

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-84238; File No. SR-GEMX-2018-32)

September 20, 2018

Self-Regulatory Organizations; Nasdaq GEMX, LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to Risk Protections

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 September 11, 2018, Nasdaq GEMX, LLC (“GEMX” 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 amend GEMX Rules 100(a)(5) which contains definitions, Rule 711, “Acceptance of Quotes and Orders” and Rule 714, “Automatic Execution of Orders.”

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

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

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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

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

1. Purpose

GEMX proposes to amend Rule 714, Automatic Execution of Orders, by placing all risk protections within this rule and further creating sections to distinguish order protections, order and quote protections and quote protections. The Exchange believes that providing Members with a single rule with all risk protections will provide an easy reference to the mandatory single leg risk protections on GEMX.

The Exchange is amending Rule 714(b) to rename the caption from “Other Order Protections” to “Other Risk Protections.” The Exchange is amending references to “order protections” to “risk protections” within that rule to more broadly describe the type of protections offered on GEMX. Finally, the Exchange is relocating rule text from Rule 714(c) to the end of proposed Rule 714(b), which states, “In the event of unusual market conditions and in the interest of a fair and orderly market, the Exchange may temporarily establish the levels at which the order protections contained in this paragraph are triggered as necessary and appropriate.” These non-substantive rule changes are intended to bring greater clarity to the rule.

The Exchange proposes to add the following to proposed Rule 714(b)(1), “The following are order risk protections on GEMX:” The Exchange proposes to list all order protections within Rule 714(b)(1). The Exchange proposes to relocate Limit Order Price Protection from Rule 714(b)(2) to proposed Rule 714(b)(1)(A). The Exchange also proposes to add a new sentence to the end of proposed Rule 714(b)(1)(A) which provides, “Limit Order Price Protection shall not apply to the Opening Process or during a trading halt.” The Exchange is adding this sentence,

which was not contained in the initial rule change, to make clear the limitations as to when this protection is available on GEMX. The Exchange notes the Limit Order Price Protection rejects orders to buy (sell) as the greater of the Exchange's best offer (bid) plus (minus) either an absolute dollar or a percentage. The Exchange notes that the bid or offer is not established until after an option series options for trading. Applying this protection during the Opening Process is not necessary as the quote width allowance is tighter during the Opening Process.³ With respect to trading halts, Opening Process procedures will be used to reopen an option series after a trading halt, therefore, the same protections noted for the Opening Process will apply for a trading halt and the same restrictive boundaries would apply.⁴ This sentence memorializes the Exchange's current practice. The Exchange believes that this rule text will bring greater clarity to the Limit Order Price Protection functionality.

The Exchange proposes to relocate and re-number Market Order Spread Protection from Rule 711(c) to proposed Rule 714(b)(1)(B). The Exchange also proposes to add a sentence which provides, "Market Order Spread Protection shall not apply to the Opening Process or during a trading halt." The Exchange believes that the Market Order Spread Protection is unnecessary during the Opening Process and during a trading halt because protections are in place during the Opening Process to ensure that the best bid and offer displayed on the Exchange are within a reasonable range.⁵ The Opening Process has more restrictive boundaries than those

³ With respect to the Opening Process, a Quality Opening Market is required. A Quality Opening Market a bid/ask differential applicable to the best bid and offer from all Valid Width Quotes defined in a table to be determined by the Exchange and published on the Exchange's web site. See GEMX Rule 701(a)(7).

⁴ See GEMX Rule 701(d).

⁵ See note 3 above. With respect to trading halts, Opening Process procedures will be used to reopen an option series after a trading halt, therefore, the same protections noted for the Opening Process will apply for a trading halt and the same restrictive boundaries would apply. See GEMX Rule 701(d).

proposed for the Market Order Spread Protection. With respect to the Opening Process, a Quality Opening Market is required. A Quality Opening Market requires a bid/ask differential applicable to the best bid and offer from all Valid Width Quotes defined in a table⁶ to be determined by the Exchange.⁷ The Exchange's requirements during the Opening Process are more restrictive than the proposed initial setting for the Market Order Spread Protection, which is proposed at \$5. As provided in Rule 701(d), trading halts are subject to the reopening process as provided for in Rule 701(e). The same protections noted for the Opening Process above will apply for trading halts. The Exchange believes that the Market Order Spread Protection is unnecessary during the Opening Process and during a trading halt because other protections are in place to ensure that the best bid and offer displayed on the Exchange are within a reasonable range. The Exchange is adding this sentence to make clear the limitations as to when this protection is available on GEMX. The Exchange believes that this rule text will bring greater clarity to the Market Order Spread Protection functionality.

The Exchange is also memorializing a sentence which was contained in the filing which adopted Market Order Spread Protection. The Exchange noted in the adopting filing that the Exchange may establish differences other than the referenced threshold for one or more series or classes of options.⁸ At this time, the Exchange proposes to memorialize this capability within

⁶ The table is located at:
https://business.nasdaq.com/media/GEMXSystemSetting_tcm5044-41351.pdf.

