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SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-82846; File No. SR-ISE-2018-16)

Self-Regulatory Organizations; Nasdaq ISE, LLC; Notice of Filing of Proposed Rule Change to Introduce the ATR Protection for Orders that are Routed to Away Markets
March 9, 2018.

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 February 23, 2018, Nasdaq ISE, LLC (“ISE” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I and II, below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

The Exchange proposes to introduce its Acceptable Trade Range protection for orders that are routed to away markets pursuant to the Options Order Protection and Locked/Crossed Markets Plan.

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

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

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

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

1. Purpose

The Exchange offers an Acceptable Trade Range ("ATR") protection that prevents the execution of quotes and orders on the regular order book outside of set thresholds. The purpose of the proposed rule change is to enhance this ATR protection for orders that are routed to away markets pursuant to the Options Order Protection and Locked/Crossed Markets Plan ("Linkage Plan") instead of being executed immediately on the Exchange or resting on the regular order book.

As codified in Rule 714(b)(1), the Exchange's trading system calculates an Acceptable Trade Range to limit the range of prices at which an order or quote will be allowed to execute.³ The Acceptable Trade Range is calculated by taking the reference price, plus or minus a value to be determined by the Exchange (i.e., the reference price - (x) for sell orders/quotes and the reference price + (x) for buy orders or quotes).⁴ Upon receipt of a new order or quote, the reference price is the national best bid ("NBB") for sell orders/quotes and the national best offer ("NBO") for buy orders/quotes. If an order or quote reaches the outer limit of the Acceptable Trade Range without being fully executed then any unexecuted balance will be cancelled.

³ The ATR protection is not available for Complex Orders that leg in to the regular order book, which are instead subject to the Price Level Protection pursuant to Rule 714(a)(4), or for All-or-None orders.

⁴ There are three categories of options for ATR: (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.

Currently, the trading system calculates an appropriate reference price for an incoming order or quote when that order or quote rests or trades on the regular order book but not when orders are routed to an away market pursuant to the Linkage Plan without first trading on the Exchange. The Exchange now proposes to enhance its ATR protection by applying it to orders that are routed to away markets without first trading on the Exchange. As proposed, Rule 714(a)(1) will continue to provide that the reference price for the ATR protection is the NBB for sell orders/quotes and the NBO for buy orders/quotes. For clarity, however, the Exchange proposes to move this language to a separate bullet under proposed Rule 714(a)(1)(ii). In addition, proposed Rule 714(a)(1)(ii) will indicate that the reference price is calculated upon receipt of a new order or quote, provided that if the applicable NBB or NBO price is improved at the time an order is routed to an away market, a new reference price is calculated based on the NBB or NBO at that time.

Although the Exchange will continue to use the NBB or NBO as the reference price for the ATR protection, the Exchange believes that it is appropriate to update the reference price if the applicable NBB or NBO price is improved at the time an order is routed to an away market. Orders that are routed to away markets are eligible for the “Flash” auction process described in Supplementary Material .02 to Rule 1901. When a Flash auction is initiated, members are given an opportunity to enter responses to trade with the order for a time period established by the Exchange not to exceed one (1) second.⁵ Because the applicable NBB or NBO price may change during the Flash auction, the Exchange believes that it is appropriate to consider the updated NBB or NBO price at the time the order is actually routed to an away market, if doing so would provide additional protection to the order – i.e., if the NBB or NBO price used as the reference

⁵ Currently, the exposure period for the Flash auction is set to 150 milliseconds.

price is improved at that time. If the NBB or NBO price is not improved, the ATR protection will continue to use the NBB or NBO price on entry as the reference price, thereby providing the maximum protection to the order. The following examples illustrate how the ATR protection will be applied to orders routed to away markets:

Example 1

1. ATR threshold set to \$0.15 for non-penny symbols
2. NBBO is \$0.90 (35) x \$1.00 (25):
 - a. BATS: \$0.90 (10) x \$1.00 (25)
 - b. CBOE: \$0.90 (25) x \$1.05 (25)
 - c. MIAX: \$0.85 (25) x \$1.15 (25)
 - d. ISE: \$0.85 (50) x \$1.20 (50)
3. Member enters a Limit Order to buy 200 contracts at \$1.20
4. Flash auction initiated at a price of \$1.00
5. CBOE quote improved establishing a new NBBO of \$0.90 (35) x \$0.95 (25):
 - a. BATS: \$0.90 (10) x \$1.00 (25)
 - b. CBOE: \$0.90 (25) x \$0.95 (25)
 - c. MIAX: \$0.85 (25) x \$1.15 (25)
 - d. ISE: \$0.85 (50) x \$1.20 (50)
6. No responses entered and Flash auction terminates and routes:
 - a. 25 contracts to buy to CBOE at \$0.95
 - b. 25 contracts to buy to BATS at \$1.00
7. Because the NBO is improved at time of routing, the reference price is set to the improved NBO price of \$0.95, establishing an Acceptable Trade Range of \$1.10

