

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-83579; File No. SR-IEX-2018-13)

July 2, 2018

Self-Regulatory Organizations; Investors Exchange LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to the IPO Auction Processes for Trading in an IEX-Listed Security that is the Subject of an Initial Public Offering

Pursuant to Section 19(b)(1)<sup>1</sup> of the Securities Exchange Act of 1934 (“Act”)<sup>2</sup> and Rule 19b-4 thereunder,<sup>3</sup> notice is hereby given that on June 22, 2018, 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 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

(a) Pursuant to the provisions of Section 19(b)(1) under the Securities Exchange Act of 1934 (“Act”),<sup>4</sup> and Rule 19b-4 thereunder,<sup>5</sup> Investors Exchange LLC (“IEX” or “Exchange”) is filing with the Securities and Exchange Commission (“Commission”) a proposed rule change to modify Rules 11.280(h)(8) and 11.350(e), which collectively govern the IPO Auction processes for trading in an IEX-listed security that is the subject of an initial public offering

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 15 U.S.C. 78a.

<sup>3</sup> 17 CFR 240.19b-4.

<sup>4</sup> 15 U.S.C. 78s(b)(1).

<sup>5</sup> 17 CFR 240.19b-4.

(“IPO”).<sup>6</sup> The Exchange is also proposing to modify certain definitions in Rule 11.350(a) regarding IPO Auction market data that is disseminated in IEX Auction Information.<sup>7</sup> The Exchange has designated this rule change as “non-controversial” under Section 19(b)(3)(A) of the Act<sup>8</sup> and provided the Commission with the notice required by Rule 19b-4(f)(6) thereunder.<sup>9</sup>

The text of the proposed rule change is available at the Exchange’s website at [www.iextrading.com](http://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 statement 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

Overview

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<sup>6</sup> Pursuant to section 12(f)(1)(G)(i)-(ii) of the Securities Exchange Act, a security is the subject of an initial public offering if the offering of the subject security is registered under the Securities Act of 1933, the issuer of the security, immediately prior to filing the registration statement with respect to the offering, was not subject to the reporting requirements of the Act, and the initial public offering of such security commences at the opening of trading on the day on which such security commences trading on the national securities exchange with which such security is registered. See 15 U.S.C. 78l(f)(1)(G).

<sup>7</sup> See Rule 11.350(a)(9).

<sup>8</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>9</sup> 17 CFR 240.19b-4.

On August 4, 2017, the Commission approved a proposed rule change filed by the Exchange to adopt rules governing auctions in IEX-listed securities (“IEX Auctions”), including provisions governing the initial public offering (“IPO”) of IEX-listed securities.<sup>10</sup> The Exchange intends to launch a listings program for corporate issuers. During the process of designing the IPO Auction, the Exchange conducted a thorough review of the auction rules of the New York Stock Exchange (“NYSE”), NYSE Arca, Inc. (“NYSE Arca”), Nasdaq Stock Market, LLC (“Nasdaq”), Cboe BZX Exchange, Inc. (“Cboe BZX”), and the London Stock Exchange (“LSE”), as well as discussions with a variety of buy-side and sell-side market participants, including large banks and broker dealers, electronic market makers, asset managers, and institutional investors.

The purpose of this proposed rule change is to modify the IPO Auction rules and certain IPO Auction market data that is disseminated in IEX Auction Information to offer issuers, underwriters, and market participants a more transparent IPO Auction process. The proposed changes, discussed below in detail, are designed to enhance the price discovery process by augmenting certain of the Exchange’s automated and manual processes governing IPO Auctions with certain manual IPO Auction processes utilized by the NYSE.<sup>11</sup> Specifically, the Exchange is proposing to increase transparency to market participants regarding the supply and demand for an IPO security by requiring the lead underwriter, or broker-dealer serving in the role of financial advisor for securities being priced pursuant to Rule 11.280(h)(9) (collectively, the “underwriter”) to provide an Upper and Lower IPO Price Band (collectively, the “IPO Price

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<sup>10</sup> See Securities Exchange Act Release No. 81316 (August 4, 2017), 82 FR 37474 (August 10, 2017). See also Rule 11.350(e).

<sup>11</sup> See NYSE Rule 15 (Pre-Opening Indications and Order Imbalance Information). See also information regarding the NYSE IPO auction process available at: [https://www.nyse.com/publicdocs/nyse/listing/IPO\\_infographic.pdf](https://www.nyse.com/publicdocs/nyse/listing/IPO_infographic.pdf).

Band”) to the Exchange for publication, which may be updated by the underwriter as necessary to reflect the price range within which the underwriter anticipates the IPO Auction match will occur. The IPO Price Band will be published by the Exchange via IEX Auction Information on the Exchange’s proprietary data feeds,<sup>12</sup> as well as the applicable Securities Information Processor (“SIP”).<sup>13</sup> Additionally, the Exchange is proposing to constrain the Reference Price for the IPO Auction by the latest published IPO Price Band, which will provide information about Imbalance Shares<sup>14</sup> and Paired Shares<sup>15</sup> at a price that better reflects where the underwriter believes the IPO Auction match is anticipated to occur, and thus will invite offsetting interest within such range.