⁷ The calculation of Quality Opening Market is based on the best bid and offer of Valid Width Quotes. The differential between the best bid and offer are compared to reach this determination. The allowable differential, as determined by the Exchange, takes into account the type of security (for example, Standard Penny Issues, Non-Penny Issues and Special Penny Issues), volatility, option premium, and liquidity. The Quality Opening Market differential is intended to ensure the price at which the Exchange opens reflects current market conditions. See GEMX Rule 701(a)(7).

⁸ Securities Exchange Act Release No. 79677 (December 22, 2016), 81 FR 96114 (December 29, 2016) (SR-ISEGemini-2016-17).

Rule 714(b)(1)(B) by stating, “The Exchange may establish different thresholds for one or more series or classes of options.” The Exchange believes that adding this provision to the rule will add transparency to the Exchange’s capability to establish different thresholds per options series or class.

The Exchange proposes to relocate Size Limitation from Rule 714(b)(3) to proposed Rule 714(b)(1)(C) without any amendments. The Exchange proposes to add the following to proposed Rule 714(b)(2), “The following are order and quote risk protections on GEMX:” The Exchange proposes to list all order and quote protections within Rule 714(b)(2). The Exchange proposes to re-letter Acceptable Trade Range from Rule 714(b)(1) to proposed Rule 714(b)(2)(A).

The Exchange proposes to relocate Market Wide Risk Protection from Rule 714(d) to proposed Rule 714(b)(1)(D). The Exchange is only amending cross references within this rule to reflect the new location of this text.

The Exchange proposes new rule text at Rule 714(b)(3) which provides, “The following are Market Maker risk protections on GEMX:” The Exchange proposes to list all Market Maker protections within Rule 714(b)(3). The Exchange proposes to relocate Anti-Internalization from Supplementary Material .03 to Rule 804 to proposed Rule 714(b)(3)(A). The Exchange proposes to replace the words “market participant identifier” with “Market Maker identifiers.” The Exchange also proposes to replace the words “Exchange account identifier” with “account number.”⁹ The Exchange believes these modifications will bring more clarity to the functionality. The Exchange is removing the words “Notwithstanding Rule 804(d)(1) above”

⁹ An “account number” shall mean a number assigned to a Member. Members may have more than one account number. See Rule 100(a)(1)

which refer to the firm quote.¹⁰ The Exchange notes that the submission of bids and offers must be firm notwithstanding any protection offered by the Exchange, not just Anti-Internalization. The Exchange does not believe it is necessary to specifically cite this caveat for this order protections. The Exchange also proposes to capitalize the defined term Market Maker in this sentence.

The Exchange proposes to relocate Automated Quotation Adjustments from Rule 804(g) to proposed Rule 714(b)(3)(B). Rule 804(g) will be reserved. The Exchange is amending references in the rule to reflect the new placement within Rule 714 and replacing the words “Exchange’s system (“System”)” with the defined term System.¹¹ Finally, the term “member” was capitalized because it is a defined term. The Exchange is also making clear within Rule 715(b)(3)(B)(vi) that Market Makers must request the Exchange enable re-entry by contacting the Exchange’s Operations Department.

Finally, the Exchange proposes to amend the definition of badge within Rule 100(a)(5) to state that a badge is an account number, which may contain letters and/or numbers, assigned to Market Makers. The Exchange may from time to time modify the manner in which a badge is expressed systemically. This proposed language allows for latitude in establishing badges within the System.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,¹² in

¹⁰ GEMX Rule 804(d)(1) provides that Market Maker bids and offers are firm for orders and Exchange Market Maker quotations both under this Rule and Rule 602 of Regulation NMS under the Exchange Act (“Rule 602 of Reg NMS”) for the number of contracts specified according to the requirements of paragraph 804(b).

¹¹ The term “System” means the electronic system operated by the Exchange that receives and disseminates quotes, executes orders and reports transactions. See Rule 100(a)(64).

¹² 15 U.S.C. 78f(b).

general, and furthers the objectives of Section 6(b)(5) of the Act,¹³ in particular, in that it is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general to protect investors and the public interest, by grouping the various risk protections into a single rule for ease of reference and adding headers to the rule to make clear whether the risk protection is an order protection, order or quote protection or a protection applicable to Market Makers. The Exchange believes the reorganization of the existing rule and relocation of various rules into Rule 714 is a non-substantive rule change. The Exchange believes that this rule change is consistent with the protection of investors and the public interest because it will bring greater transparency to the protections offered on GEMX.

