

SECURITIES AND EXCHANGE COMMISSION
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April 24, 2017

Self-Regulatory Organizations; Investors Exchange LLC; Notice of Filing of Proposed Rule Change to Modify the Manner in Which the Exchange Opens Trading for Non-IEX-Listed Securities

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 April 13, 2017, the Investors Exchange LLC (“IEX” 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 self-regulatory organization. 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

Pursuant to the provisions of Section 19(b)(1) under the Securities Exchange Act of 1934 (“Act”), and Rule 19b-4 thereunder, Investors Exchange LLC (“IEX” or the “Exchange”) is filing with the Securities and Exchange Commission (“Commission”) proposed rule changes to (i) amend Rule 11.231 to modify the manner in which the Exchange opens trading for non-IEX-listed securities beginning at the start of Regular Market Hours and retitle it “Regular Market Session Opening Process for Non-IEX-Listed Securities”; and (ii) amend Rules 11.190 and 11.220 to specify the order types eligible to participate in the proposed Regular Market Session Opening Process for non-IEX listed securities (“Opening Process”) described in proposed Rule 11.231 and priority thereof.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

The text of the proposed rule change is available at the Exchange's website at www.iextrading.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 self-regulatory organization 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 self-regulatory organization 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 the Statutory Basis for, the Proposed Rule Change

1. Purpose

Background

The purpose of the proposed rule change is to (i) amend Rule 11.231 to modify the manner in which the Exchange opens trading for non-IEX-listed securities beginning at the start of Regular Market Hours and retitle it "Regular Market Session Opening Process for Non-IEX-Listed Securities"; (ii) amend Rule 11.190(a)(2)(E) to allow market orders with a time-in-force of DAY to be entered in the Pre-Market Session for queuing and participation in the Regular Market Session Opening Process for non-IEX-listed securities ("Opening Process") described in proposed Rule 11.231; (iii) amend Rule 11.220(a)(2) regarding the priority of orders eligible to execute in the proposed Opening Process; and (iv) amend Rule 11.190(b)(11) to clarify that orders with a Minimum Quantity as defined in Rule 11.190(b)(11) ("Minimum Quantity orders") are not eligible to participate in the Opening Process pursuant to proposed Rule 11.231.

Currently, the Exchange begins accepting limit orders with a time-in-force of IOC, FOK, SYS, and GTT³ for non-IEX-listed securities for trading at the beginning of the Pre-Market Session and any such orders received by the Exchange are immediately eligible for execution in the Pre-Market Session. In addition, limit orders with a time-in-force of DAY or GTX⁴ and pegged orders with a time-in-force of DAY that are entered during the Pre-Market Session are queued in the time sequence of their receipt by the System pursuant to Rule 11.220(a)(2), until the start of the Regular Market Session, or until the order is canceled by the User. Any such queued orders that are in the System at the beginning of Regular Market Hours are released to the Order Book as incoming orders in their relative time priority pursuant to Rule 11.220(a)(2) and are immediately eligible for trading in the Regular Market Session, subject to the User's instructions and market conditions. Pursuant to IEX Rule 11.190(a)(2)(E), market orders may only be submitted in the Regular Market Session, and are rejected by the System in the Pre-Market Session and Post-Market Session. Furthermore, under paragraph (iii) of IEX Rule 11.190(a)(2)(E), market orders marked DAY, by default, are rejected. When elected by the User, market orders marked DAY submitted by that User are accepted and eligible to trade or route during the Regular Market Session. Market orders marked DAY are treated by the System as having a TIF of IOC.⁵

³ See Rules 11.190(c)(1), 11.190(c)(2), 11.190(c)(5), and 11.190(c)(6), defining the time-in-force of IOC, FOK, SYS, and GTT, respectively.

⁴ See Rules 11.190(c)(3), 11.190(c)(4), defining a time-in-force of DAY and GTX, respectively.

⁵ Members that would like to enter market orders with time-in-force of DAY and have the Exchange accept such orders are required to have authorized personnel contact IEX Market Operation (marketops@iextrading.com) in writing requesting such port setting changes, and must specifically identify the order entry sessions to which such port setting will apply.

Description of Proposed Rule Change

The Exchange proposes to amend Rule 11.231 to offer an enhanced opening process for non-IEX-listed securities. Specifically, as proposed, the Exchange will attempt to perform the Opening Process in each non-IEX-listed security pursuant to which all eligible interest resting on the Order Book in the Pre-Market Session available for continuous trading (i.e., orders on the “Continuous Book”) or orders queued for execution in the Regular Market Session (i.e., orders on the “Cross Book”) will be executed at a single price. As proposed, the Opening Process offers Users an opportunity to participate in an electronic price discovery mechanism that efficiently matches all eligible buy and sell orders in each non-IEX-listed security queued for the Opening Process along with all eligible orders resting on the Continuous Book from the Pre-Market Session at a single price. The Opening Process is designed to efficiently maximize the number of shares executed at a single price that is reflective of the broader market for the security, as described more fully below.