#### IEX IPO Auction

For trading in an IEX-listed security that is the subject of an IPO, or the initial pricing of any other security pursuant to Rule 11.280(h)(9),<sup>16</sup> the Exchange will conduct an IPO Auction pursuant to Rules 11.350(e) and 11.280(h)(8). Specifically, Users may submit Auction Eligible

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<sup>12</sup> See Rules 11.330(a)(1)-(3), and 11.350(a)(9).

<sup>13</sup> The Exchange is a participant of the quotation and transaction reporting plan governing Tape B Securities (“CTA Plan”). Pursuant to the CTA Plan, the CTA SIP, in relevant part, consolidates quote and trade data from all markets trading IEX-listed securities. The Exchange intends to leverage the existing [Trading Status message \(Category T Type S\)](#) offered by the CTA SIP to disseminate a Trading Range Indication message that reflects the IPO Price Band.

<sup>14</sup> See infra note 22.

<sup>15</sup> Id.

<sup>16</sup> Pursuant to Rule 11.280(h)(9), the process for halting and initial pricing of a security that is the subject of an IPO shall also be available for the initial pricing of any other security that has not been listed on a national securities exchange or traded in the over-the-counter market pursuant to FINRA Form 211 immediately prior to the initial pricing, provided that a broker-dealer serving in the role of financial advisor to the issuer of the securities being listed is willing to perform the functions under IEX Rule 11.280(h)(8) that are performed by an underwriter with respect to an IPO.

Orders<sup>17</sup> for execution in the IPO Auction at the start of the Order Acceptance Period,<sup>18</sup> which begins at 8:00 a.m.<sup>19</sup> All Auction Eligible Orders designated for participation in the IPO Auction will be queued on the IPO Auction Book<sup>20</sup> until the scheduled auction match, at which time they will be eligible for execution in the IPO Auction. Pursuant to Rule 11.350(e)(2)(A), the Exchange will begin to disseminate IEX Auction Information via electronic means at the start of the Display Only Period,<sup>21</sup> which begins thirty (30) minutes prior to the scheduled IPO Auction match, and will be updated every one second thereafter.<sup>22</sup> The Exchange will attempt to conduct an IPO Auction for all IEX-listed securities at the scheduled auction match time in accordance with the clearing price determination process set forth in Rule 11.350(e)(2)(C). Auction Eligible Orders will be ranked and maintained in accordance with IEX auction priority, pursuant to Rule 11.350(b).

The Exchange will generally attempt to conduct an IPO Auction beginning at 10:15 a.m. Pursuant to Rule 11.280(g)(7), IEX will declare a regulatory halt before the start of the Pre-Market Session for a security that is the subject of an IPO on IEX, and therefore there will be no Continuous Book for such security. The Order Acceptance Period for an IPO Auction may be extended at the time of the auction match pursuant to Rules 11.350(e)(2)(B)(i)-(iv):

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<sup>17</sup> See Rule 11.350(a)(2).

<sup>18</sup> See Rule 11.350(a)(29). The Exchange is proposing to make a clarifying change in proposed Rule 11.280(h)(8)(A) to explicitly state that Auction Eligible Orders are accepted during the Order Acceptance Period for an IPO Auction, rather than simply “orders”.

<sup>19</sup> All times are in Eastern Time.

<sup>20</sup> See Rule 11.350(a)(1)(C). For an IPO Auction, the IPO Auction Book would include Market-On-Open, Limit-On-Open, and market orders with a time-in-force of DAY, as well as limit orders with a time in-force of DAY, GTX, GTT, SYS, FOK, or IOC.

<sup>21</sup> See Rule 11.350(a)(5).

<sup>22</sup> See Rule 11.350(a)(9).

- Automatically for five (5) minutes when there are unmatched shares from market orders on the IPO Auction Book;
- Automatically for five (5) minutes when the Indicative Clearing Price<sup>23</sup> at the time of the IPO Auction match differs by the greater of five percent (5%) or fifty cents (\$0.50) from any of the previous fifteen (15) Indicative Clearing Price disseminations;
- Automatically during the Pre-Launch Period<sup>24</sup> when the IPO Auction match price is above (below) the upper (lower) price band selected by the underwriter pursuant to proposed Rule 11.280(h)(8), until the clearing price is within such bands; or
- Manually upon request from the underwriter at any time prior to the auction match.

