

The Exchange intends to begin implementation of the proposed rule changes in 2023. The Exchange will issue an Options Trader Alert to announce the launch date.

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*New text is underlined; deleted text is in brackets.*

## **Nasdaq ISE, LLC Rules**

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## **Options 3 Options Trading Rules**

\* \* \* \* \*

## **Section 6. Collection and Dissemination of Quotations**

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*(c) Unusual Market Conditions.*

\* \* \* \* \*

- (2) If a market is declared fast, designated Exchange officials shall have the power to:
- (i) direct that one or more trading rotations be employed pursuant to Options [5]3, Section 8; (ii) suspend the minimum size requirement of Options 2, Section 5(b); or
  - (iii) take such other actions as are deemed in the interest of maintaining a fair and orderly market.

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## **Section 7. Types of Orders and Order and Quote Protocols**

\* \* \* \* \*

(k) Legging Orders. A legging order is a limit order on the regular limit order book that represents one side of a Complex Options Order that is to buy or sell an equal quantity of two options series resting on the Exchange's Complex Order Book. Legging orders are firm orders that are included in the Exchange's displayed best bid or offer.

- (1) A legging order may be automatically generated for one leg of a Complex Options Order at a price: (i) that matches or improves upon the best displayed bid or offer on the regular limit order book; and (ii) at which the net price can be achieved when the other leg is executed against the best displayed bid or offer on the regular limit order book. A legging order will not be created at a price that locks or crosses the best bid or offer of another exchange or during a Posting Period in progress on the same side in the series, pursuant to Options 3, Section 15 regarding Acceptable Trade Range.

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## Section 8. Options Opening Process

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(b) Eligible interest during the Opening Process includes Valid Width Quotes, Opening Sweeps and orders, including Opening Only Orders, but excluding orders with a Time in Force of "Immediate-or-Cancel" and Add Liquidity Orders. Quotes other than Valid Width Quotes will not be included in the Opening Process. The displayed and non-displayed portions of Reserve Orders are considered for execution and in determining the Opening Price throughout the Opening Process. Only Public Customer interest is routable during the Opening Process.

\* \* \* \* \*

(2) The System will allocate interest pursuant to Options 3, Section 10.

\* \* \* \* \*

(j) **Price Discovery Mechanism.** If the Exchange has not opened pursuant to paragraphs (e) or (h) above, after the OQR calculation in paragraph (i), the Exchange will conduct the following Price Discovery Mechanism.

\* \* \* \* \*

(3) Next, provided the option series has not opened pursuant to paragraph (j)(2) above, the System will:

\* \* \* \* \*

(B) initiate a Route Timer, not to exceed one second. The Route Timer operates as a pause before an order is routed to an away market. If during the Route Timer, interest is received by the System which would allow the Opening Price to be within OQR without trading through away markets and without trading through the limit price(s) of interest within OQR which is[ which is] unable to be fully executed, the System will open with trades and the Route Timer will simultaneously end. The System will monitor quotes and orders received during the Route Timer period and make ongoing corresponding changes to the permitted OQR and Potential Opening Price to reflect them.

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## Section 9. Trading Halts

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(d) Capitalized terms used in this paragraph shall have the same meaning as provided for in the Plan to Address Extraordinary Market Volatility Pursuant to Rule 608 of Regulation NMS, as it may be amended from time to time ("LULD Plan"). During a Limit State and Straddle State in the Underlying NMS stock:

\* \* \* \* \*

(2) Provided the Exchange has opened an affected option for trading, the Exchange shall reject Market Orders, as defined in Options 3, Section 7(a), and Market Complex Orders as defined in Options 3, Section 14(b), and shall notify Members of the reason for such rejection. The Exchange shall cancel Complex Orders that are Market Orders residing in the System, if the Market Complex Order becomes marketable while the affected underlying is in a Limit or Straddle State. Market Orders exposed at the NBBO pursuant to Supplementary Material. 02 to Options 5, Section 2 or Market Complex Orders exposed for price improvement pursuant to Supplementary Material .01 to Options 3, Section 14, pending in the System, will continue to be processed. If at the end of the exposure period the affected underlying is in a Limit or Straddle State, the Market Order or the Market Complex Order will be cancelled. If the affected underlying is no longer in a Limit or Straddle State after the exposure period, the Market Order or the Market Complex Order will be processed with normal handling.

