Nasdaq ISE Rulebook

7. Doing Business On The Exchange

Rule 714. Automatic Execution of Orders

Incoming orders that are executable against orders and quotes in the System will be executed automatically by the System subject to the following:

(a) No change.

(b) Other Order Protections. Subject to the NBBO price protection in (a) above, the following additional order protections are automatically enforced by the System for single leg orders:

[(4) Price Level Protection. This protection shall apply to complex orders. There is a limit on the number of price levels at which an incoming complex order to sell (buy) will be executed automatically with the bids or offers of each component leg when there are no bids (offers) from other exchanges at any price for the options series. Complex orders are executed at each successive price level until the maximum number of price levels is reached on any component leg where the protection has been triggered, and any balance is canceled. The number of price levels for the component leg, which may be between one (1) and ten (10), is determined by the Exchange from time-to-time on a class-by-class basis.]

(c) and (d) No change.

Rule 722. Complex Orders

(a) and (b) No change.

Supplementary Material to Rule 722

.01 - .06 No change
07 [Price limits for complex orders and quotes.] Complex Order Protections.

(a) Price limits for Complex Orders and quotes.

([a]1) As provided in paragraph (b)(3) above, the legs of a [c]Complex [o]Order may be executed at prices that are inferior to the prices available on other exchanges trading the same options series. Notwithstanding, the System will not permit any leg of a [c]Complex [o]Order to trade through the NBBO for the series by a configurable amount calculated as the lesser of (i) an absolute amount not to exceed $0.10, and (ii) a percentage of the NBBO not to exceed 500%, as determined by the Exchange [on a class or series basis]. A Member can also include an instruction on a [c]Complex [o]Order entered on the [c]Complex [o]Order book that each leg of the [c]Complex [o]Order is to be executed only at a price that is equal to or better than the national best bid or offer for the options series or any stock component, as applicable.

([b]A) The System will reject any [c]Complex [o]Order strategy where all legs are to buy if it is entered at a price that is less than the minimum price, which is calculated as the sum of the ratio on each leg of the [c]Complex [o]Order multiplied by $0.01 per leg (e.g., an order to buy 2 calls and buy 1 put would have a minimum price of $0.03).

([c]b) Strategy Protections. The following protections will apply throughout the trading day, including pre-market, during the Opening Process and during a trading halt. The protections will not apply to Complex Orders being auctioned and auction responses [Other than for complex orders executed] in the Facilitation Mechanism, Solicited Order Mechanism, and Price Improvement Mechanism and will not apply to Customer Cross Orders [. the System will:]

(1) Vertical Spread Protection. The Vertical Spread Protection will apply to a vertical spread. A vertical spread is an order to buy a call (put) option and to sell another call (put) option in the same security with the same expiration but at a higher (lower) strike price.

([1]A) The System will reject a [v]Vertical [s]Spread order [(i.e., an order to buy a call (put) option and to sell another call (put) option in the same security with the same expiration but at a higher (lower) strike price)] when entered with a net price of less than zero (minus a pre-set value), and will prevent the execution of a [v]Vertical [s]Spread order at a price that is less than zero (minus a pre-set value) when entered as a [m]Market [o]Order to sell. The Exchange will set a common pre-set value not to exceed $1.00 to be applied uniformly across all classes. The Exchange may amend the pre-set value uniformly across all classes.

([2]B) The System will reject a [v]Vertical [s]Spread order when entered with a net price greater than the value of the higher strike price minus the lower strike price (plus a pre-set value), and will prevent the execution of
a [v]Vertical [s]Spread order at a price that is greater than the value of the higher strike price minus the lower strike price (plus a pre-set value) when entered as a [m]Market [o]Order to buy. [The pre-set value is the lesser of an absolute amount and a percentage of the difference between the strike prices.] The pre-set value used by the vertical spread check will be the lesser of (1) an absolute amount not to exceed $1.00 and (2) a percentage of the difference between the strike prices not to exceed 10% to be applied uniformly across all classes. The Exchange may amend the pre-set value uniformly across all classes.

(2) Calendar Spread Protection. The Calendar Spread Protection will apply to a Calendar Spread. A calendar spread is an order to buy a call (put) option with a longer expiration and to sell another call (put) option with a shorter expiration in the same security at the same strike price.