As proposed, prior to the beginning of Regular Market Hours, Users who wish to participate in the Opening Process may enter limit, market, and pegged orders designated with a time-in-force of DAY and limit orders designated with a time-in-force of GTX, which shall queue in the System and are eligible for execution in the Opening Process (orders on the Cross Book); interest resting on the Order Book in the Pre-Market Session available for continuous trading (i.e., orders on the Continuous Book) are also eligible for execution in the Opening Process (collectively, “Cross Eligible Orders”). Minimum Quantity orders are not eligible for execution in the Opening Process, and are therefore not Cross Eligible Orders. Accordingly, the Exchange is proposing to amend Rule 11.190(a)(2)(E) to extend the queuing functionality to market orders with a time-in-force of DAY that are entered during the Pre-Market Session and

are not designated to route pursuant to Rule 11.230(c), allowing such orders to queue in the System for participation in the Opening Process.⁶ Orders with a time-in-force of IOC or FOK do not rest on the Order Book and are therefore ineligible to participate in the Opening Process. In addition, the Exchange is proposing to make a minor conforming change to the language used in reference to LULD Price Bands in Rule 11.190(a)(1)(2) [sic] in order to conform the reference to the language used throughout the Exchange's rules.

As proposed, orders on the Continuous Book and orders on the Cross Book (collectively, the Order Book) shall be ranked and maintained for the Opening Process pursuant to Rule 11.220(a)(2), as follows:

- Midpoint peg orders, as defined in IEX Rule 11.190(b)(9), on the Cross Book are ranked and eligible for execution in the Opening Process at the less aggressive of the Midpoint Price or the order's limit price, if any.
- Primary peg orders, as defined in IEX Rule 11.190(b)(8), on the Cross Book are ranked and eligible for execution in the Opening Process at the less aggressive of one (1) MPV below (above) the NBB (NBO) for buy (sell) orders or the order's limit price, if any, but may exercise price discretion up (down) to the Opening Match Price, subject to the less aggressive of the NBB (NBO) or the order's limit price, if any, except during periods of quote instability, as defined in IEX Rule 11.190(g). When exercising price discretion, primary peg orders are ranked behind any non-displayed interest at the Opening Match Price for the duration of the Opening Process. If multiple primary peg orders are exercising price

⁶ Orders canceled before the Opening Process will not participate in the Opening Process. Market orders with a time-in-force of DAY that are entered during the Pre-Market Session and are designated to route pursuant to Rule 11.230(c) will be rejected upon entry.

discretion during the Opening Process, they maintain their relative time priority at the Opening Match Price.

- Discretionary Peg orders, as defined in IEX Rule 11.190(b)(10), on the Cross Book are ranked and eligible for execution in the Opening Process at the less aggressive of the NBB (NBO) for buy (sell) orders or the order's limit price, if any, but may exercise price discretion up (down) to the Opening Match Price, subject to the less aggressive of the Midpoint Price or the order's limit price, if any, except during periods of quote instability, as defined in IEX Rule 11.190(g). When exercising price discretion, Discretionary Peg orders are ranked behind any non-displayed interest at the Opening Match Price for the duration of the Opening Process. If multiple Discretionary Peg orders are exercising price discretion during the Opening Process, they maintain their relative time priority at the Opening Match Price.
- Limit orders on the Cross Book are ranked and eligible for execution in the Opening Process at their limit price.
- Non-displayed limit orders and non-displayed portions of reserve orders on the Continuous Book are ranked and eligible for execution in the Opening Process at the less aggressive of the Midpoint Price or the order's limit price.
- Displayed limit orders on the Continuous Book are ranked and eligible for execution in the Opening Process at their resting price.

As noted above, orders shall be ranked and prioritized for the Opening Process in price – display – time priority pursuant to proposed Rule 11.220(a)(2). Specifically, the best priced Cross Eligible Order (the highest priced resting order to buy or the lowest priced resting order to

sell) has priority over all other orders to buy (or orders to sell) in all cases. Market orders have precedence over limit orders. Cross Eligible Orders resting on the Continuous Book are ranked by the price at which they are resting on the Continuous Book and Cross Eligible Orders resting on the Cross Book are ranked by the limit price defined by the User, if any, except in the case of pegged orders, which are ranked by their current book price (in each case, the order's "resting price"). Equally priced Cross Eligible Orders are ranked by display priority, i.e., displayed orders and displayed portions of Cross Eligible Orders will have precedence over non-displayed orders and non-displayed portions of Cross Eligible Orders at a given price. Equally priced Cross Eligible Orders with the same display priority are ranked in time priority, i.e., where Cross Eligible Orders to buy (or sell) are ranked at the same price with the same display priority, the oldest order at such price and display shall have precedence at that price and display. Orders are ranked by the time at which they are posted to the Order Book at a given price, the first to be posted at a given price being the oldest. Cross Eligible Orders maintain their time priority once booked until:

- In the case of an order on the Cross Book, the order is: (i) incremented by the User, (ii) re-priced by the User, (iii) the Minimum Quantity instruction is removed from an order by the User, and therefore becomes a Cross Eligible Order, or (iv) a pegged order is re-priced by the System in response to changes in the NBBO, at which time the order will receive a new timestamp. Pursuant to IEX Rule 11.231(a)(1)(ii) and (iii), respectively, when exercising price discretion, primary peg and Discretionary Peg orders maintain time priority at their resting price, however they are prioritized behind any non-displayed interest at the Opening Match Price for the duration of the Opening Process.