\* \* \* \* \*

## **Section 10. Priority of Quotes and Orders**

\* \* \* \* \*

(c) *Execution Priority and Processing in the System.* The Exchange will apply a Size Pro-Rata execution algorithm to orders, unless otherwise specified. The System shall execute trading interest within the System in price priority, meaning it will execute all trading interest at the best price level within the System before executing trading interest at the next best price. Size Pro-Rata Priority shall mean that if there are two or more resting orders or quotes at the same price, the System allocates contracts from an incoming order or quote to resting orders and quotes beginning with the resting order or quote displaying the largest size proportionally according to displayed size, based on the total number of contracts displayed at that price. If the result is not a whole number, it will be rounded up to the nearest whole number. If there are still contracts to be allocated after the displayed size of all orders at that price has been executed, the remaining size from the incoming order will be allocated proportionally against non-displayed interest according to remaining total size of each resting order at such price, beginning with the order which has the largest total size remaining.

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(1) Priority Overlays Applicable to Size Pro-Rata Execution Algorithm: the Exchange will apply the following designated Member priority overlays. No Member shall be entitled to receive a number of contracts that is greater than the size that is associated with their quotation or order.

\* \* \* \* \*

(E) **All Other Remaining Interest:** If there are contracts remaining after all priorities in (A)-(D) have been fully executed, notwithstanding Options 3, Section 7(g)(3) and (k)(2), such contracts shall be executed based on the Size Pro-Rata execution algorithm as described within Options 3, Section 10(c). Legging Orders will be allocated after all other non-displayed interest, pursuant to Options 3, Section 7(k)([2]3).

\* \* \* \* \*

## Section 12. Crossing Orders

\* \* \* \* \*

(c) **Qualified Contingent Cross Orders.** Qualified Contingent Cross Orders are automatically executed upon entry provided that the execution (i) is not at the same price as a Priority Customer Order on the Exchange's limit order book and (ii) is at or between the better of the internal BBO or the NBBO.

(1) Qualified Contingent Cross Orders will be automatically canceled if they cannot be executed.

(2) Qualified Contingent Cross Orders may only be entered in the regular trading increments applicable to the options class under in Options 3, Section 3.

(d) **Complex Qualified Contingent Cross Orders.** Complex Options Orders may be entered as Qualified Contingent Cross Orders, as defined in Options 3, Section 7(j). Such orders will be automatically executed upon entry so long as: (i) the price of the transaction is at or within the best bid and offer for the same complex options strategy on the Complex Order Book; (ii) there are no Priority Customer Complex Options Orders for the same strategy at the same price on the Complex Order Book; and (iii) the options legs can be executed at prices that (A) are at or between the better of the internal BBO or the NBBO for the individual series, and (B) comply with the provisions of Options 3, Section 14(c)(2)(i), provided that no legs of the Complex Options Order can be executed at the same price as a Priority Customer Order on the Exchange in the individual options series. Complex Qualified Contingent Cross Orders will be rejected if they cannot be executed. Complex Qualified Contingent Cross Orders may be entered in one cent

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increments. Each leg of a Complex Options Order must meet the 1,000 contract minimum size requirement for Qualified Contingent Cross Orders.

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### Section 13. Price Improvement Mechanism for Crossing Transactions

\* \* \* \* \*

(c) **Exposure Period.** Upon entry of a Crossing Transaction into the Price Improvement Mechanism, a broadcast message that includes the series, price and size of the Agency Order, and whether it is to buy or sell, will be sent to all Members. This broadcast message will not be included in the Exchange's disseminated best bid or offer and will not be disseminated through OPRA.

