

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-81107; File No. SR-MRX-2017-11)

July 11, 2017

Self-Regulatory Organizations; Nasdaq MRX, LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Specify an Exception to the Manner In Which Market Maker Immediate-or-Cancel Orders Will Be Handled

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on June 27, 2017, Nasdaq MRX, LLC (“MRX” or the “Exchange”) filed with the Securities and Exchange Commission (“SEC” or “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

The Exchange proposes to amend MRX Rule 715(b)(3) to specify an exception to the manner in which Immediate-or-Cancel Orders will be handled by the System when entered through the Specialized Quote Feed<sup>3</sup> (“SQF”) protocol.

The text of the proposed rule change is available on the Exchange’s Website at [www.ise.com](http://www.ise.com), at the principal office of the Exchange, and at the Commission’s Public Reference Room.

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

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> SQF is an interface that allows Market Makers to connect and send quotes, Immediate-or-Cancel Orders and auction responses into MRX.

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 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 the Statutory Basis for, the Proposed Rule Change

1. Purpose

The Exchange is proposing to amend MRX Rule 715(b)(3) to specify the manner in which an Immediate-or-Cancel Order will interact with certain order protections when entered through SQF. An Immediate-or-Cancel Order is defined as a limit order that is to be executed in whole or in part upon receipt. Any portion not so executed is to be treated as cancelled.<sup>4</sup> SQF is an interface that is being introduced with the technology migration to a Nasdaq, Inc. (“Nasdaq”) supported architecture.<sup>5</sup> Today, Members may enter orders through FIX, DTI or Nasdaq Precise on MRX. After the migration to the INET architecture, Members will continue to be able to submit orders through FIX or Nasdaq Precise, as is the case today, and OTTO will also be

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<sup>4</sup> See MRX Rule 715(b)(3). Immediate-or Cancel Orders do not route.

<sup>5</sup> See Securities Exchange Act Release No. 80815 (May 30, 2017), 82 FR 25827 (June 5, 2017) (SR-MRX-2017-02). INET is the proprietary core technology utilized across Nasdaq’s global markets and utilized on The NASDAQ Options Market LLC (“NOM”), NASDAQ PHLX LLC (“Phlx”) and NASDAQ BX, Inc. (“BX”) (collectively, “Nasdaq Exchanges”). The migration of MRX to the Nasdaq INET architecture would result in higher performance, scalability, and more robust architecture. With this system migration, the Exchange intends to adopt certain trading functionality currently utilized at Nasdaq Exchanges.

available to enter orders. SQF will be available for Market Makers<sup>6</sup> to enter quotes and also Immediate-or-Cancel Orders. DTI will no longer be available.

With the introduction of SQF, the Exchange proposes to amend MRX Rule 715(b)(3) to state that an Immediate-or-Cancel order entered by a Market Maker through SQF will not be subject to the Limit Order Price Protection and Size Limitation Protection as defined in MRX Rule 714(b)(2) and (3). All other Immediate-or-Cancel Orders entered through FIX, OTTO or Nasdaq Precise will continue to be subject to these protections.

MRX Rule 714, entitled “Automatic Execution of Orders,” contains a section (b)(2) and (3) which applies to order protections that are automatically enforced by the System. The Limit Order Price Protection sets a limit on the amount by which incoming limit orders to buy may be priced above the Exchange’s best offer and by which incoming limit orders to sell may be priced below the Exchange’s best bid. Limit orders that exceed the pricing limit are rejected.<sup>7</sup>

Immediate-or-Cancel Orders entered through SQF will not be subject to the Limit Order Price Protection provided in MRX Rule 714(b)(2).

MRX Rule 714(b)(3) provides a protection for size limitation. The System limits the number of contracts an incoming order may specify. Orders that exceed the maximum number of contracts are rejected.<sup>8</sup> Immediate-or-Cancel Orders entered through SQF will not be subject to this size limitation protection provided in MRX Rule 714(b)(3).

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<sup>6</sup> The term “market makers” refers to “Competitive Market Makers” and “Primary Market Makers” collectively. See MRX Rule 100(a)(25).

<sup>7</sup> The limit is established by the Exchange from time-to-time for orders to buy (sell) as the greater of the Exchange’s best offer (bid) plus (minus): (i) an absolute amount not to exceed \$2.00, or (ii) a percentage of the Exchange’s best bid/offer not to exceed 10%. See MRX Rule 714(b)(2).

<sup>8</sup> The maximum number of contracts, which shall not be less than 10,000, is established by the Exchange from time-to-time. See MRX Rule 714(b)(3).

## Implementation

The Exchange intends to begin implementation of the proposed rule change in Q3 2017. The MRX migration will be on a symbol by symbol basis as specified in an alert to Members that will be issued by the Exchange in the form of an Options Trader Alert. The alert will provide the dates that symbols will migrate to INET.

### 2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,<sup>9</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act,<sup>10</sup> 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.

With the adoption of the SQF protocol on INET, the Exchange will offer Market Makers the ability to expeditiously submit Immediate-or-Cancel orders through SQF, without having to involve a different protocol and method of entry such as FIX, OTTO or Nasdaq Precise. With the ability for Market Makers to utilize the SQF protocol to enter Immediate-or-Cancel Orders, in addition to having the ability to enter Immediate-or-Cancel Orders on FIX, OTTO or Nasdaq Precise, similar to other market participants, Market Makers may submit Immediate-or-Cancel Orders into SQF allowing them to manage risk utilizing a single protocol, SQF.