- In the case of an order on the Continuous Book, any one of the events specified in IEX Rule 11.220(a)(1)(C) occurs to an order, at which time the order will receive a new timestamp.

Under proposed Rule 11.231(b), beginning at the start of Regular Market Hours, Cross Eligible Orders that are eligible to trade at the Opening Match Price (as described below) will be processed in accordance with price – display – time priority pursuant to proposed Rule 11.220(a)(2). First, to the extent there is contra side interest eligible to trade at the Opening Match Price, market orders will be executed at the Opening Match Price in time priority. After the execution of all market orders, the remaining Cross Eligible Orders priced more aggressively than the Opening Match Price will be executed in price – display – time priority at the Opening Match Price. All remaining Cross Eligible Orders priced equal to the Opening Match Price will execute in display – time priority at the Opening Match Price. Executions will occur until there is no remaining volume or there is an imbalance of orders (i.e., there are no remaining eligible shares to buy (sell), while eligible shares to sell (buy) remain unexecuted) (the process described above, collectively, being the “Opening Match”). AGID modifiers, as defined in Rule 11.190(e), will not be supported for executions in the Opening Match, but will be enforced on all unexecuted shares released to the Order Book following the Opening Match.

An imbalance of Cross Eligible Orders on the buy side or sell side may result in orders that are not executed in whole or in part. Unexecuted Cross Eligible Orders to buy (sell) that are priced at or above (below) the Cross Price Constraint (but remained unexecuted due to an imbalance of Cross Eligible Orders) will price slide pursuant to IEX Rule 11.190(h) and all remaining unexecuted Cross Eligible Orders, along with any orders that were either ineligible to participate in the Opening Process or too passive to be executed in the Opening Process, will be

released to the Order Book for continuous trading or canceled in accordance with the terms of the order. Routable orders that are released to the Order Book will be routed in accordance with IEX Rule 11.230(c)(3) (Re-Sweep Behavior), subject to the order's instructions.

Proposed Rule 11.231(c)(1) sets forth proposed definitions applicable to the Opening Process. As proposed:

- The term “Away Protected NBB” or “Away Protected NBO” shall mean the national best bid or offer, respectively, that is a Protected Quotation and not a quotation of the Exchange.
- The term “Away Protected Bid” or “Away Protected Offer” shall mean a Protected Bid or Protected Offer, respectively, that is not a quotation of the Exchange.
- The term “Cross Price Constraint” shall mean, collectively, the upper and lower threshold prices within which the Opening Match must occur, inclusive of the boundaries. During a crossed market, if the upper threshold price is below the lower threshold price when performing the Opening Process, no Opening Match will occur and orders eligible to post on the Order Book will price slide in accordance with the price sliding process, pursuant to IEX Rule 11.190(h), and the security will open for trading on IEX in accordance with prevailing market session rules.
 - The upper threshold price of the Cross Price Constraint is equal to the price of the Away Protected NBO, except in the event that an Away Protected Bid is crossing an Away Protected Offer, the upper threshold price is equal to the greater of five cents (\$0.05) or one half of a percent

(0.5%) higher than the lowest Away Protected Offer.

- The lower threshold price of the Cross Price Constraint is equal to the price of the Away Protected NBB, except in the event that an Away Protected Bid is crossing an Away Protected Offer, the lower threshold price is equal to the greater of five cents (\$0.05) or one half of a percent (0.5%) lower than the highest Away Protected Bid.
- The term “Cross Tie Breaker” shall mean the price of the most current Order Collar Reference Price pursuant to IEX Rule 11.190(f).⁷

Under proposed Rule 11.231(c)(2), if both an Away Protected Bid and Away Protected Offer exists (i.e., a two-sided market) the price of the Opening Match (“Opening Match Price”) will be the price that maximizes the number of shares of Cross Eligible Orders to be executed. If more than one price exists that maximizes the number of shares of Cross Eligible Orders to be executed, the Opening Match shall occur at the entered price at which shares will remain unexecuted in the match (i.e., the price of the most aggressive unexecuted order). If Cross Eligible Order shares are maximized and left unexecuted at more than one price, the Opening Match shall occur at the price that minimizes the distance from the Cross Tie Breaker (i.e., the

⁷ Rule 11.190(f)(1)(A) defines the Order Collar Reference Price as the most current of: (i) the consolidated last sale price disseminated during the Regular Market Session on the current trade date, (ii) the last trade price disseminated outside of the Regular Market Session by the SIP (Form T, as communicated by the relevant SIP) on the current trade date, which but for the Form T designation would have been considered a valid last sale price, or, (iii) if no such trades exist, the previous official closing price. If no Pre-Market Session trades have occurred that qualify to update the Order Collar Reference Price and the previous official closing price for the security is not available, in the interest of maintaining a fair and orderly market, the Exchange will prevent trading in a security pursuant to Rule 11.190(f)(1)(B) by rejecting orders beginning at the start of the Pre-Market Session, and will not conduct an Opening Match in such security. Accordingly, in such cases, the Opening Process will conclude with IEX opening the Regular Market Session without an Opening Match, and trading will begin upon receipt of the first Order Collar Reference Price for the security.

price at or higher than the most aggressive unexecuted buy order and at or lower than the most aggressive unexecuted sell order that is closest or equal to the Cross Tie Breaker). Lastly, if the Opening Match Price established pursuant to the procedures above is below (above) the lower (upper) threshold price of the Cross Price Constraint, the Opening Match shall occur at the lower (upper) threshold price of the Cross Price Constraint.