\* \* \* \* \*

(5) The exposure period will automatically terminate (i) at the end of the time period designated by the Exchange pursuant to Options 3, Section 13(c)(1) above, (ii) [upon the receipt of a market or marketable limit order on the Exchange in the same series, or (iii) upon the receipt of a non-marketable limit order in the same series on the same side of the market as the Agency Order that would cause the price of the Crossing Transaction to be outside of the best bid or offer on the Exchange]any time the Exchange best bid or offer improves beyond the price of the Crossing Transaction on the same side of the market as the Agency Order ; or (iii) any time there is a trading halt on the Exchange in the affected series.

(d) Execution. At the end of the exposure period the Agency Order will be executed in full at the best prices available, taking into consideration orders and quotes in the Exchange market, Improvement Orders, and the Counter-Side Order. The Agency Order will receive executions at multiple price levels if there is insufficient size to execute the entire order at the best price.

\* \* \* \* \*

(4) [When a market order or marketable limit order on the opposite side of the market from the Agency Order ends the exposure period, it will participate in the execution of the Agency Order at the price that is mid-way between the best counter-side interest and the NBBO, so that both the market or marketable limit order and the Agency Order receive price improvement. Transactions will be rounded, when necessary, to the \$.01 increment that favors the Agency Order]Unrelated market or marketable interest (against the ISE BBO) on the opposite side of the market from the Agency Order received during the exposure period will not cause the exposure period to end early and will execute against

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interest outside of the Crossing Transaction. If contracts remain from such unrelated order at the time the auction exposure period ends, they will be considered for participation in the order allocation process described in sub-paragraph (3).

\* \* \* \* \*

(e) **Complex Price Improvement Mechanism.** Electronic Access Members may use the Price Improvement Mechanism according to this Rule to execute Complex Orders at a net price. The Complex Price Improvement Mechanism is a process by which an Electronic Access Member can provide price improvement opportunities for a transaction wherein the Electronic Access Member seeks to facilitate a Complex Order it represents as agent, and/or a transaction wherein the Electronic Access Member solicited interest to execute against a Complex Order it represents as agent (a “Crossing Transaction”).

\* \* \* \* \*

(4) **Exposure Period.** Upon entry of a Complex Order into the Complex Price Improvement Mechanism, a broadcast message that includes the net price, side and size of the Agency Complex Order will be sent to Members.

\* \* \* \* \*

[(vi) A Complex Price Improvement Mechanism in a complex strategy may be ongoing at the same time as a Price Improvement Auction pursuant to this Rule or during an exposure period pursuant to Supplementary Material .02 to Options 5, Section 2 in a component leg(s) of such Complex Order. If a Complex Price Improvement Mechanism is early terminated pursuant to paragraph (iv) above, and the incoming Complex Order that causes the early termination in the complex strategy is also marketable against a component leg(s) of the complex strategy that is the subject of a concurrent ongoing Price Improvement Auction pursuant to this Rule or an exposure period pursuant to Supplementary Material .02 to Options 5, Section 2, then the concurrent Complex Price Improvement Mechanism and component leg auction(s) are processed in the following sequence: (1) the Complex Price Improvement Mechanism is early terminated; (2) the component leg auction(s) are early terminated and processed; and (3) legging of residual incoming Complex Order interest occurs, except with respect to Stock Option Orders and Stock Complex Orders.]

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## **Section 14. Complex Orders**

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(b) *Types of Complex Orders.* Unless otherwise specified, the definitions used below have the same meaning contained in Options 3, Section 7. The Exchange may determine to make certain order types and/or times-in-force available on a class or System basis. Complex Orders may be entered using the following orders or designations:

\* \* \* \* \*

(10) Opening Only Complex Order. An Opening Only Complex Order is a [Limit] Complex Order that may be entered for execution during the Complex Opening Process described in Supplementary Material .04 to Options 3, Section 14. Any portion of the order that is not executed during the Complex Opening Process is cancelled.

