SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-93010; File No. SR-GEMX-2021-09)

September 15, 2021

Self-Regulatory Organizations; Nasdaq GEMX, LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend Options 3, Section 17, to Decommission the Exchange's Quote Removal Kill Switch Functionality

Pursuant to Section 19(b)(1)[1] of the Securities Exchange Act of 1934 ("Act")[2] and Rule 19b-4 thereunder,[3] notice is hereby given that, on September 2, 2021, 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 decommission the Exchange's quote removal Kill Switch functionality at Options 3, Section 17.

The text of the proposed rule change is available on the Exchange's Website at https://listingcenter.nasdaq.com/rulebook/gemx/rules, 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

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[1]   15 U.S.C. 78s(b)(1).

[2]   15 U.S.C. 78a.

[3]   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 proposes to amend Options 3, Section 17 to decommission the Exchange's

quote removal Kill Switch functionality, which is an optional tool that allows Market Makers to

initiate a message[4] to the System[5] to promptly cancel and restrict their quote activity on GEMX,

or across both GEMX and its affiliate, Nasdaq ISE, in either case as set by the Market Maker.

Market Makers may submit a Kill Switch request to the System for certain identifier(s)

("Identifier") on either a user or group level.[6] If quotes are cancelled by the Market Maker using

Kill Switch, it will result in the removal of all quotes requested for the Identifier(s). The Market

Maker will be unable to enter any additional quotes for the affected Identifier(s) until the Market

Maker sends a re-entry request to the Exchange.[7]

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[4] Today, Market Makers can log in through a graphical user interface ("GUI") to send a message to the Exchange to initiate the quote removal or order cancellation Kill Switch. See Options 3, Section 17(a)(2). The Exchange also currently offers an order cancellation Kill Switch through its order entry ports (i.e., FIX, OTTO, and Precise) as an alternative to its GUI Kill Switch. See Options 3, Section 17(a)(1). The Exchange is not amending the port Kill Switch functionality with this proposal.

[5] The term "System" means the electronic system operated by the Exchange that receives and disseminates quotes, executes orders and reports transactions. See Options 1, Section 1(a)(49).

[6] Identifiers include Exchange accounts, ports, and/or badges or mnemonics. Thus, a Market Maker using Kill Switch may elect to remove quotes for an individual Identifier (e.g., badge) or any group of Identifiers (e.g., all badges within one Market Maker firm). Permissible groups must reside within a single Member firm.

[7] See Options 3, Section 17(a)(2) and (3). The GUI Kill Switch tool also currently allows Members to cancel open orders and prevent new order submission. As noted above, the

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Due to the lack of demand for the quote removal Kill Switch by Market Makers, the

Exchange proposes to decommission this optional tool by the end of Q4 2021.[8] Through

consultation with individual Market Maker firms prior to filing this rule change, the Exchange

did not receive any negative feedback for its proposal to decommission the quote removal Kill

Switch functionality. The Exchange has also provided all market participants with advance

notice that it will decommission this functionality in Q4 2021.[9] With the proposed changes, the

Exchange seeks to streamline its product offerings and to reallocate Exchange resources to other

business and risk management initiatives. While the Exchange will no longer offer this optional

functionality to Market Makers, it will continue to offer similar quote management tools that

would assist Market Makers with their efforts to manage their risk with respect to quotes on the

Exchange. For example, Market Makers are currently able to send a mass purge request through

Specialized Quote Feed ("SQF") to pull their existing quotes from the market and inhibit the

entry of new quotes until the Market Maker sends a message to the Exchange to re-enter the

System.[10] Indeed, the Exchange has found that Market Makers utilize this SQF purge

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Exchange also offers an order cancellation Kill Switch through its order entry ports. See supra note 3. The Exchange is not proposing to decommission the order cancellation portion of the GUI Kill Switch or the order cancellation port Kill Switch at this time.

[8]   No Market Makers have used the Kill Switch for quote removal in 2021.

[9]   See Options Trader Alert #2021-49.

[10]   "SQF" is an interface that allows Market Makers to connect, send, and receive messages related to quotes, Immediate-or-Cancel Orders, and auction responses to the Exchange. Features include the following: (1) options symbol directory messages (e.g., underlying instruments); (2) System event messages (e.g., start of trading hours messages and start of opening); (3) trading action messages (e.g., halts and resumes); (4) execution messages; (5) quote messages; (6) Immediate-or-Cancel Order messages; (7) risk protection triggers and purge notifications; (8) opening imbalance messages; (9) auction notifications; and (10) auction responses. The SQF Purge Interface only receives and notifies of purge requests from the Market Maker. Market Makers may only enter interest into SQF in their assigned options series. See Supplementary Material .03(c) to Options 3, Section 7.

functionality instead of the Kill Switch quote removal tool when they want to remove their quotes from the market.

