

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

## **Nasdaq ISE, LLC Rules**

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### **Options Rules**

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### **Options 3 Options Trading Rules**

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

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(t) **QCC with Stock Orders.** A QCC with Stock Order is a Qualified Contingent Cross Order, as defined in Options 3, Section 7(j), entered with a stock component to be communicated to a designated broker-dealer for execution pursuant to Options 3, Section 12(e). QCC with Stock Orders may only be entered through FIX and Precise.

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### **Supplementary Material to Options 3, Section 7**

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.02 **Time in Force.** The term “Time in Force” or “TIF” shall mean the period of time that the System will hold an order for potential execution, and shall include:

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(d) **Immediate-or-Cancel.** An order entered with a TIF of “IOC” that is to be executed in whole or in part upon receipt. Any portion not so executed is to be treated as cancelled.

(1) Orders entered with a TIF of IOC are not eligible for routing.

(2) IOC orders may be entered through FIX, OTTO, Precise, or SQF, provided that an IOC order entered by a Market Maker through the SQF protocol will not be subject to the (A) Order Price Protection, Market Order Spread Protection, and Size Limitation Protection as defined in Options 3, Section 15(a)(1)(A), (1)(B), and (2)(B) respectively, for single leg orders, or (B) Complex Order Price Protection as defined in Options 3, Section 16(c)(1) for Complex Orders.

(3) Block Orders, Facilitation Orders, Complex Facilitation Orders, SOM Orders, Complex SOM Orders, PIM Orders, Complex PIM Orders, QCC Orders, QCC Complex

Orders, QCC with Stock Orders, Complex QCC with Stock Orders, Customer Cross Orders, and Customer Cross Complex Orders are considered to have a TIF of IOC. By their terms, these orders will be: (1) executed either on entry or after an exposure period, or (2) cancelled.

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## Section 11. Auction Mechanisms

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### Supplementary Material to Options 3, Section 11

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#### .08 Complex Facilitation and Complex SOM Orders with stock/ETF components.

(a) Members may only submit Complex Facilitation Orders, Complex SOM Orders, and/or Responses with a stock/ETF component if such orders/Responses comply with the Qualified Contingent Trade Exemption from Rule 611(a) of Regulation NMS. Members submitting such orders with a stock/ETF component represent that such orders comply with the Qualified Contingent Trade Exemption. Members of FINRA or The Nasdaq Stock Market (“Nasdaq”) are required to have a Uniform Service Bureau/Executing Broker Agreement (“AGU”) with Nasdaq Execution Services, LLC (“NES”) in order to trade orders containing a stock/ETF component; firms that are not members of FINRA or Nasdaq are required to have a Qualified Special Representative (“QSR”) arrangement with NES in order to trade orders containing a stock/ETF component.

(b) Where one component of a Complex Facilitation Order, Complex SOM Order, and/or Response is the underlying security, the Exchange shall electronically communicate the underlying security component of a Complex Facilitation Order or Complex SOM Order to NES, its designated broker-dealer, for immediate execution. Such execution and reporting will not occur on the Exchange and will be handled by NES pursuant to applicable rules regarding equity trading. The execution price must be within a certain price from the current market, as determined by the Exchange pursuant to Options 3, Section 16(a). If the stock price is not within these parameters, the Complex Facilitation Order, Complex SOM Order, and/or Response is not executable and would be cancelled.

(c) When the short sale price test in Rule 201 of Regulation SHO is triggered for a covered security, NES will not execute a short sale order in the underlying covered security component of a Complex Facilitation Order, Complex SOM Order and/or Response if the price is equal to or below the current national best bid. However, NES will execute a short sale order in the underlying covered security component of a Complex Facilitation Order, Complex SOM Order and/or Response if such order is marked “short exempt,” regardless of whether it is at a price that is equal to or below the current national best bid. If NES cannot execute the underlying covered security component of a Complex Facilitation Order,

Complex SOM Order and/or Response in accordance with Rule 201 of Regulation SHO, the Exchange will cancel back the Complex Facilitation Order, Complex SOM Order and/or Response to the entering Member. For purposes of this paragraph, the term “covered security” shall have the same meaning as in Rule 201(a)(1) of Regulation SHO.