\* \* \* \* \*

(15) Complex QCC with Stock Orders. A Complex QCC with Stock Order is a Qualified Contingent Cross Complex Order, as defined in subparagraph (b)(6), entered with a stock component to be communicated to a designated broker-dealer for execution pursuant to Options 3, Section 12([e]f).

\* \* \* \* \*

(18) Complex PIM Order. A Complex PIM Order is an order entered into the Complex Price Improvement Mechanism as described in Options 3, Section 13(e).

(19) Complex Preferred Order. A Complex Preferred Order is a Complex Order for which an Electronic Access Member has designated a Preferred Market Maker as described in Options 2, Section 10. The component leg(s) of a Complex Order with a Preferred Order instruction may allocate pursuant to Options 3, Section 10(c)(1)(C) when the Complex Preferred Order legs into the single-leg market provided that the Preferred Market Maker is quoting at the better of the internal BBO or the NBBO for a component leg(s) of the Complex Preferred Order at the time the Complex Preferred Order is received. A Preferred Market Maker will not receive an allocation pursuant to Options 3, Section 10(c)(1)(C) for a component leg(s) of a Complex Preferred Order if the Preferred Market Maker is not quoting at the better of the internal BBO or the NBBO for that leg at the time the Complex Preferred Order is received.

\* \* \* \* \*

## **Supplementary Material to Options 3, Section 14**

**.01 Complex Order Exposure.** If designated by a Member for exposure, eligible Complex Orders are exposed upon entry for a period of up to one (1) second pursuant to subparagraph (d)(1) as follows:

\* \* \* \* \*

(b) Upon entry of an eligible Complex Order, a broadcast message that includes net price or at market, size, and side will be sent and Members will be given an opportunity to enter Responses with the prices and sizes at which they are willing to participate in the execution of the Complex Order.

\* \* \* \* \*

[(iii) A Complex Order Exposure in a complex strategy may be ongoing in a complex strategy at the same time as a Price Improvement Auction pursuant to Options 3, Section 13 or during an exposure period pursuant to Supplementary Material .02 to Options 5, Section 2 in a component leg(s) of such complex strategy. If a Complex Order Exposure is early terminated pursuant to paragraph (ii) above, and the incoming Complex Order that causes the early termination in the complex strategy is also marketable against a component leg(s) of the complex strategy that is the subject of a concurrent ongoing Price Improvement Auction pursuant to Options 3, Section 13 or an exposure period pursuant to Supplementary Material .02 to Options 5, Section 2, then the concurrent Complex Order and component leg auction(s) are processed in the following sequence: (1) the Complex Order exposure is early terminated; (2) the component leg auction(s), which are early terminated and processed; and (3) legging of residual incoming Complex Order interest occurs.]

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#### **.05 Complex Opening Price Determination.**

(a) *Definitions.*

- (1) “Boundary Price” is described herein in paragraph (d)(1).
- (2) “Opening Price” is described herein in paragraph (d)([4]3).
- (3) “Potential Opening Price” is described herein in paragraph (d)(2).

\* \* \* \* \*

(d) If the best bid for a complex strategy locks or crosses the best offer, the System will open the complex strategy as follows:

\* \* \* \* \*

(2) *Potential Opening Price.* The System will calculate the Potential Opening Price by identifying the price(s) at which the maximum number of contracts can



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trade (“maximum quantity criterion”) taking into consideration all eligible interest pursuant to Supplementary Material .0[6]5(b) to this Rule.

(3) *Opening Price Determination.* When interest crosses and does not match in size, the System will calculate the Potential Opening Price based on the highest (lowest) executable offer (bid) price when the larger sized interest is offering (bidding), provided, however, that if there is more than one price at which the interest may execute, the Potential Opening Price when the larger sized interest is offering (bidding) shall be the mid-point of the highest (lowest) executable offer (bid) price and the next available executable offer (bid) price rounded, if necessary, down (up) to the closest minimum trading increment; or

When interest crosses and is equal in size, the System will calculate the Potential Opening Price based on the mid-point of lowest executable bid price and the highest executable offer price, rounded, if necessary, up to the closest minimum trading increment.