The following examples are designed to illustrate the process for determining the Opening Match Price in a two-sided market, as described above. Each example below assumes the Away Protected NBB is \$10.09, the Away Protected NBO is \$10.11, and the last trade price that qualified as an Order Collar Reference Price was \$10.10:

- Example 1

- The Cross Book includes the following orders:
 - Limit order to buy 1,500 shares with a limit price of \$10.10; and
 - Limit order to sell 1,000 shares with a limit price of \$10.10.
- Shares are maximized at \$10.10; therefore
 - 1,000 shares would execute at the Opening Match Price of \$10.10.

- Example 2

- The Cross Book contains the following orders:
 - Limit order to buy 1,500 shares with a limit price of \$10.10; and
 - Market order to sell 1,000 shares.
- Shares are maximized at each price at and between the lower threshold of the Cross Price Constraint (i.e., \$10.09) and \$10.10;

- The price at which shares will remain unexecuted in the auction is \$10.10⁸; therefore
 - 1,000 shares would execute at the Opening Match Price of \$10.10.
- Example 3
 - The Cross Book contains the following orders:
 - Limit order to buy 2,000 shares with a limit price of \$10.11;
 - Limit order to sell 2,000 shares with a limit price of \$10.09.
 - The Continuous Book contains the following orders:
 - Displayed limit order to buy 500 shares with a limit price of \$10.09;
 - Displayed limit order to sell 600 shares with a limit price of \$10.11.
 - Shares are maximized at each price at or between \$10.09 and \$10.11;
 - The range of prices at or between the prices at which shares will remain unexecuted in the auction is \$10.09 and \$10.11;
 - Because a range of prices exist after evaluating the prior two conditions (i.e., an auction price range), the price closest to the Cross Tie Breaker (i.e., the last trade price that qualified as an Order Collar Reference Price) within the auction price range is \$10.10; therefore
 - 2,000 shares would execute at the Opening Match Price of \$10.10.
- Example 4
 - The Cross Book contains the following orders:
 - Limit order to buy 2,000 shares with a limit price of \$10.08;
 - Limit order to sell 2,000 shares with a limit price of \$10.08.

⁸ Note, while shares are maximized at and between the lower threshold of the Cross Price Constraint (\$10.09) and \$10.10, the entered price at which shares will remain unexecuted in the auction is \$10.10, as \$10.10 is the resting price of the most aggressive order where shares remain unexecuted.

- The Continuous Book contains the following orders:
 - Displayed limit order to buy 500 shares with a limit price of \$10.09;
 - Displayed limit order to sell 600 shares with a limit price of \$10.11.
- Shares are maximized at \$10.08, however \$10.08 is below the lower threshold of the Cross Price Constraint (i.e., \$10.09); therefore
 - 500 shares would execute at the Opening Match Price of \$10.09.

The following examples are designed to illustrate the process for determining the Opening Match Price and the proposed execution priority including non-displayed orders on the Cross Book in two-sided market, as described above. Each example below assumes the Away Protected NBB is \$20.19, the Away Protected NBO is \$20.21, and the last trade price that qualified as an Order Collar Reference Price was \$20.20:

- Example 1

- The Cross Book includes the following orders:
 - Midpoint Peg order to buy 2,500 shares with a resting price of \$20.20.
 - Limit order to buy 500 shares with a limit price of \$20.18; and
 - Limit order to sell 2,000 shares with a limit price of \$20.18.
- For purposes of determining the Opening Match Price, the Midpoint Peg order is priced at its resting price (\$20.20);
- Accordingly, shares are maximized between \$20.18 and \$20.20, and the price at which shares are left unexecuted within such range, is \$20.20; therefore
 - 2,000 shares would execute at the Opening Match Price of \$20.20;
 - The Midpoint Peg buy order would receive an execution of 2,000 shares and the remaining 500 shares remain booked at the midpoint of

the NBBO;

- The limit sell order would receive an execution of 2,000 shares, and thus be fully filled; and
- The limit buy order would not receive an execution, because the limit sell order is fully filled after matching with the Midpoint Peg buy order with superior priority. The entire limit buy order is booked at the \$20.18.