Furthermore, Rule 11.280(h)(8) governs the process for resuming from a trading halt initiated under Rule 11.280(g)(7) for a security that is the subject of an IPO. Thus, in addition to the systemic processes described above that govern the IPO Auction match, there is a series of procedural steps to complete an IPO Auction, which include input from and coordination with the IPO underwriter. Specifically, pursuant to Rule 11.280(h), thirty (30) minutes after the start of the Display Only Period, unless extended by the underwriter, the security will enter a Pre-Launch Period of indeterminate duration. The Pre-Launch Period will end immediately after the transition to the Regular Market Session following the IPO Auction match,<sup>25</sup> pending:

- Notification from the underwriter that the security is ready to trade and subsequent approval of the Indicative Clearing Price at the time of such

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<sup>23</sup> See Rule 11.350(a)(9)(E).

<sup>24</sup> See Rule 11.280(h)(8).

<sup>25</sup> See Rule 11.350(e)(3).

notification;

- Selection of a price band, comprised of an upper (lower) price between \$0.00 and \$0.50 above (below) the approved Indicative Clearing Price, which explicitly constrains the IPO Auction match price; and
- Validation that each of the conditions for the extension of the Order Acceptance Period set forth in Rules 11.350(e)(2)(B)(i)-(iv) are not satisfied.

Rule 11.350(a)(9) defines the various data fields that are disseminated in IEX Auction Information for IEX Auctions, including the data that is disseminated during the Display Only Period for an IPO Auction. IEX Auction Information contains the current status of price, size, imbalance information, auction collar information, and other relevant information related to the IPO Auction. Specifically, IEX Auction Information for an IPO Auction contains the following data elements:

- **Reference Price:** The single price at or within the Reference Price Range at which orders on the IPO Auction Book would match if the IPO Auction were to occur at that time of dissemination. The Reference Price is set to the price that maximizes the number of the shares from orders on the Auction Book to be executed in the auction. If more than one price maximizes the number of shares that will execute resulting in an auction price range, the Reference Price is set to the price at or within such range that is not lower (higher) than the most aggressive unexecuted buy (sell) order. If more than one price satisfies the above conditions, the Reference Price is set to the price closest or equal to either the Volume Based Tie Breaker (if such range includes prices in the Reference Price Range) or the Reference Price Range (if such range does not include prices in the Reference Price Range) at the time of dissemination. In the case of an IPO Auction, the

Reference Price shall be the same as the Auction Book Clearing Price (because there is no Continuous Book prior to an IPO Auction).

- Paired Shares: The number of shares from orders on the IPO Auction Book that can be matched with other orders on the IPO Auction Book at the Reference Price at the time of dissemination.
- Imbalance Shares: The number of shares from orders on the IPO Auction Book that may not be matched with other orders on the IPO Auction Book at the Reference Price at the time of dissemination.
- Imbalance Side: The buy/sell direction of any imbalance at the time of dissemination.
- Indicative Clearing Price: The single price at which Auction Eligible Orders would match if the IPO Auction were to occur at the time of dissemination pursuant to the procedures for determining the clearing price set forth in the applicable auction rule. In the case of an IPO Auction, the Indicative Clearing Price shall be the same as the Auction Book Clearing Price (because there is no Continuous Book prior to an IPO Auction).
- Auction Book Clearing Price: The single price at which orders on the IPO Auction Book would match if the IPO Auction were to occur at the time of dissemination pursuant to the procedures for determining the clearing price set forth in the applicable auction rule. If shares from market orders would remain unexecuted, IEX shall disseminate an indicator for “market buy” or “market sell.”
- Scheduled Auction Time: The projected time of the auction match.
- Extension Number: The total number of automatic Order Acceptance Period extensions the IPO Auction has received.



- The Exchange notes that IEX Auction Information includes data fields for a Collar Reference Price, Lower Auction Collar, and Upper Auction Collar, all of which will be set zero (0) for an IPO Auction, because collars do not apply to the IPO Auction.

### Proposed Changes

Each field disseminated in IEX Auction Information is strategically tailored to the IEX Auction model. Specifically, IEX Auction Information is designed to provide transparent and reliable information regarding the price and size of the pending auction match that allows participants to enter new auction-specific interest or adjust continuous trading behavior as they iterate towards the clearing price.<sup>26</sup> As discussed above, in the case of an IPO Auction, there is no Continuous Book, and thus IEX Auction Information is designed to provide transparency regarding the state of the Auction Book. However, it is IEX's understanding that in an IPO Auction, a large portion of the Auction Eligible Orders that will be participating are represented by the underwriter and participating syndicate members, both on a proprietary and agency basis, that typically have made a firm commitment to purchase the securities and place them with investors. This process of allocating shares to interested investors, or "book building", is managed by the lead underwriter in advance of the IPO Auction process, allowing for the underwriter to assess investor demand before determining the issue price for the security, and the subsequent IPO Auction process.