8. The remaining balance of 150 contracts that cannot be executed within the Acceptable Trade Range is cancelled

Example 2

1. ATR threshold set to \$0.15 for non-penny symbols
2. NBBO is \$0.90 (35) x \$1.00 (25):
 - a. BATS: \$0.90 (10) x \$1.00 (25)
 - b. CBOE: \$0.90 (25) x \$1.05 (25)
 - c. MIAX: \$0.85 (25) x \$1.15 (25)
 - d. ISE: \$0.85 (50) x \$1.20 (50)
3. Member enters a Limit Order to buy 200 contracts at \$1.20
4. Flash auction initiated at a price of \$1.00
5. BATS quote worsened establishing a new NBBO of \$0.90 (35) x \$1.05 (50):
 - a. BATS: \$0.90 (10) x \$1.05 (25)
 - b. CBOE: \$0.90 (25) x \$1.05 (25)
 - c. MIAX: \$0.85 (25) x \$1.15 (25)
 - d. ISE: \$0.85 (50) x \$1.20 (50)
6. No responses entered and Flash auction terminates and routes:
 - a. 25 contracts to buy to BATS at \$1.05
 - b. 25 contracts to buy to CBOE at \$1.05
 - c. 25 contracts to buy to MIAX at \$1.15
7. Because the NBO is worsened at time of routing, the reference price is set to the initial NBO price of \$1.00, establishing an Acceptable Trade Range of \$1.15

8. The remaining balance of 125 contracts that cannot be executed within the Acceptable Trade Range is cancelled

Implementation

The Exchange proposes to launch the ATR functionality described in this proposed rule change no later than October 31, 2018. The Exchange will announce the implementation date of this functionality in an Options Trader Alert issued to members prior to the launch date.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,⁶ in general, and furthers the objectives of Section 6(b)(5) of the Act,⁷ in particular, in that it is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general to protect investors and the public interest.

Specifically, the Exchange believes that the proposed rule change would remove impediments to and perfect the mechanism of a free and open market by enhancing the Exchange's ATR protection. The ATR functionality is designed to ensure that orders and quotes entered on the Exchange are executed at reasonable prices based on the applicable NBBO price on receipt. Currently, the Exchange's ATR protection calculates a reference price at the time an order or quote rests or trades locally but not when an order is routed to an away market pursuant to the Linkage Plan without first trading on the Exchange. To further protect orders that are subject to routing that have not traded on the Exchange, the Exchange is proposing to implement the ATR protection for those orders. The Exchange will continue to use the NBBO as the reference price for the ATR protection but now that the Exchange is protecting orders that are

⁶ 15 U.S.C. 78f(b).

⁷ 15 U.S.C. 78f(b)(5).

routed away pursuant to the Linkage Plan without trading on the Exchange, the Exchange proposes to use the NBBO price on routing instead of the NBBO on receipt only in those circumstances where the NBBO is improved at the time of routing. As described earlier in this proposed rule change, the Exchange operates a Flash auction that provides an opportunity for Members to match or improve the NBBO price prior to routing eligible orders to away markets. Since the NBBO price may change during the Flash auction's exposure period, the Exchange believes that the ATR protection should take improved NBBO prices into account when determining whether a particular price is a reasonable execution price. The Exchange believes, however, that a worsened NBBO price should not be considered as this would decrease rather than increase the protection provided to such an order. In sum, the proposed changes to the ATR protection will protect investors and the public interest by providing additional protections designed to ensure that quotes and orders entered on the Exchange are executed at reasonable prices, and thereby perfect the mechanism of a free and open market and a national market system.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The proposed rule change is designed to enhance the Exchange's ATR protection by extending that protection to orders that are routed to away markets that did not first trade on the Exchange. The proposed protection will apply equally to all orders that are routed to away markets pursuant to the Linkage Plan. The Exchange believes that this change is the result of a competitive market where exchanges must continually improve the functionality offered to market participants in order to remain competitive.

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

No written comments were either solicited or received.

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

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period up to 90 days (i) as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

- (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-ISE-2018-16 on the subject line.

Paper Comments:

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

All submissions should refer to File Number SR-ISE-2018-16. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your

comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-ISE-2018-16 and should be submitted on or before [INSERT DATE 21 DAYS FROM PUBLICATION IN THE FEDERAL REGISTER].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.⁸

Eduardo A. Aleman,
Assistant Secretary.

⁸ 17 CFR 200.30-3(a)(12).