- Example 2

- The Cross Book includes the following orders:
 - Primary Peg order to buy 2,500 shares with a resting price of \$20.18, and limit price of \$20.20;
 - Limit order to buy 500 shares with a limit price of \$20.19; and
 - Displayed limit order to sell 2,000 shares with a limit price of 20.19.
- For purposes of determining the Opening Match Price, the Primary Peg order is priced at its resting price (\$20.18); the Primary Peg order is eligible exercise price discretion up to the Opening Match Price, so long as the match price is at or below the less aggressive of the NBB or the order's limit price;
- Accordingly, shares are maximized at \$20.19; therefore
 - 2,000 shares would execute at the Opening Match Price of \$20.19;
 - The limit buy order would receive an execution of 500 shares;
 - Assuming IEX has determined the quote to be stable pursuant to IEX Rule 11.190(g), the Primary Peg buy order would exercise discretion up to the Opening Match Price and receive an execution of 1,500

shares; the remaining 1,000 shares remain booked at \$20.18; and

- Assuming IEX has determined the quote to be stable pursuant to IEX Rule 11.190(g), the limit sell order would receive an execution of 2,000 shares. If IEX has determined the quote to be unstable pursuant to IEX Rule 11.190(g), the limit sell order would receive an execution of 500 shares and the remaining 1,500 shares would post, in accordance with the display-price sliding behavior, 1 MPV above the NBB at \$20.20.
- Example 3
 - The Cross Book includes the following orders:
 - Midpoint Peg order to buy 2,500 shares with a resting price of \$20.20.
 - Displayed limit order to buy 500 shares with a limit price of \$20.20; and
 - Limit order to sell 2,000 shares with a limit price of \$20.20.
 - For purposes of determining the Opening Match Price, the Midpoint Peg order is priced at its resting price (\$20.20);
 - Accordingly, shares are maximized at \$20.20; therefore
 - 2,000 shares would execute at the Opening Match Price of \$20.20;
 - The limit buy order would receive an execution of 500 shares;
 - The Midpoint Peg buy order would receive an execution of 1,500 shares; and
 - The limit sell order would receive an execution of 2,000 shares.
- Example 4
 - The Cross Book includes the following orders:

- Discretionary Peg order to buy 2,500 shares with a resting price of \$20.19, and limit price of \$20.21;
 - Limit order to buy 500 shares with a limit price of \$20.20; and
 - Limit order to sell 2,000 shares with a limit price of \$20.20.
- For purposes of determining the Opening Match Price, the Discretionary Peg order is priced at its resting price (\$20.19); the Discretionary Peg order is eligible exercise price discretion up to the Opening Match Price, so long as the match price is at or below the less aggressive of the midpoint of the NBBO or the order's limit price.
- Accordingly, shares are maximized at \$20.20; therefore
 - 2,000 shares would execute at the Opening Match Price of \$20.20;
 - The limit buy order would receive an execution of 500 shares;
 - Assuming IEX has determined the quote to be stable pursuant to IEX Rule 11.190(g), the Discretionary Peg buy order would exercise discretion up to the Opening Match Price and receive an execution of 1,500 shares; and
 - Assuming IEX has determined the quote to be stable pursuant to IEX Rule 11.190(g), the limit sell order would receive an execution of 2,000 shares. If IEX has determined the quote to be unstable pursuant to IEX Rule 11.190(g), the limit sell order would receive an execution of 500 shares and the remaining 1,500 shares would post at \$20.20.

Under proposed Rule 11.231(c)(3), if there is a lack of an Away Protected Bid and/or Away Protected Offer (i.e., a one-sided, or zero-sided market) the Opening Match Price will be the price of the Cross Tie Breaker. If the price of the Cross Tie Breaker is below (above) the

lower (upper) threshold price of the Cross Price Constraint, the Opening Match shall occur at the lower (upper) threshold price of the Cross Price Constraint.⁹

The following examples are designed to illustrate the process for determining the Opening Match Price in a one-sided or zero-sided market as described above. Each example below assumes the last trade price that qualified as an Order Collar Reference Price was \$10.10:

- Example 1
 - Away Protected NBB is \$10.09;
 - The Cross Book includes the following orders:
 - Limit order to buy 1,500 shares with a limit price of \$10.11; and
 - Limit order to sell 1,000 shares with a limit price of \$10.09.
 - The Cross Tie Breaker is \$10.10 and such price is above the lower threshold of the Cross Price Constraint (i.e., \$10.09)¹⁰; therefore
 - 1,000 shares would execute at the Opening Match Price of \$10.10.
- Example 2
 - Away Protected NBB is \$10.11;
 - The Cross Book includes the following orders:
 - Limit order to buy 1,500 shares with a limit price of \$10.11; and
 - Limit order to sell 1,000 shares with a limit price of \$10.09.

⁹ In a one-sided market where there is no Away Protected NBB or no Away Protected NBO, the Cross Tie Breaker is compared to the available threshold price of the Cross Price Constraint (i.e., the Opening Match Price will be at or above the lower threshold price, or at or below the upper threshold price of the Cross Price Constraint, as applicable). In a zero-sided market, the Opening Match Price will be the Cross Tie Breaker.

¹⁰ Note, there is no upper threshold price of the Cross Price Constraint because there is no Away Protected NBO, and therefore the Cross Tie Breaker of \$10.10 is compared to the available lower threshold price of the Cross Price Constraint (\$10.09).

