MRX Rule 717.

The Exchange states that removing the minimum quantity order type would simplify

functionality available on the Exchange and reduce the complexity of its order types.[67]  The

Exchange further represents that members have not adopted this feature.[68]  Accordingly, the

Commission believes it is appropriate for the Exchange to remove references to the minimum

quantity order type.

I.     Cancel and Replace Orders

The Exchange proposes to amend Supplementary Material .02 to MRX Rule 715 (Types

of Orders) to memorialize how the Exchange system will handle cancel and replace orders in

connection with the Exchange's technology migration to INET.[69]  Currently, Exchange members

can send a Cancel and Replace Order in one message, which allows the replacement order to

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[65]     A Minimum Quantity Order is an order that is initially available for partial execution
only for a specified number of contracts or greater.  A member may specify whether any
subsequent executions of the order must also be for the specified number of contracts or
greater, or if the balance may be executed as a regular order.  If all executions are to be
for the specified number of contracts or greater and the balance of the order after one or
more partial execution(s) is less than the minimum, such balance is treated as all-or-none.
See MRX Rule 715(q).

[66]     See Notice, supra note 3, at 25833.

[67]     See Notice, supra note 3, at 25836.

[68]     See Notice, supra note 3, at 25833.

[69]     See id.

retain the time priority of the cancelled order, subject to certain exceptions.[70]  However,

currently the Exchange does not apply price or other reasonability checks to the replacement

order for all Cancel and Replace Orders.[71]  For example, the Exchange notes that currently, a

Cancel and Replace Order which reduced the size of an original order from 600 to 300 contracts

would not be subject to price or other reasonability checks.[72]

The Exchange now proposes to define the Cancel and Replace Order to ensure that price

and other reasonability checks are applied to Cancel and Replace Orders.[73]  The Exchange

proposes to define a Cancel and Replace Order as a single message for the immediate

cancellation of a previously received order and the replacement of that order with a new order.  If

the previously placed order is already partially filled or in its entirety, the replacement order is

automatically canceled or reduced by the number of contracts that were executed.  Additionally,

the replacement order will retain the priority of the cancelled order, if the order posts to the order

book, provided the price is not amended, size is not increased, or in the case of Reserve Orders,

size is not changed.  However, if the replacement portion of a Cancel and Replace Order does

not satisfy the system's price or other reasonability checks the existing order will be cancelled

and not replaced.[74]

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[70]     See id.  The Exchange notes that, instead of sending a Cancel and Replace Order, a
         Member can separately send a cancellation message and a new order, for which the
         Exchange would apply price or other reasonability checks, but the new order would not
         retain the priority of the original order.  See id.  This behavior will not change.  See id.

[71]     See Notice, supra note 3, at 25833.

[72]     See id.

[73]     See proposed MRX Rule 715, Supplementary Material .02.

[74]     Price and reasonability checks that would be applied include MRX Rule 710 (Minimum
         Trading Increments), MRX Rule 711(c) (proposed Market Order Spread Protection) and
         MRX Rule 714(b)(2) (Limit Order Price Protection).  See Notice, supra note 3 at 25833,
         n.40.  The Exchange also notes that, as for other orders, the Exchange may cancel an
         order because it does not satisfy a format or other requirement specified in the

The Exchange represents that conducting price or other reasonability checks for all

Cancel and Replace Orders will validate orders against current market conditions prior to

proceeding with the request to modify the order.[75]  The Exchange further believes that

memorializing Cancel and Replace Order handling will add transparency to the Exchange's rules

and reduce the potential for investor confusion.[76]

The Commission notes that other exchanges with a similar order type permit an order to

retain priority if only the size of the order is decremented.[77]  Accordingly, the Commission

believes it is appropriate for the Exchange to define Cancel and Replace Order in the manner

proposed.

J.      All-Or-None Orders

The Exchange proposes to amend MRX Rule 715(c) to provide that All-Or-None

Orders[78] may only be entered into the Exchange's system with a time-in-force designation of

Immediate-Or-Cancel.[79]  Currently, the Exchange allows users to submit All-Or-None Orders

with any time-in-force designation.  As proposed, an All-Or-None Order would be required to be

submitted as an Immediate-Or-Cancel Order and thus will either execute in its entirety or be

cancelled.  Because All-Or-None Orders will either be executed or cancelled, the Exchange also

proposes to remove language stating that All-Or-None Orders can be maintained in the system in

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Exchange's rules and specifications.  See id.

[75]     See Notice, supra note 3 at 25836.

[76]     See id.

[77]     See id.; see Phlx Rule 1080(b)(i)(A).

[78]     An All-Or-None Order is a limit or market order that is to be executed in its entirety or
         not at all.  See MRX Rule 715(c).

[79]     An Immediate-Or-Cancel Order is a limit order that is to be executed in whole or in part
         upon receipt, and any portion not so executed is to be treated as cancelled.  See MRX
         Rule 715(b)(3).

Supplementary Material .02 to MRX Rule 713 and to delete Supplementary Material .04 to Rule 717, which concerns the exposure of non-marketable All-Or-None Orders.[80]

The Exchange states that this change would remove uncertainty with respect to the manner in which All-Or-None Orders would be handled in the order book, because the All-Or-None Order would be canceled if it cannot be immediately executed in its entirety.[81] Accordingly, the Commission believes it is appropriate for the Exchange to require that All-Or-None Orders be entered with a time-in-force designation of Immediate-Or-Cancel.

K.      Delay of Implementation of Directed Orders

Currently, MRX rules provide for the use of Directed Orders.[82] The Exchange proposes to amend MRX Rule 811 (Directed Orders) to note that this functionality will not be available as of a certain date in the third quarter of 2017 to be announced in a notice. The Exchange represents that it will recommence the Directed Orders functionality on MRX within one year from the date of the filing of the proposed rule change. Otherwise, the Exchange will file a rule proposal with the Commission to remove these rules.

The Exchange represents that it proposes to delay the implementation of the Directed Order functionality on MRX to provide the Exchange additional time to rebuild the required technology on the new platform.[83] The Exchange further represents that members have been given adequate notice of the implementation dates and that the Exchange will provide further notifications to members to ensure clarity about the delay of implementation of these

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[80]    See Notice, supra note 3, at 25834.

[81]    See Notice, supra note 3, at 25837.

[82]    See MRX Rule 811.

[83]    See Notice, supra note 3, at 25836.

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functionalities.[84]  The Commission believes that the proposed rule change helps ensure clarity about the delay of implementation of this functionality.

For these reasons, the Commission believes that the proposed rule change is consistent with the Act.

IV.     Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,[85] that the proposed rule change (SR-MRX-2017-02) be, and hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[86]


Eduardo A. Aleman
Assistant Secretary

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[84]    See id.

[85]    15 U.S.C. 78s(b)(2).

[86]    17 CFR 200.30-3(a)(12).

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