Unlike other market participants, Market Makers are required to provide liquidity to the market and are subject to certain obligations, including a requirement to provide continuous two-sided quotes on a daily basis.<sup>11</sup> Market Makers use Immediate-or-Cancel Orders to trade out of

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<sup>9</sup> 15 U.S.C. 78f(b).

<sup>10</sup> 15 U.S.C. 78f(b)(5).

<sup>11</sup> See MRX Rule 804(e).

accumulated positions and manage their risk when providing liquidity on the Exchange. Proper risk management, including using these Immediate-or-Cancel Orders to offload risk, is vital for Market Makers, and allows them to maintain tight markets and meet their quoting and other obligations to the market. The Exchange believes that allowing Market Makers to submit Immediate-or-Cancel Orders through their preferred protocol will increase their efficiency in submitting such orders and thereby allow them to maintain quality markets to the benefit of all market participants that trade on the Exchange.

Miami International Securities Exchange LLC (“MIAX”) utilizes its MIAX Express Interface (MEI), a quoting interface, for market makers to enter immediate-or-cancel orders.<sup>12</sup> Specifically, MIAX noted in its Application for Registration as a National Securities Exchange, “...MIAX would allow market makers to use a variety of quote types, some of which would have a specific time in force and would be analogous to orders (MIAX refers to such order types as “eQuotes,” and market makers would be able to enter these orders through their quotation infrastructure).”<sup>13</sup> Furthermore, MIAX’s Price Protection on Non-Market Maker Orders is not available for orders submitted by a Market Maker.<sup>14</sup> The Price Protection on Non-Market Maker Orders prevents an order from being executed at a price beyond the price designated in the order’s price protection instructions, and is a similar protection to the Exchange’s Limit Order

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<sup>12</sup> MIAX offers an eQuote, which is a quote with a specific time in force that does not automatically cancel and replace a previous Standard quote or eQuote. An eQuote can be cancelled by the Market Maker at any time, or can be replaced by another eQuote that contains specific instructions to cancel an existing eQuote. See MIAX Rule 517(a)(2).

<sup>13</sup> See Securities Exchange Release Act No. 68341 (December 3, 2012), 77 FR 73065 (December 7, 2012) (File No. 10-207) (In the Matter of the Application of Miami International Securities Exchange, LLC for Registration as a National Securities Exchange: Findings, Opinion, and Order of the Commission).

<sup>14</sup> See MIAX Rule 515(c)(1).

Price Protection. The Exchange similarly believes that it is consistent with the Act to not apply certain protections to Market Maker Immediate-or-Cancel Orders submitted through SQF.

Market Makers handle a large amount of risk when quoting on MRX and in addition to the risk protections required by the Exchange, Market Makers utilize their own risk management parameters when entering orders, minimizing the likelihood of a Market Maker order resulting from an error from [sic] being entered. The Exchange believes that Market Makers, unlike other market participants, have the ability to manage their risk when submitting Immediate-or-Cancel Orders through SQF and should be permitted to elect this method of order entry to obtain efficiency and speed of order entry, particularly in light of the continuous quoting obligations the Exchange imposes on these participants. If Market Makers desire the Limit Order Protections and the Size Limitation Protections, they may utilize the FIX, OTTO or Nasdaq Precise protocols for entering their orders. The Exchange notes that Market Makers on Phlx may enter Immediate-or-Cancel Orders through SQF and are similarly not subject to certain risk protections today.<sup>15</sup> The Exchange represents that it will continue to assess the risk protections that are applied to orders, including Market Maker Immediate-or-Cancel Orders submitted through SQF, to ensure that adequate risk protections are available to members that trade on the Exchange. The Exchange will file to adopt additional risk protections in the event that the Exchange determines that such additional protections are appropriate in the interest of maintaining a fair and orderly market.

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<sup>15</sup> See Securities and Exchange Release No. 76295 (October 29, 2015), 80 FR 68338 at 68339 (November 4, 2015) (SR-Phlx-2015-83) (Phlx noted in footnote 8 that while SQF permits the receipt of quotes, sweeps are not included for purposes of the Percentage Based risk protection in Rule 1095(i)). Phlx Rule 1080(c)(iii)(B) provides that, "...Market Sweeps are processed on an immediate-or-cancel basis, may not be routed, may be entered only at a single price, and may not trade through away markets."

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. Market Makers handle a large amount of risk when quoting on MRX and in addition to the risk protections required by the Exchange, Market Makers utilize their own risk management parameters when entering orders, minimizing the likelihood of a Market Maker order resulting from an error from [sic] being entered. Market Makers also transact a large amount of orders on the Exchange and bring liquidity to the market. Market Makers should be permitted to elect this method of order entry to obtain efficiency and speed of order entry, particularly in light of the continuous quoting obligations the Exchange imposes on these members that are not applicable to other market participants. The Exchange therefore believes that this rule change will not impose an undue burden on competition.

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)(iii) of the Act<sup>16</sup> and subparagraph (f)(6) of Rule 19b-4 thereunder.<sup>17</sup>

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<sup>16</sup> 15 U.S.C. 78s(b)(3)(A)(iii).

<sup>17</sup> 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,

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: (i) necessary or appropriate in the public interest; (ii) for the protection of investors; or (iii) 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 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-MRX-2017-11 on the subject line.

##### Paper comments:

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

All submissions should refer to File Number SR-MRX-2017-11. 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

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or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.



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 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; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-MRX-2017-11, 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>18</sup>

Jill M. Peterson  
Assistant Secretary

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<sup>18</sup> 17 CFR 200.30-3(a)(12).