- The Cross Tie Breaker is \$10.10 however such price is below the lower threshold of the Cross Price Constraint (i.e., \$10.11); therefore
 - 1,000 shares would execute at the Opening Match Price of \$10.11.
- Example 3
 - There is neither an Away Protected NBB nor an Away Protected NBO;
 - The Cross Book includes the following orders:
 - Limit order to buy 1,500 shares with a limit price of \$10.11; and
 - Limit order to sell 1,000 shares with a limit price of \$10.09.
 - The Cross Tie Breaker is \$10.10¹¹; therefore
 - 1,000 shares would execute at the Opening Match Price of \$10.10.

Proposed Rule 11.231(e) provides that if a security is subject to a halt, suspension, or pause in trading during the Pre-Market Session, the Exchange will not accept orders in the security for continuous trading, or for queuing and participation in the Opening Process. Pursuant to IEX Rule 11.271, any order submitted during a halt will be rejected by the System. Any orders resting on the Order Book at the time of a trading halt will not be canceled by the System, and will be unavailable for trading or re-sweep during the trading halt, but will be available for cancellation by the submitting User. Orders that were submitted prior to the halt, suspension, or pause in trading that joined the Cross Book or the Continuous Book will remain on the Cross Book or the Continuous Book unless canceled by the User. If the halt, suspension, or pause remains in effect at the start of the Regular Market Hours, the Opening Process will not occur at the normally scheduled time. Instead, once the security resumes trading, the Exchange will conduct the Opening Process, as described in proposed Rule 11.231(b) and (c), including all

¹¹ Note, there is neither an upper threshold price nor a lower threshold price of the Cross Price Constraint because there are no away protected quotations.

Cross Eligible Orders that remain on the Cross Book and the Continuous Book. Following the conclusion of the Opening Process, the Exchange will accept and execute orders as usual in accordance with prevailing market session rules.

In the event of a disruption that prevents the execution of the Opening Process, Rule 11.231(d) provides for Opening Process Contingency Procedures designed to allow for timely and orderly opening of non-IEX-listed securities. As proposed, rather than matching orders at the Opening Match Price as described in Rule 11.231(c), IEX will publicly announce that no Opening Process will occur.¹² All orders on the Order Book will be canceled, and IEX will open the security for trading without an Opening Match.

Lastly, proposed Rule 11.231(f) states that for purposes of Rule 611(b)(3) of Regulation NMS, and section VI(D)(6) of the Plan to Implement a Tick Size Pilot Program, orders executed in the Opening Process shall constitute a single-priced opening transaction by the Exchange and may trade-through or trade-at the price of any other Trading Center's Manual or Protected Quotations. Each of the orders executed in the Opening Process are by definition a single priced opening or re-opening transaction, and therefore meet the letter and spirit of Rule 611(B)(3) of Regulation NMS and section VI(D)(6) of the plan to Implement a Tick Size Pilot Program, consistent with the protection of investors and the public interest.

Implementation

The Exchange plans to implement the proposed changes during the second quarter of 2017 pending completion of necessary technology changes and subject to Commission approval.

¹² Note, the Exchange intends to disseminate a System Status Alert to publicly announce that no Opening Process will occur, which automatically publishes an email alert, twitter update, and text message to all persons registered to receive such alerts, as well as publishing to the IEX public website. To register for System Status Alerts, visit <https://www.iextrading.com/status/#/>.

The Exchange will announce the implementation date of the proposed changes by Trader Alert at least 10 business days in advance of such implementation date and within 90 days of approval of this proposed rule change.

2. Statutory Basis

IEX believes that the proposed rule change is consistent with Section 6(b) of the Act¹³ in general, and furthers the objectives of Section 6(b)(5) of the Act,¹⁴ in particular, in that it is 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. Specifically, the Exchange believes that the proposal is consistent with the protection of investors and the public interest in that the price discovery mechanism utilized to determine the Opening Match Price under proposed Rule 11.231(c) will provide the greatest opportunity to match buy and sell orders at a price that is reflective of market conditions for the security, while also providing for orderly and timely openings of non-IEX-listed securities.

Specifically, the Exchange believes that constraining the Opening Match Price to prices at or between the Away Protected NBB and Away Protected NBO is designed to respect the fact that much of the liquidity seeking execution at the start of Regular Market Hours is aggregated at the primary market center. Therefore, including the quotations of the primary market (along with those of all other protected markets) for purposes of pricing the Opening Match is designed to provide the greatest opportunity to match buy and sell orders at a price that is reflective of the market for the security, in furtherance of the perfection of a free and open market and a national

¹³ 15 U.S.C. 78f.

¹⁴ 15 U.S.C. 78f(b)(5).

market system, and consistent with the protection of investors and the public interest. The Exchange notes that as proposed, the Cross Price Constraint will not include IEX's protected quotations when determining the upper and lower threshold prices within which the Opening Match must occur, because the inclusion of such quotes may unnecessarily constrain the prices at which the Opening Match may occur, needlessly restricting price discovery in the Opening Process when the Opening Match would maximize shares traded at a price beyond the IEX best bid (offer) but within the Away Protected NBB (NBO). However, shares that comprise protected quotations on IEX would necessarily be included in the Opening Process pursuant to proposed Rule 11.220(a)(2) regarding priority. Accordingly, the Exchange believes that excluding IEX's protected quotations is consistent with the protection of investors and the public interest, in that it is designed to allow for robust price discovery to occur at or within the prices which best reflect the broader market for the security.