## Section 12. Crossing Orders

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**(b) Complex Customer Cross Orders.** Complex Orders may be entered as Customer Cross Orders, as defined in Options 3, Section 7(i). 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 strategy on the Complex Order Book; (ii) there are no Priority Customer Complex 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 comply with the provisions of Options 3, Section 14(c)(2). Complex Customer Cross Orders will be rejected if they cannot be executed. Supplementary Material .01 to Options 3, Section 22 applies to Complex Customer Cross Orders.

(1) Members may only submit Complex Customer Cross Orders with a stock/ETF component if such orders comply with the Qualified Contingent Trade Exemption from Rule 611(a) of Regulation NMS. Members submitting such orders with a stock/ETF component represent that such orders comply with the Qualified Contingent Trade Exemption. Members of FINRA or The Nasdaq Stock Market (“Nasdaq”) are required to have a Uniform Service Bureau/Executing Broker Agreement (“AGU”) with Nasdaq Execution Services, LLC (“NES”) in order to trade orders containing a stock/ETF component; firms that are not members of FINRA or Nasdaq are required to have a Qualified Special Representative (“QSR”) arrangement with NES in order to trade orders containing a stock/ETF component.

(2) Where one component of a Complex Customer Cross Order is the underlying security, the Exchange shall electronically communicate the underlying security component of a Complex Customer Cross Order to NES, its designated broker-dealer, for immediate execution. Such execution and reporting will not occur on the Exchange and will be handled by NES pursuant to applicable rules regarding equity trading. The execution price must be within a certain price from the current market, as determined by the Exchange. If the stock price is not within these parameters, the Complex Customer Cross Order is not executable.

(3) When the short sale price test in Rule 201 of Regulation SHO is triggered for a covered security, NES will not execute a short sale order in the underlying covered security component of a Complex Customer Cross Order if the price is equal to or below the current national best bid. However, NES will execute a short sale order in the underlying covered security component of a Complex Customer Cross Order if such order is marked "short exempt," regardless of whether it is at a price that is equal to or below the current national best bid. If NES cannot execute the underlying covered security component of a Complex

Customer Cross Order in accordance with Rule 201 of Regulation SHO, the Exchange will cancel back the Complex Customer Cross Order to the entering Member. For purposes of this paragraph, the term “covered security” shall have the same meaning as in Rule 201(a)(1) of Regulation SHO.

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**(e) Qualified Contingent Cross (“QCC”) with Stock.** QCC with Stock Orders are processed as follows:

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(4) QCC with Stock Orders [can]must be entered with a net price for the stock and options components through FIX. [s]Separate prices for the stock and options components, or [with] a net price for both may be entered through Precise. The System will calculate the individual component prices.

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

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#### **Supplementary Material to Options 3, Section 13**

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##### .09 Complex PIM Orders with stock/ETF components.

(a) Members may only submit Complex PIM Orders and/or Improvement Orders with a stock/ETF component if such orders comply with the Qualified Contingent Trade Exemption from Rule 611(a) of Regulation NMS. Members submitting such orders with a stock/ETF component represent that such orders comply with the Qualified Contingent Trade Exemption. Members of FINRA or The Nasdaq Stock Market (“Nasdaq”) are required to have a Uniform Service Bureau/Executing Broker Agreement (“AGU”) with Nasdaq Execution Services, LLC (“NES”) in order to trade orders containing a stock/ETF component; firms that are not members of FINRA or Nasdaq are required to have a Qualified Special Representative (“QSR”) arrangement with NES in order to trade orders containing a stock/ETF component.

(b) Where one component of a Complex PIM Order and/or Improvement Order is the underlying security, the Exchange shall electronically communicate the underlying security component of a Complex PIM Order (together with the Agency Order or Improvement Order, as applicable) to NES, its designated broker-dealer, for immediate execution. Such execution and reporting will not occur on the Exchange and will be handled by NES pursuant to applicable rules regarding equity trading. The execution price must be within a

certain price from the current market pursuant to Options 3, Section 16(a), as determined by the Exchange. If the stock price is not within these parameters, the Complex PIM Order and/or Improvement Order is not executable and would be cancelled.