At the time of the IPO Auction, as a result of the book building process, IEX understands that the syndicate typically has explicit interest from clients and indications of excess demand from investors that were seeking more shares than they were allocated, as well as supply from

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<sup>26</sup> See Securities Exchange Act Release No. 80583 (May 3, 2017) 82 FR 21634 (May 9, 2017) (SR-IEX-2017-10).

investors that received an allocation and intend to sell in the IPO Auction. The underwriter is typically responsible for coordinating with participating syndicate members to account for the aggregate share supply and investor demand leading up to and during the IPO Auction process. As a result, the IPO Auction Book, and therefore IEX Auction Information, conveys only a partial representation of the supply and demand for an IPO security until a material portion of the interest represented by the underwriter enters the Auction Book. Accordingly, between the start of the Display Only Period and the start of the Pre-Launch Period, the Exchange is proposing to increase transparency to market participants regarding the supply and demand for an IPO security by requiring the underwriter to provide the Exchange with an IPO Price Band for publication, which would reflect the price range within which the underwriter anticipates the IPO Auction match to occur. When published, the IPO Price Band would be disseminated via the SIP and IEX Auction Information.<sup>27</sup>

As proposed, in determining the IPO Price Band, the underwriter would take into account all Auction Eligible Orders for the IPO Auction, including all orders on the Exchange's Order Book, as well as the underwriter's own interest, and interest otherwise represented by the underwriter.<sup>28</sup> If the current published IPO Price Band spread is greater than \$1.00, the underwriter shall make best efforts to provide the Exchange with an updated IPO Price Band with a spread of \$1.00 or less for publication before the IPO Auction match.<sup>29</sup> In order to allow

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<sup>27</sup> See proposed Rule 11.280(h)(8)(B). See also NYSE Rule 15(a), which provides for a similar function.

<sup>28</sup> See proposed Rule 11.280(h)(8)(B)(i). See also NYSE Rule 15(b)(2), which includes similar language that is specific to the NYSE's manual trading floor-based model.

<sup>29</sup> See proposed Rule 11.280(h)(8)(B)(ii). See also NYSE Rule 15(e)(3), which imposes a substantially similar requirements on the DMM to make best efforts to narrow the pre-opening indication spread to \$1.00.

market participants a reasonable opportunity to adjust their Auction Eligible Orders in response to a published IPO Price Band, a minimum of one minute must elapse between publication of the last IPO Price Band and the IPO Auction match.<sup>30</sup>

The Exchange proposes to integrate the IPO Price Band into IEX Auction Information in several ways that are designed to enhance transparency and guide the price discovery process within the IPO Price Band as market participants iterate towards a clearing price. First, the Exchange proposes to publish the Upper IPO Price Band and Lower IPO Price Band as the Upper Auction Collar and Lower Auction Collar, respectively, unless the underwriter has not provided an IPO Price Band to the Exchange for publication, in which case the Upper and Lower Auction Collar will be equal to the Volume Based Tie Breaker, which is equal to the issue price in the case of an IPO Auction.<sup>31</sup> Similarly, the Exchange proposes to amend the Collar Reference Price definition to be equal to the Volume Based Tie Breaker (i.e., the issue price), unless such price is above (below) the most current Upper (Lower) IPO Price Band published by the Exchange, in which the case the Collar Reference Price shall be equal to the Upper (Lower) IPO Price Band. As proposed, the Collar Reference Price will provide market participants a signal regarding the issue price relative to the IPO Price Band provided by the underwriter, which would inform market participants regarding the state of supply and demand for the IPO security.

Furthermore, in the case of an IPO Auction, the Exchange proposes to change the definition of Reference Price Range to be equal to the prices between and including the most current IPO Price Band published by the Exchange, unless the underwriter has not provided the

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<sup>30</sup> See proposed Rule 11.280(h)(8)(B)(iii). See also NYSE Rule 15(e)(4), which imposes a series of temporal restriction on the opening of a security following publication of a pre-opening indication.

<sup>31</sup> See Rule 11.350(a)(33), which defines the Volume Based Tie Breaker for an IPO Auction as being equal to the issue price.

Exchange with an IPO Price Band for publication, in which case the Reference Price Range will be equal to the Volume Based Tie Breaker. The Reference Price Range is used to constrain the Reference Price at which the Exchange disseminates Paired Shares and Imbalance Shares. Accordingly, if but for the constraint, the Reference Price would be above (below) the Upper (Lower) IPO Price Band, the Reference Price would be equal to the Upper (Lower) IPO Price Band, and thus the Exchange would disseminate Paired Shares and Imbalance Shares at the Upper (Lower) IPO Price Band, which would solicit interest willing to offset the imbalance at prices at or within the IPO Price Band.<sup>32</sup> For example, at the start of the Display Only Period, the IPO Price Band and therefore the Reference Price Range is \$12.00 by \$13.00, and the Indicative Clearing Price is \$10.00. The Reference Price, which would be constrained by the Reference Price Range, would be equal to the Lower IPO Price Band of \$12.00, and thus the Exchange would show Paired Shares and Imbalance Shares at \$12.00.<sup>33</sup> In the case of a buy imbalance, this would solicit additional offsetting interest to sell at or higher than the Lower IPO Price Band, and thus guiding the clearing price at or within the IPO Price Band, which would reflect all Auction Eligible Orders for the IPO Auction, including all orders on the Exchange's Order Book, as well as the underwriter's own interest, and interest represented by the underwriter.