The Exchange believes that not supporting AGID modifiers in the Opening Process is consistent with the protection of investors and the public interest because within the context of the Opening Match process, counterparties are not considered; only the aggregate available volume for execution is considered. It is illogical to cancel an order that happens to be allocated an execution against an order entered using the same MPID, because both orders execute at the exact same price to the exact same effect where the orders happen to execute against orders of a different MPID. Furthermore, the Exchange believes that supporting AGID modifiers and including Minimum Quantity orders in the Opening Process would introduce additional technical

complexities to the Opening Process, and the Exchange believes providing simplicity in this regard is in the interest of the protection of investors and the public interest.¹⁵

The Exchange notes that the proposed handling of Minimum Quantity orders in the Opening Process is distinct from the proposed handling of such orders in the Opening Auction for IEX-listed securities pursuant to proposed Rule 11.350(c).¹⁶ Specifically, in the case of an Opening Auction for an IEX-listed security pursuant to proposed Rule 11.350(c)(2)(C), Minimum Quantity orders are eligible for execution in the auction, but the minimum quantity instructions will not be supported, although it will be enforced on all unexecuted shares released for continuous trading following the Opening Auction match. Conversely, for the Opening Process for non-IEX-listed securities, Minimum Quantity orders are not eligible for execution in the Opening Process. The Exchange believes the Opening Process will yield small execution sizes in comparison the size of an Opening Auction. Accordingly, the Exchange does not believe that including Minimum Quantity orders but not supporting the instruction is an effective approach for handling such orders because the Opening Match is likely to result in more executions that are smaller than an order's minimum quantity instruction. Accordingly, the Exchange believes that the proposed functionality regarding Minimum Quantity orders is consistent with the protection of investors and the public interest.

Furthermore, the Exchange believes that the proposed changes to Rule 11.220(a)(2) regarding the priority of orders eligible to execute in the proposed Opening Process is consistent with the protection of investors and the public interest because the proposed Opening Process

¹⁵ The Exchange notes that Bats BZX Exchange, Inc (“Bats”) does not support broker self-match restrictions in their opening process for non-listed securities. See Bats Rule 11.24(b), which states that all MTP modifiers, as defined in Bats Rule 11.9(f), will be ignored as it relates to executions occurring as part of the Bats opening match process.

¹⁶ See proposed Rule 11.350(c)(2)(C) in SR-IEX-2017-10 available at <https://www.iextrading.com/regulation/rule-filings/>.

priority is designed to create continuity between the priority rules applied during continuous trading and in the Opening Process. Specifically, identical to the Pre-Market, Regular Market, and Post Market Sessions, the Exchange is proposing to apply price – display – time priority for purpose of ranking and maintaining orders eligible to execute in the proposed Opening Process. Furthermore, the Exchange notes that the proposed priority for the Opening Process is substantially similar to the priority of the opening processes for non-listed securities on NYSE Arca, Inc. (“NYSE Arca”) and the Nasdaq Stock Market (“Nasdaq”).¹⁷

The Exchange believes that allowing primary peg, midpoint peg and Discretionary Peg orders to participate in the proposed Opening Process is designed to promote just and equitable principles of trade, remove impediments to and perfect the mechanisms of a free and open market and a national market system, and protect investors and the public interest. Specifically, as proposed, primary peg, midpoint peg, and Discretionary Peg orders as set forth in Rules 11.190(b)(8), 11.190(b)(9), and 11.190(b)(10), respectively, would be ranked and eligible for execution in the Opening Process at their resting price. As proposed, primary peg and Discretionary Peg orders would have the ability to exercise price discretion to execute at the Opening Match Price. When primary peg and Discretionary Peg orders exercise discretion to execute at the Opening Match Price, such orders are prioritized behind all other non-displayed interest at the Opening Match Price; if multiple orders exercise discretion, they maintain their relative time priority at the Opening Match Price. Primary peg orders may exercise price discretion up (down) to the Opening Match Price, subject to the less aggressive of the NBB (NBO) or the order’s limit price, if any, except during periods of quote instability, as defined in IEX Rule 11.190(g). Discretionary Peg orders may exercise price discretion up (down) to the

¹⁷ See, e.g., Nasdaq Rule 4752(d)(3)(A)-(D), and NYSE Arca Rule 7.35(a)(6) and 7.35(c)(4), describing priority for the opening auction.

Opening Match Price, subject to the less aggressive of the Midpoint Price or the order's limit price, if any, except during periods of quote instability, as defined in IEX Rule 11.190(g). The Exchange believes that inclusion of such orders is designed to maximize the liquidity available for execution in the Opening Process, thereby facilitating price discovery and a more orderly opening.