(c) When the short sale price test in Rule 201 of Regulation SHO is triggered for a covered security, NES will not execute a short sale order in the underlying covered security component of a Complex PIM Order and/or Improvement Order if the price is equal to or below the current national best bid. However, NES will execute a short sale order in the underlying covered security component of a Complex PIM Order and/or Improvement Order if such order is marked “short exempt,” regardless of whether it is at a price that is equal to or below the current national best bid. If NES cannot execute the underlying covered security component of a Complex PIM Order and/or Improvement Order in accordance with Rule 201 of Regulation SHO, the Exchange will cancel back the Complex PIM Order and/or Improvement Order to the entering member. For purposes of this paragraph, the term “covered security” shall have the same meaning as in Rule 201(a)(1) of Regulation SHO.

## **Section 14. Complex Orders**

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

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.02 Stock-Option and Stock-Complex Orders. The Exchange will electronically communicate the stock leg of an executable Stock-Option Order and Stock-Complex Order [to a broker-dealer]NES for execution. To execute Stock-Option Orders and Stock-Complex Orders on the Exchange, Members must enter into a brokerage agreement with NES[a broker-dealer designated by the Exchange. The Member may also enter into a brokerage agreement with one or more other broker-dealers to which the Exchange is able to route stock orders.] The Exchange will automatically transmit the stock leg of a trade to NES[one-or more broker-dealer(s) with which a Member has an agreement for execution on behalf of the Member using routing logic that takes into consideration objective factors such as execution cost, speed of execution and fill-rates. The Exchange will have no financial arrangements with the brokers with respect to routing stock orders to them. Members may also indicate preferred execution brokers, and such preferences will determine order routing priority whenever possible. A trade of a Stock-Option Order or a Stock-Complex Order will be automatically cancelled if market conditions prevent the execution of the stock or option leg(s) at the prices necessary to achieve the agreed upon net price. When a Stock-Option Order or Stock-Complex Order has been matched with another Stock-Option Order or Stock-Complex Order that is for less than the full size of the Stock-Option Order or Stock-Complex Order, the full size of the Stock-Option Order or Stock Complex Order being processed by the stock execution venue will be unavailable for trading while the order is being processed].

.03 Reserved.*[Trade Value Allowance.* To facilitate the execution of the stock leg and options leg(s) of Stock-Option Strategies and Stock-Complex Strategies at valid increments pursuant to subparagraph (c)(1), Stock-Option Strategies and Stock-Complex Strategies may trade outside of their expected notional trade value by a specified amount ("Trade Value Allowance"). The Trade Value Allowance is the percentage difference between the expected notional value of a trade and the actual notional value of the trade. The amount of Trade Value Allowance permitted may be determined by the Member, or a default value determined by the Exchange and announced to Members; provided that any amount of Trade Value Allowance is permitted in complex mechanisms pursuant to Options 3, Sections 11 and 13 when auction orders do not trade solely with their contra-side order.]

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.04 *Complex Opening Process.* After each of the individual component legs have opened, or reopened following a trading halt, Complex Options Strategies, Stock-Option Strategies and Stock-Complex Strategies will be opened pursuant to the Complex Opening Price Determination described in Supplementary Material .05 to this Rule[, and Stock-Option Strategies and Stock-Complex Strategies will be opened pursuant to the Complex Uncrossing Process described in Supplementary Material .06(b) to this Rule].

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.07 **Qualified Contingent Trade Exemption.** Members may only submit Complex Orders in Stock-Option Strategies and Stock-Complex Strategies if such Complex Orders comply with the Qualified Contingent Trade Exemption from Rule 611(a) of Regulation NMS under the Exchange Act. Members submitting Complex Orders in Stock-Option Strategies and Stock-Complex Strategies represent that they comply with the Qualified Contingent Trade Exemption. Members of FINRA or The Nasdaq Stock Market ("Nasdaq") are required to have a Uniform Service Bureau/Executing Broker Agreement ("AGU") with Nasdaq Execution Services, LLC ("NES") in order to trade Complex Orders in Stock-Option Strategies and Stock-Complex Strategies; firms that are not members of FINRA or Nasdaq are required to have a Qualified Special Representative ("QSR") arrangement with NES in order to trade Complex Orders in Stock-Option Strategies and Stock-Complex Strategies. In addition, the stock leg of a stock-option order must be marked "buy," "sell," "sell short," or "sell short exempt" in compliance with Regulation SHO under the Exchange Act.