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<sup>32</sup> The Exchange proposes to make a conforming change to the definition of Reference Price set forth in proposed Rule 11.350(a)(9)(A), which would constrain the Reference Price by the Upper and Lower IPO Price Bands, and thus the Reference Price will no longer necessarily be the same as the Auction Book Clearing Price and the Indicative Clearing Price.

<sup>33</sup> The Exchange notes that this example assumes the underwriter has provided the Exchange with an IPO Price Band for publication immediately at the start of the Display Only Period. However, it is possible that the underwriter does not provide the Exchange with the first IPO Price Band for publication until after the start of the Display Only Period, in which case, between the start of the Display Only Period and publication of the first IPO Price Band, the Reference Price would be equal to the Volume Based Tie Breaker, which is defined as the issue price for the IPO security.

Assuming the same facts above but excluding the proposed changes regarding the IPO Price Band illustrates the benefits of the proposed change. For example, at the start of the Display Only Period, the Auction Book Clearing Price and therefore the Reference Price and Indicative Clearing Price are all \$10.00. However, when accounting for the underwriter's own interest and interest represented by the underwriter, shares are maximized between \$12.00 and \$13.00 (i.e., the underwriter has or represents more aggressive buy interest that intends to participate in the IPO Auction between \$12.00 and \$13.00). However, IEX Auction Information does not currently provide a mechanism for the underwriter to broadly disseminate the effect of the underwriter's own interest and interest represented by the underwriter on the potential price of the IPO Auction match. Thus, in the case of a buy imbalance, IEX Auction Information would solicit additional offsetting interest to sell at or higher than \$10.00, thus guiding the price discovery process based on a partial representation of the interest that intends on participating in the IPO Auction. Therefore, as described above, the Exchange is proposing to increase transparency by enabling the underwriter to broadly disseminate an indication regarding the potential price of the IPO Auction match that accounts for the underwriter's own interest and interest represented by the underwriter.

Pursuant to proposed Rule 11.280(h)(8)(C), at least fifteen (15) minutes after the start of the Display Only Period,<sup>34</sup> the underwriter shall advise the Exchange to enter a "Pre-Launch Period" of indeterminate duration.<sup>35</sup> As proposed, the Exchange is shortening the minimum Display Only Period from thirty (30) minutes to fifteen (15) minutes, in order to facilitate the commencement of fair and orderly trading in securities that are the subject of an IPO, by

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<sup>34</sup> See supra note 21.

<sup>35</sup> The Exchange is also proposing to make a conforming change to Rule 11.350(a)(5) to reflect the shorter minimum display only period.

providing greater flexibility to begin trading earlier in certain cases, such as smaller IPOs, where an extended Display Only Period is not necessary for order entry and the development of price stability. At the same time, the proposed change will permit a longer Display Only Period in cases where extensive order entry is still occurring or where price stability has not yet developed. The Pre-Launch Period and the Display Only Period shall end, and the security shall be released for trading by IEX when the following conditions are all met, and the requirements of Rule 11.350(e)(2) are satisfied:

- All market orders will be executed in the IPO Auction;
- The underwriter has selected a final IPO Price Band that is at or within the last published IPO Price Band;
- The IPO Auction clearing price is at or within the IPO Price Band selected by the underwriter under the immediately preceding bullet point; and
- IEX receives notice from the underwriter of the IPO that the security is ready to trade.

Under proposed Rule 11.280(h)(8)(D), the failure to satisfy the conditions of proposed Rule 11.280(h)(8)(C) would result in a delay of the release for trading of the IPO, and a continuation of the Pre-Launch Period, during which the underwriter may provide one or more updated IPO Price Bands to the Exchange for publication pursuant to proposed Rule 11.280(h)(8)(B), until all of the conditions of proposed Rule 11.280(h)(8)(C) have been satisfied.<sup>36</sup> In addition, because the IPO Auction is conditioned on the underwriter manually giving the Exchange notice that the IPO security is ready to trade, the Exchange is proposing to specify that the Scheduled Auction Time data field in IEX Auction Information is not

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<sup>36</sup> The Exchange is proposing to make a conforming change to the conditions for extending the Order Acceptance Period for an IPO Auction as set forth in proposed Rule 11.350(e)(2)(B)(iii) and Rule 11.350(e)(2)(C)(iv).