In addition, all Members, including Market Makers, may contact the Exchange's market operations staff to request that the Exchange cancel any of their existing bids, offers, or orders in any series of options.[11] Furthermore, the Exchange will continue to have mandatory System-enforced risk mechanisms that automatically remove quotes for the Market Maker once certain pre-set thresholds or conditions are met. This includes risk protections such as rapid fire risk controls[12] and cancel on disconnect.[13]

To effect the decommissioning of the quote removal Kill Switch, the Exchange proposes to amend Options 3, Section 17 by eliminating all references to quote cancellation within this Rule.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,[14] in general, and furthers the objectives of Section 6(b)(5) of the Act,[15] in particular, in that it is

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[11]   See Options 3, Section 19.

[12]   The rapid fire risk controls automatically remove Market Maker quotes submitted over SQF when certain firm-set thresholds are met. Once the thresholds are triggered, the Market Maker must send a re-entry indicator to re-enter the System. See Options 3, Section 15(a)(3)(B).

[13]   When the SQF Port detects the loss of communication with a Member's Client Application because the Exchange's server does not receive a Heartbeat message for a certain time period ("nn" seconds), the Exchange will automatically logoff the Member's affected Client Application and automatically cancel all of the Member's open quotes pursuant to Section 18(e). Quotes will be cancelled across all Client Applications that are associated with the same GEMX Market Maker ID and underlying issues. See Options 3, Section 18(b).

[14]   15 U.S.C. 78f(b).

[15]   15 U.S.C. 78f(b)(5).

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. Additionally, the Exchange believes that the proposed rule change is consistent with the Section 6(b)(5) requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

Specifically, the Exchange does not believe that the proposed rule change will affect the protection of investors or the public interest or the maintenance of a fair and orderly market because no Market Makers have used the quote removal Kill Switch risk control in 2021. In addition, the Exchange notes that the use of this tool is completely optional, and the Exchange will continue to offer Market Makers similar risk management tools such as the SQF mass quote purge functionality. As discussed above, the Exchange has found that Market Makers use the SQF purge functionality much more frequently than the quote removal Kill Switch to pull their quotes from the market. Furthermore, Market Makers will retain the ability to contact market operations staff to manually purge their quotes from the market. In addition, the Exchange will continue to implement mandatory System-enforced risk mechanisms that automatically remove quotes for the Market Maker once certain pre-set thresholds or conditions are met (i.e., rapid fire and cancel on disconnect).

Also, the Exchange believes that the low usage rate for the quote removal Kill Switch does not warrant the continuous resources necessary for System support of such tools. As a result, the Exchange also believes that the proposal will remove impediments to and perfect the mechanism of a free and open market and a national market system by allowing the Exchange to reallocate System capacity and resources currently used to maintain this functionality to the development and maintenance of other business initiatives and risk management products.

As noted above, the Exchange will retain the ability for Members to utilize Kill Switch to cancel orders and prevent new order submission. The Exchange does not believe that decommissioning the quote removal portion of the Kill Switch tool for Market Makers is unfairly discriminatory because Market Makers are professional traders with their own risk settings, and have more sophisticated infrastructures than most other market participants. Furthermore, as discussed above, the Exchange has determined that Market Makers currently use the mass purge functionality on SQF to pull their quotes from the market instead of using the quote removal Kill Switch tool to achieve the same result.

    B.   <u>Self-Regulatory Organization's Statement on Burden on Competition</u>

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 proposed rule change will allow the Exchange to decommission a risk management tool that is rarely, if ever, used on the Exchange. As discussed above, Market Makers currently have a variety of similar tools like the quote removal Kill Switch that allow them to pull their quotes from the market and inhibit the entry of new quotes, including the mass quote purge functionality on SQF that the Exchange has found Market Makers use much more frequently than the quote removal Kill Switch to achieve the same result.

As noted above, the Exchange will retain the ability for Members to utilize Kill Switch to cancel orders and prevent new order submission. The Exchange does not believe that decommissioning the quote removal portion of the Kill Switch tool for Market Makers will impose an undue burden on competition because Market Makers are professional traders with their own risk settings, and have more sophisticated infrastructures than most other market participants.

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 Act[16] and Rule 19b-4(f)(6) thereunder.[17]

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.

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

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[16]   15 U.S.C. 78s(b)(3)(A).

[17]   17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6) requires a self-regulatory organization to give the Commission written notice of its intent to file 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. The Exchange has satisfied this requirement.

- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-GEMX-2021-09 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-2021-09. 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-2021-09 and

should be submitted on or before [insert date 21 days from publication in the <u>Federal</u> <u>Register</u>].

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

authority.[18]

J. Matthew DeLesDernier
Assistant Secretary

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[18]   17 CFR 200.30-3(a)(12).