The Exchange's proposal to not apply the Limit Order Price Protection during the Opening Process is consistent with the Act because the Exchange rejects orders to buy (sell) as the greater of the Exchange's best offer (bid) plus (minus) either an absolute dollar or a percentage. The Exchange notes that the bid or offer is not established until after an option series opens for trading. Applying this protection during the Opening Process is not necessary as the quote width allowance is tighter during the Opening Process.¹⁴ With respect to trading halts, Opening Process procedures will be used to reopen an option series after a trading halt, therefore, the same protections noted for the Opening Process will apply for a trading halt and the same restrictive boundaries would apply.¹⁵

¹³ 15 U.S.C. 78f(b)(5).

¹⁴ With respect to the Opening Process, a Quality Opening Market is required. A Quality Opening Market a bid/ask differential applicable to the best bid and offer from all Valid Width Quotes defined in a table to be determined by the Exchange and published on the Exchange's web site. See GEMX Rule 701(a)(7).

¹⁵ See GEMX Rule 701(d).

The Exchange's proposal to not apply the Market Order Spread Protection during the Opening Process is consistent with the Act because protections exist during the Opening Process to ensure that the best bid and offer displayed on the Exchange are within a reasonable range. The Exchange's Opening Process Rule 701¹⁶ and the reopening process after a trading halt¹⁷ both contain more restrictive boundaries than those proposed for the Market Order Spread Protection. With respect to the Opening Process, a Quality Opening Market is required. A Quality Opening Market requires a bid/ask differential applicable to the best bid and offer from all Valid Width Quotes defined in a table to be determined by the Exchange.¹⁸ The Exchange's requirements during the Opening Process are more restrictive than the proposed initial setting for the Market Order Spread Protection, which is set at \$5. The same protections noted for the Opening Process above will apply for trading halts. The Exchange believes that the Market Order Spread Protection is unnecessary during the Opening Process and during a trading halt because other protections are in place to ensure that the best bid and offer displayed on the Exchange are within a reasonable range.

Memorializing the ability of the Exchange to establish different Market Order Spread Protection thresholds per options series or class will also bring greater clarity to the rule. Today, the Exchange has this ability, it is simply adding that text to the rule. Utilizing defined terms within the Rulebook will also bring clarity to the rules. The Exchange also believes using more discrete language within the Anti-Internalization rule will clarify the functionality.

¹⁶ See note 14 above.

¹⁷ With respect to trading halts, Opening Process procedures will be used to reopen an option series after a trading halt, therefore, the same protections noted for the Opening Process will apply for a trading halt and the same restrictive boundaries would apply. See GEMX Rule 701(d).

¹⁸ The table is located at:
https://business.nasdaq.com/media/GEMXSystemSetting_tcm5044-41351.pdf.

Finally, the Exchange believes that expanding the definition of badge is consistent with the Act because it allows the Exchange the flexibility to administer the badges within its 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 not necessary or appropriate in furtherance of the purposes of the Act. The proposal does not impose an intra-market burden on competition with respect to the reorganization and relocation of the various rules into Rule 714 because the various risk protections are mandatory and will continue to apply uniformly to all market participants. The Exchange also believes that the addition of specific limitations to both the Limit Order Price Protection and Market Order Spread Protection rules will provide market participants with greater information as to when these protections will apply. These limitations apply uniformly to all market participants. The remainder of the rule changes are intended to bring greater transparency to the current operation Exchange's rules.

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

No written comments were either solicited or received.

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

Because the foregoing proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A) of the Act¹⁹ and Rule 19b-4(f)(6) thereunder.²⁰

¹⁹ 15 U.S.C. 78s(b)(3)(A).

A proposed rule change filed pursuant to Rule 19b-4(f)(6) under the Act²¹ normally does not become operative for 30 days after the date of its filing. However, Rule 19b-4(f)(6)(iii)²² permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange has requested that the Commission waive the 30-day operative delay so that the proposed rule change may become operative upon filing. The Exchange argues that waiver of the operative delay would allow the Exchange to immediately incorporate all risk protections into Rule 714 and bring greater transparency to the risk protections offered on the Exchange. The Commission believes that waiver of the 30-day operative delay is consistent with the protection of investors and the public interest. Accordingly, the Commission hereby waives the operative delay and designates the proposed rule change operative upon filing.²³

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule change should be approved or disapproved.

²⁰ 17 CFR 240.19b-4(f)(6). As required under Rule 19b-4(f)(6)(iii), the Exchange provided the Commission with written notice of its intent to file the proposed rule change, along with a brief description and the text of the proposed rule change, at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission.

²¹ 17 CFR 240.19b-4(f)(6).

²² 17 CFR 240.19b-4(f)(6)(iii).

²³ For purposes only of waiving the 30-day operative delay, the Commission also has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

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-GEMX-2018-32 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-GEMX-2018-32. 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-GEMX-2018-32, 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.²⁴

Brent J. Fields
Secretary

²⁴ 17 CFR 200.30-3(a)(12).