specified.<sup>37</sup>

As described above, the Exchange is proposing to move away from a predominantly automated IPO Auction mechanism towards a more manual process that is designed to account for the underwriter's unique and fundamental role in the IPO process. Accordingly, the Exchange is proposing to eliminate the automated five (5) minutes extensions of the Order Acceptance Period for IPO Auctions that are set forth in Rule 11.350(e)(2)(B), described above.<sup>38</sup> The existing automated extension processes were originally designed to systematically accommodate unexpected imbalances and sharp price movements leading into an IPO Auction match by allowing market participants an additional five (5) minute period to enter, cancel, and/or adjust Auction Eligible Orders and iterate towards a new equilibrium price. However, proposed Rule 11.280(h)(8)(D) is designed to enable the underwriter, who plays a unique and central role in the IPO process, an opportunity to extend the price discovery process in response to unexpected changes in the composition of the IPO Auction Book that would impact the price of the IPO Auction match after the start of the Pre-Launch Period.

Further, constraining the IPO Auction by the IPO Price Band provides a mechanism to protect the IPO Auction match from occurring at a price that is outside of the expected auction price range provided by the underwriter as communicated to participants via IEX Auction Information and the SIP. Moreover, proposed Rule 11.280(h)(8)(D) is also designed to provide enhanced transparency to market participants regarding unexpected imbalances and sharp price

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<sup>37</sup> The Exchange notes that market participants will be able to assess the timing of the IPO Auction match by monitoring the Indicative Clearing Price and the current IPO Price Band; as the IPO Price Band narrows, and the Indicative Clearing Price moves within the IPO Price Band, the IPO Auction can be considered imminent.

<sup>38</sup> The Exchange proposes to remove IPO's from the Extension Number field within IEX Auction Information because, as proposed, there will no longer be automated extension of the Order Acceptance Period. See proposed Rule 11.350(a)(9)(K).

movements leading into an IPO Auction match by allowing the underwriter to provide one or more updated IPO Price Bands to the Exchange for publication, pursuant to proposed Rule 11.280(h)(8)(B), reflecting the new price range within which the IPO Auction match is anticipated to occur after accounting for all Auction Eligible Orders for the IPO Auction, including all orders on the Exchange's Order Book, as well as the underwriter's own interest and interest represented by the underwriter.<sup>39</sup> The Exchange believes such increased transparency would facilitate a more informed price discovery process as market participants iterate towards a new equilibrium price after an unexpected change in the composition of the IPO Auction Book that impacts the clearing price.

In addition, the Exchange is proposing to eliminate the existing underwriter price band selection process set forth in Rule 11.280(h)(8)(A)(iii) (described above), in light of the enhanced IPO Price Band selection process set forth in proposed Rule 11.280(h)(8)(C)(ii), which serves a substantially similar function. Specifically, during the Pre-Launch Period, proposed Rule 11.280(h)(8)(C)(ii) requires the underwriter to select an IPO Price Band at or within the last published IPO Price Band (that the underwriter must make best efforts to narrow to a spread of \$1.00 or less before the IPO Auction match)<sup>40</sup> that would serve as an explicit constraint on the IPO Auction match price pursuant to proposed Rule 11.280(h)(8)(C)(iii), which is eligible to occur only after the Exchange receives notice from the underwriter that the security is ready to

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<sup>39</sup> The Exchange notes that when the underwriter provides an updated IPO Price Band to the Exchange for publication, the underwriter would also be subject to proposed Rules 11.280(h)(8)(B)(ii)-(iii), requiring the underwriter to make best efforts to provide an IPO Price Band with a spread of \$1.00 or less before the IPO Auction match, and allowing a minimum of one minute to elapse after publication of the updated IPO Price Band and the IPO Auction match to allow market participants time to account for the updated IPO Price Band.

<sup>40</sup> See supra note 29.



trade pursuant to proposed Rule 11.280(h)(8)(C)(iv).

Similarly, as described above, during the Pre-Launch Period, existing Rule 11.280(h)(8)(A)(iii) requires, as a condition to execution of the IPO Auction, notification from the underwriter that the security is ready to trade and subsequent approval of the Indicative Clearing Price at the time of such notification. Further, the underwriter must select a price band, comprised of an upper (lower) price between \$0.00 and \$0.50 above (below) the approved Indicative Clearing Price, which explicitly constrains the IPO Auction match price. Therefore, the Exchange believes the proposed elimination of the existing underwriter price band selection process does not substantively alter the IPO Auction functionality in that the enhanced IPO Price Band selection process set forth in proposed Rule 11.280(h)(8)(C)(ii), which requires the underwriter to select an IPO Price Band at or within the last published IPO Price Band (that the underwriter must make best efforts to narrow to a spread of \$1.00 or less before the IPO Auction match), serves a substantially similar function, while facilitating a more robust price discovery process that more fully reflects supply and demand to determine the price and timing of the IPO Auction match.