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## Section 15. Simple Order Risk Protections

(a) The following risk protections are automatically enforced by the System. In the event of unusual market conditions and in the interest of a fair and orderly market, the Exchange may temporarily establish the levels at which the order protections contained in this paragraph are triggered as necessary and appropriate.

(1) The following are order risk protections on ISE:

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**(C) Market Wide Risk Protection.** All Members must provide parameters for the order entry and execution rate protections described in this Rule. The Exchange will also establish default values for each of these parameters that apply to Members that do not submit the required parameters, and will announce these default values in an Options Trader Alert to be distributed to Members. The System will maintain one or more counting programs for each Member that count orders entered and contracts traded on Nasdaq ISE or across both Nasdaq ISE and Nasdaq GEMX. Members can use multiple counting programs to separate risk protections for different groups established within the Member. The counting programs will maintain separate counts, over rolling time periods specified by the Member for each count, of: (1) the total number of orders entered in the regular order book; (2) the total number of orders entered in the complex order book with only options legs; (3) the total number of Stock-Option and Stock-Complex Orders [orders entered in the complex order book with both stock and options legs]; (4) the total number of contracts traded in regular orders; [and ](5) the total number of contracts traded in Stock-Option and Stock-Complex Orders[complex orders with only options legs]; and (6) the total number of contracts traded in Stock-Option and Stock-Complex Orders. The minimum and maximum duration of the applicable time period will be established by the Exchange and announced via an Options Trader Alert.

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## Section 16. Complex Order Risk Protections

The following are Complex Order risk protections on ISE:

**(a) Price limits for Complex Orders.** As provided in Options 3, Section 14(d)(2), the legs of a complex strategy may be executed at prices that are inferior to the prices available on other exchanges trading the same options series. Notwithstanding, the System will not permit any leg of a complex strategy to trade through the NBBO for the series or any stock component by a configurable amount calculated as the lesser of (i) an absolute amount not to exceed \$0.10, and (ii) a percentage of the NBBO not to exceed 500%, as determined by the Exchange on a class, series or underlying basis. A Member can also include an instruction on a Complex Order that each leg of the Complex Order is to be executed only at a price that is equal to or better than the NBBO for the options series or any stock component, as applicable (“Do-Not-Trade-Through” or “DNNTT”).

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**(d) Stock-Tied NBBO.** For Complex Orders in Stock-Option Strategies and Stock-Complex Strategies, the Exchange shall electronically communicate the underlying security component of a Complex Order to Nasdaq Execution Services, LLC (“NES”), its designated broker dealer, for

immediate execution. Such execution and reporting will not occur on the Exchange and will be handled by NES pursuant to applicable rules regarding equity trading. NES will ensure that the execution price is within the high-low range for the day in that stock at the time the Complex Order is processed and within a certain price from the current market pursuant to Options 3, Section 16(a). If the stock price is not within these parameters, the Complex Order is not executable and the Exchange will hold the Complex Order on the Order Book, if consistent with Member instructions.

(e) **Stock-Tied Reg SHO.** When the short sale price test in Rule 201 of Regulation SHO is triggered for a covered security, NES will not execute a short sale order in the underlying covered security component of a Complex Order if the price is equal to or below the current national best bid. However, NES will execute a short sale order in the underlying covered security component of a Complex Order if such order is marked “short exempt,” regardless of whether it is at a price that is equal to or below the current national best bid. If NES cannot execute the underlying covered security component of a Complex Order in accordance with Rule 201 of Regulation SHO, the Exchange will hold the Complex Order on the Complex Order Book, if consistent with Member instructions. The order may execute at a price that is not equal to or below the current national best bid. For purposes of this paragraph, the term “covered security” shall have the same meaning as in Rule 201(a)(1) of Regulation SHO.

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