(3) Butterfly Spread Protection. The Butterfly Spread Protection will apply to a butterfly spread. A butterfly spread is a three legged Complex Order with the following: (1) two legs to buy (sell) the same number of calls (puts); (2) one leg to sell (buy) twice the number of calls (puts) with a strike price at mid-point of the two legs to buy (sell); (3) all legs have the same expiration; and (4) each leg strike price is equidistant from the next sequential strike price.

(A) A Butterfly Spread Limit Order that is priced higher than the Maximum Value or lower than the Minimum Value will be rejected. A Butterfly Spread Market Order (or Butterfly Spread Limit Order entered with a net
price inside the Butterfly Spread Protection Range) to buy (sell) will be restricted from executing by legging into the single leg market with a net price higher (lower) than the Maximum (Minimum) Value. The Butterfly Spread Protection Range is the absolute difference between the Minimum Value and the Maximum Value.

(i) The Initial Maximum Value is the distance between the strike price of the leg with the mid-point strike and either of the outer leg strike prices. The Maximum Value Buffer is the lesser of a configurable absolute dollar value or percentage of the Initial Maximum Value set by the Exchange and announced via a notice to members. The Maximum Value is calculated by adding the Initial Maximum Value and Maximum Value Buffer.

(ii) The Initial Minimum Value is zero. The Minimum Value Buffer is a configurable absolute dollar value set by the Exchange and announced via a notice to members. The Minimum Value is calculated by subtracting the Minimum Value Buffer from the Initial Minimum Value of zero.

(4) **Box Spread Protection.** The Box Spread Protection will apply to a box spread. A box spread is a four legged Complex Order with the following: (1) one pair of legs with the same strike price with one leg to buy a call (put) and one leg to sell a put (call); (2) a second pair of legs with a different strike price from the pair described in (1) with one leg to sell a call (put) and one leg to buy a put (call); (3) all legs have the same expiration; and (4) all legs have equal volume.

(A) A Box Spread Limit Order that is priced higher than the Maximum Value or lower than the Minimum Value will be rejected. A Box Spread Market Order (or Box Spread Limit Order entered with a net price inside the Box Spread Protection Range) to buy (sell) will be restricted from executing by legging into the single leg market with a net price higher (lower) than the Maximum (Minimum) Value. The Box Spread Protection Range is the absolute difference between the Minimum Value and the Maximum Value.

(i) The Initial Maximum Value is the distance between the strike prices of each pair of leg strike prices. The Maximum Value Buffer is the lesser of a configurable absolute dollar value or percentage of the Initial Maximum Value set by the Exchange and announced via a notice to members. The Maximum Value is calculated by adding the Initial Maximum Value and Maximum Value Buffer.

(ii) The Initial Minimum Value is zero. The Minimum Value Buffer is a configurable absolute dollar value set by the Exchange and announced via a notice to members. The Minimum Value is calculated by subtracting the Minimum Value Buffer from the Initial Minimum Value of zero.

(c) **Other Price Protections which apply to Complex Orders.**
Limit Order Price Protection. There is a limit on the amount by which the net price of an incoming Complex Limit Order to buy may exceed the net price available from the individual options series on the Exchange and by which the net price of an incoming Complex Limit Order to sell may be below the net price available from the individual options series on the Exchange. Limit orders that exceed the pricing limit are rejected. The limit is established by the Exchange from time-to-time for Complex Orders to buy (sell) as the greater of the net price available from the individual options series on the Exchange plus (minus): (i) an absolute amount not to exceed $2.00, or (ii) a percentage of the net price available from the individual options series on the Exchange not to exceed 10%. This limit order price protection applies only to orders and does not apply to quotes.

Size Limitation. There is a limit on the number of contracts (and shares in the case of a stock-option order) any single leg of an incoming Complex Order may specify. Orders or quotes that exceed the maximum number of contracts (or shares) are rejected. The maximum number of contracts (or shares), which shall not be less than 10,000 (or 100,000 shares), is established by the Exchange from time-to-time.

Price Level Protection. There is a limit on the number of price levels at which an incoming Complex Order to sell (buy) will be executed automatically with the bids or offers of each component leg when there are no bids (offers) from other exchanges at any price for the options series. Complex Orders are executed at each successive price level until the maximum number of price levels is reached on any component leg where the protection has been triggered, and any balance is canceled. The number of price levels for the component leg, which may be from one (1) to ten (10), is determined by the Exchange from time-to-time on a class-by-class basis.