Consistent with current Rule 11.280(h)(8)(B), pursuant to proposed Rule 11.280(h)(8)(D), the underwriter, with concurrence of IEX, may determine at any point during the IPO Auction process up through the conclusion of the Pre-Launch Period to postpone and reschedule the IPO. Market participants may continue to enter orders and order cancellations for participation in the IPO Auction during the Pre-Launch Period until the auction match.

Lastly, the Exchange is proposing Supplemental Material .01 to Rule 11.280(h)(8) that addresses the jurisdictional issue posed by an underwriter for a security that is the subject of an IPO on IEX that is not an approved Member of the Exchange. Specifically, proposed

Supplemental Material .01 states that the underwriter for a security that is the subject of an IPO on IEX must be a Member of the Exchange, or appoint a Member of the Exchange to perform the functions under Rule 11.280(h)(8) that are performed by the underwriter with respect to the IPO Auction.<sup>41</sup> Proposed Supplemental Material .01 is designed to ensure the enforceability of the Exchange's rules governing the underwriter's responsibilities during the IPO Auction process as proposed, which as described above, are designed to promote transparency and price discovery for securities that are the subject of an IPO on the Exchange. The Exchange believes that absent the provisions set forth Supplemental Material .01, an underwriter that is not a Member of the Exchange would not be legally bound by the Exchange's rules and therefore could fail to satisfy the obligations of the underwriter under proposed Rule 11.280(h)(8).

## 2. Statutory Basis

IEX believes that the proposed rule changes are consistent with the provisions of Section 6(b)<sup>42</sup> of the Act in general, and furthers the objectives of Section 6(b)(5) of the Act<sup>43</sup> in particular, in that they are designed to prevent fraudulent and manipulative acts and practices, 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.

The Exchange believes that the proposed changes are consistent with the protection of investors and the public interest in that they are designed to increase transparency to market

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<sup>41</sup> The Exchange expects that an underwriter appointing such Member would share with the Member all information necessary for the Member to adequately perform the functions required under Rule 11.280(h)(8).

<sup>42</sup> 15 U.S.C. 78f.

<sup>43</sup> 15 U.S.C. 78f(b)(5).

participants regarding the supply and demand for an IPO security by requiring the underwriter to provide the Exchange with IPO Price Bands for broad dissemination. Furthermore, the Exchange believes the proposed changes remove impediments to and perfect the mechanism of a free and open market and national market system by enhancing the price discovery process in the IPO Auction by providing IEX Auction Information that is more reflective of the aggregate supply and demand for a security, as described in the Purpose section. Specifically, by constraining the Reference Price for the IPO Auction by the latest published IPO Price Band, the Exchange will provide information regarding Imbalance Shares and Paired Shares at a price that reflects all orders on the Order Book, as well as the underwriter's own interest and interest represented by the underwriter.

The Exchange also believes that the proposed rule changes governing the publication of underwriter's selection of an IPO Price Band are consistent with the protection of investors and the public interest. Specifically, the Exchange believes that requiring the underwriter to consider all interest on the Order Book, as well as the underwriter's own interest and interest represented by the underwriter, is designed to ensure that the IPO Price Band provides a more accurate representation of the aggregate supply and demand for the IPO security. Moreover, the Exchange believes that it is consistent with the protection of investors and the public interest to require that the underwriter make best efforts to provide an IPO Price Band for publication with a spread of \$1.00 or less before the IPO Auction match, as well as mandating that a minimum of one minute to elapse between the time of the last IPO Price Band publication and the IPO Auction match. Specifically, the Exchange believes the narrower spread and one-minute window will allow market participants a reasonable opportunity to adjust their Auction Eligible Orders in response to the last IPO Price Band, which more accurately reflects the aggregate supply and demand for

the IPO security in final moments before the IPO Auction match.

Furthermore, the Exchange believes the proposed rule change to shorten the minimum Display Only Period from thirty (30) minutes to fifteen (15) minutes is consistent with the protection of investors and the public interest in that it is designed to facilitate the commencement of orderly trading in securities that are the subject of an IPO by providing greater flexibility to begin trading earlier in certain cases, such as smaller IPOs, where an extended Display Only Period is not necessary to allow for order entry and the development of price stability, while at the same time avoiding unnecessary temporal constraints on the price discovery process in cases where extensive order entry is still occurring or where price stability has not yet developed.

The Exchange believes it is consistent with the protection of investors and the public interest to eliminate the automated five (5) minute extension of the Order Acceptance Period and provide for a manual extension process that requires the underwriter to provide one or more updated IPO Price Bands to the Exchange for publication. The Exchange believes the proposed changes acknowledge the unique and central role of the underwriter in the IPO Process, and allow for the underwriter to transparently respond to unexpected changes in the composition of the IPO Auction Book that would impact the price of the IPO Auction match after the start of the Pre-Launch Period. Moreover, the Exchange believes the increased transparency would facilitate a more informed price discovery process as market participants iterate towards a new equilibrium price after an unexpected change in the composition of the IPO Auction Book that impacts the clearing price. Similarly, the Exchange further believes that constraining the IPO Auction by the IPO Price Band is consistent with the protection investors and the public interest in that it provides a mechanism to protect the IPO Auction match from occurring at a price that is

outside of the expected auction price range that has been communicated to participants via IEX Auction Information and the SIP, which fosters price transparency and continuity.