(A) Executable bids/offers include any interest which could be executed at the Potential Opening Price without trading through residual interest or the Boundary Price or without trading at the Boundary Price where there is Priority Customer interest at the best bid or offer for any leg, consistent with paragraph Options 3, Section 14(c)(2).

(B) Executable bids/offers will be bounded by the Boundary Price on the contra-side of the interest, for determination of the Potential Opening Price described above.

*[More Than One Potential Opening Price.* When two or more Potential Opening Prices would satisfy the maximum quantity criterion: (A) without leaving unexecuted contracts on the bid or offer side of the market of Complex Orders to be traded at those prices, the System takes the highest and lowest of those prices and takes the mid-point; provided that (1) if the highest and/or lowest price described above is through the price of a bid or offer that is priced to not allocate in the Complex Opening Price Determination, the highest and/or lowest price will be rounded to the price of such bid or offer that is priced to not allocate before taking the mid-point, and (2) if the midpoint is not expressed as a permitted minimum trading increment, it will be rounded down to the nearest permissible minimum trading increment; or (B) leaving unexecuted contracts on the bid (offer) side of the market of Complex Orders to be traded at those prices, the Potential Opening Price is the highest (lowest) executable bid (offer) price. Notwithstanding the foregoing: (C) if there are Market Complex Orders on the bid (offer) side of the market that would equal the full quantity of Complex Orders on offer (bid) side of the market, the limit price of the highest (lowest) priced Limit Complex Order is the Potential Opening Price; and (D) if there are only Market Complex Orders on both sides of the market, or if there are Market Complex

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Orders on the bid (offer) side of the market for greater than the total size of Complex Orders on the offer (bid) side of the market, there will be no trade in the Complex Opening Price Determination and the complex strategy will open pursuant to the Complex Uncrossing Process described in Supplementary Material .06(b) to this Rule.]

(4) *Opening Price.* If the Potential Opening Price is at or within the Boundary Prices, the Potential Opening Price becomes the Opening Price and the complex strategy will open pursuant to Supplementary Material .05(d)(5) to this Rule. If the bid Boundary Price is higher than the offer Boundary Price, or if no valid Potential Opening Price can be found at or within the Boundary Prices, there will be no trade in the Complex Opening Price Determination and the complex strategy will open pursuant to the Complex Uncrossing Process described in Supplementary Material .06(b) to this Rule.[If the Potential Opening Price is not at or within the Boundary Prices, the Opening Price will be the price closest to the Potential Opening Price that satisfies the maximum quantity criteria without leaving unexecuted contracts on the bid or offer side of the market at that price and is at or within the Boundary Prices. If the bid Boundary Price is higher than the offer Boundary Price, or if no valid Opening Price can be found at or within the Boundary Prices, there will be no trade in the Complex Opening Price Determination and the complex strategy will open pursuant to the Complex Uncrossing Process described in Supplementary Material .06(b) to this Rule.]

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## Section 16. Complex Order Risk Protections

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(c) Other Price Protections which apply to Complex Orders.

(1) [~~Limit~~]**Complex Order Price Protection.** There is a limit on the amount by which the net price of an incoming Limit Complex Order to buy may exceed the net price available from the individual options series on the Exchange and the national best bid or offer for any stock leg, and by which the net price of an incoming Limit Complex Order to sell may be below the net price available from the individual options series on the Exchange and the national best bid or offer for any stock leg. Limit Complex Orders that exceed the pricing limit are rejected. The limit is established by the Exchange from time-to-time for Limit Complex Orders to buy (sell) as the net price available from the individual options series on the Exchange and the national best bid or offer for any stock leg plus (minus) the greater of: (i) an absolute amount not to exceed \$2.00, or (ii) a percentage of the net price available from the individual options series on the Exchange and the national best bid or offer for any stock leg not to exceed 10%.

\* \* \* \* \*