As proposed, primary peg, midpoint peg, and Discretionary Peg orders participate in the Opening Process in a manner that is fundamentally substantially similar to the behavior of such orders during continuous trading. Specifically, the manner in which such orders are eligible for execution in the Opening Process are functionally identical to their eligibility for execution during continuous trading. For example, a resting Discretionary Peg order would exercise discretion up (down) to the less aggressive of the Midpoint Price or the order's limit price to interact with an incoming spread crossing order. Similarly, in the Opening Process, a Discretionary Peg order would exercise discretion up (down) to the Opening Match Price, subject to the less aggressive of the Midpoint Price, or the order's limit price to interact contra-side liquidity in the Opening Process. Accordingly, inclusion of such orders would be in accord with existing functionality already approved by the Commission in connection with its grant of IEX's application for registration as a national securities exchange under Sections 6 and 19 of the Act, wherein the Commission specifically found IEX's order type rules to be consistent with the Act and, in particular, the Section 6(b)(5) requirement that the Exchange's rules be designed to promote just and equitable principles of trade, remove impediments to and perfect the mechanisms of a free and open market and a national market system, and protect investors and

the public interest.¹⁸ Accordingly, the Exchange does not believe that allowing these orders to participate in the proposed Opening Process in accordance with their current functionality raises any new or novel issues that have not already been considered by the Commission, and is thus consistent with the protection of investors and the public interest.

The Exchange also believes that the proposal is designed to remove impediments to and perfect the mechanism of a free and open market and a national market system, and in general, to protect investors and the public interest, because proposed Rule 11.231(d) sets forth an opening process contingency procedure, which provides a clear and transparent process designed to provide a means for trading in a non-IEX-listed security to open in an orderly and timely manner even after a disruption has prevented the execution of the Opening Process. Furthermore, the Exchange believes that proposed Rule 11.231(e) is designed 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 that the Exchange would conduct the Opening Process for non-IEX-listed securities that were subject to and remained in a halt, suspension, or pause in trading at the commencement of the Opening Process, while still allowing Users to cancel any queued interest prior to the commencement of the Opening Process. Applying the proposed Opening Process for securities that open after the start of Regular Market Hours as a result of a halt, suspension, or pause in trading provides the greatest opportunity to match buy and sell orders at a price that is reflective of market conditions for the security, while also providing for orderly and timely openings of non-IEX-listed securities, and creating uniformity among all non-IEX-listed securities by applying a consistent approach to open trading on IEX in such securities.

¹⁸ See Securities Exchange Act Release No. 34-78101 at 47 (June 17, 2016), 81 FR 41142 (June 23, 2016) (File No. 10-222).

In addition, the Exchange believes that allowing market orders with a time-in-force of DAY to be entered into the System for queuing in the Pre-Market session while also allowing such orders to participate in the Opening Process provides Users with greater control and flexibility with respect to entering orders, and may simplify the order entry process for Users. In this regard, Users are able to enter orders that will either queue on the Cross Book for participation in the Opening Process, or are eligible for execution in the Pre-Market Session prior to participating in the Opening Process, which removes impediments to a free and open market and benefits all Users of the Exchange. In addition, the Exchange believes that its proposal to make a minor conforming change to the language used in reference to the LULD Price Bands in Rule 11.190(a)(1)(2) [sic] in order to conform the reference to the language used throughout the Exchange's rules is consistent with the protection of investors and the public interest because it is designed to provide consistency and clarity in the Exchange's rules, which benefits all market participants.

The Exchange is not proposing to disseminate indicative pricing or imbalance information relating to the Opening Process. The Exchange is not proposing to disseminate indicative pricing or imbalance information prior to the Opening Process because the Exchange is not trying to establish equilibrium in order to determine the official opening price of the security. Rather, the Opening Process is designed to efficiently resolve the queue of orders awaiting the Regular Market Session at a fair price, that reflects the broader market for the security. Accordingly, the Exchange believes that not providing indicative pricing or imbalance

information related to the Opening Process is consistent with the protection of investors and the public interest.¹⁹

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

IEX does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. To the contrary, the Exchange believes that the proposed Opening Process is designed to promote fair competition among brokers and dealers and among exchange markets by offering an Opening Process that competes with existing opening processes for non-listed securities offered by IEX's competitors, thereby promoting intermarket competition between exchanges in furtherance of the principles of Section 11A(a)(1).²⁰

With respect to intramarket competition, the proposed Opening Process will apply equally to all non-IEX-listed securities, and all Members and market participants that send orders to IEX through Members. Members are permitted to enter any type of Cross Eligible Order and there are no privileged participants who receive enhanced priority, or have access to special order types. Consequently, IEX does not believe that the proposal will impose any burden on 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

Written comments were neither solicited nor received.

¹⁹ The Exchange notes that Bats does not provide indicative pricing or imbalance information for its process for opening non-listed securities pursuant to Bats Rule 11.24.

²⁰ 15 U.S.C. 78k-1(a)(1).

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

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the Exchange consents, the Commission shall: (a) by order approve or disapprove such proposed rule change, or (b) institute proceedings to determine whether the proposed rule change should be 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. Please include File Number SR-IEX-2017-11 on the subject line.

Paper comments:

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

All submissions should refer to File Number SR-IEX-2017-11. 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; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-IEX-2017-11, 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.²¹

Eduardo A. Aleman
Assistant Secretary

²¹ 17 CFR 200.30-3(a)(12).