Furthermore, the Exchange believes that eliminating the existing underwriter price band selection process set forth in Rule 11.280(h)(8)(A)(iii), in light of the proposed IPO Price Band selection and publication process, is consistent with the protection of investors and the public interest in that the proposed rules governing the selection and publication of an IPO Price Band serves a substantially similar function, while facilitating a more robust price discovery process that more fully reflects supply and demand to determine the price and timing of the IPO Auction match.

Lastly, the Exchange believes that proposed Supplemental Material .01 to Rule 11.280(h)(8) is consistent with the protection of investors and the public interest, in that the proposed supplemental material is designed to ensure the enforceability of the Exchange's rules governing the underwriter's responsibilities during the IPO Auction process as proposed, which as described above, are designed to promote transparency and price discovery for securities that are the subject of an IPO on the Exchange.

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

IEX does not believe that the proposed rule changes will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The Exchange notes that the proposed rule changes are similar to certain rules of the NYSE.<sup>44</sup> Thus, the Exchange believes there are no new inter-market competitive burdens imposed as a result of the proposed rule changes, which are designed to augment certain of the Exchange's automated and manual processes governing IPO Auctions with certain manual IPO Auction processes

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<sup>44</sup> See supra notes 11, 27 - 30.

utilized by the NYSE. To the contrary, the Exchange believes the proposed changes may serve as a catalyst for competition in the market for IPOs by providing underwriters a familiar tool for managing the IPO auction process while simultaneously enhancing IPO Auction transparency for market participants.

In addition, the Exchange does not believe that the proposed changes will have any impact on intra-market competition. Specifically, as discussed above, the proposed changes are designed to increase transparency to market participants regarding the supply and demand for an IPO security by requiring the underwriter to provide the Exchange with the proposed IPO Price Band for broad publication. Broad publication of the IPO Price Band and the proposed integration with IEX Auction Information is designed to enhance price discovery in the IPO Auction process, to the benefit of all market participants, by providing information about Imbalance Shares and Paired Shares at a price that better reflects where the underwriter believes the IPO Auction match is anticipated to occur, and thus inviting offsetting interest within such range. Moreover, the Exchange notes that the proposed IPO Price Band will be disseminated via IEX Auction Information, which is available free of charge through the Exchange's existing proprietary data feeds.<sup>45</sup> Moreover, the proposed IPO Price Band will be disseminated via the SIP,<sup>46</sup> which is a widely consumed data product.<sup>47</sup> Accordingly, the proposed changes would apply to all Members on a fair and equal basis, in that all market participants have an equal opportunity to consume IEX Auction Information and/or SIP data. Accordingly, the Exchange believes there are no intra-market competitive burdens imposed as a result of the proposed rule

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<sup>45</sup> See Rule 11.330.

<sup>46</sup> See supra note 9 [sic].

<sup>47</sup> See, e.g., CTA SIP [Tape A & B subscriber/household metrics](#).

changes.

Lastly, the Exchange believes that proposed Supplemental Material .01 to Rule 11.280(h)(8) does not result in any undue burden on competition, as any qualified market participant may become a Member of the Exchange free of charge,<sup>48</sup> or may alternatively enter into private arrangements to appoint any approved Exchange Member to perform the functions under Rule 11.280(h)(8) that are performed by the underwriter with respect to the IPO Auction.

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.

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

The Exchange has designated this rule filing as non-controversial under Section 19(b)(3)(A)<sup>49</sup> of the Act and Rule 19b-4(f)(6)<sup>50</sup> thereunder. Because the 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 Act and Rule 19b-4(f)(6) thereunder.

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

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<sup>48</sup> See the [IEX Fee Schedule](#), which currently provides for free Membership on the Exchange, available at <https://iextrading.com/trading/fees/>.

<sup>49</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>50</sup> 17 CFR 240.19b-4(f)(6).

Commission shall institute proceedings under Section 19(b)(2)(B)<sup>51</sup> of the Act to determine whether the proposed rule change should be approved or 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](mailto:rule-comments@sec.gov). Please include File Number SR-IEX-2018-13 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-IEX-2018-13. 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

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<sup>51</sup> 15 U.S.C. 78s(b)(2)(B).



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. 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-IEX-2018-13, 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.<sup>52</sup>

Eduardo A. Aleman  
Assistant Secretary

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<sup>52</sup> 17 CFR 200.30-3(a)(12).