

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-79323; File No. SR-ISEMercury-2016-20]

### Self-Regulatory Organizations; ISE Mercury, LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Make Non-Controversial and Technical Changes to Exchange Rules

November 16, 2016.

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 November 3, 2016, ISE Mercury, LLC (“ISE Mercury” or “Exchange”) filed with the Securities and Exchange Commission (“SEC” or “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 make a number of non-controversial and technical changes to its rules as described in more detail below.

The text of the proposed rule change is available on the Exchange’s Web site at [www.ise.com](http://www.ise.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 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 Statutory Basis for, the Proposed Rule Change

###### 1. Purpose

The Exchange is proposing to make a number of non-controversial changes and technical corrections to its rules.

Specifically, these changes are all to correct typographical errors and delete obsolete rule text.<sup>3</sup> The changes are described in more detail below.

###### 1. No Bid Options/Limit Price

Rule 713(b), which deals with priority of orders, provides that if the lowest offer for any options contract is \$0.05 then no member shall enter a market order to sell that series, and any such market order shall be considered a limit order to sell at a price of \$0.05. This provision is intended to prevent members from submitting market orders to sell in no bid series, which could execute at a price of \$0.00, and to instead convert those orders to limit orders with a limit price equal to the minimum trading increment, *i.e.*, \$0.05 for most option classes.<sup>4</sup> A “no bid” or “zero bid” series refers to an option where the bid price is \$0.00. Series of options quoted no bid are usually deep out-of-the-money series that are perceived as having little if any chance of expiring in-the-money. For options that trade in regular nickel increments, a best offer of \$0.05 corresponds to a best bid of \$0.00, *i.e.* one minimum trading increment below the offer. However, option series may be no bid with other offer prices as well. For example, an option class would be considered no bid if it is quoted at \$0.00 (bid)—\$0.15 (offer). In order to avoid having these orders execute at a price of \$0.00, the Exchange proposes to clarify that Rule 713(b) applies to all option classes that are quoted no bid, rather than just those option classes that have an offer of \$0.05. Currently, options exchanges have in place a pilot (the “Penny Pilot”) to quote and trade options in one cent increments, lowering the minimum trading increment from \$0.05 in certain symbols. The Exchange therefore proposes to amend Rule 713(b) to clarify that the Exchange will put a limit price equal to the minimum trading increment on market orders to sell a no bid option series. For example, if the deep out-of-the-money SPY December \$230.00 call, which is traded in penny increments, is quoted at \$0.00 (bid)—\$0.03 (offer), a market order to sell

would instead be treated as a limit order to sell at a price of \$0.01.

###### 2. Non-Displayed Penny Orders and Quotes

The Exchange currently has rules in place that allow members to enter non-displayed orders and quotes in penny increments in designated options with a minimum trading increment greater than one cent (“non-displayed penny orders and quotes”).<sup>5</sup> A non-displayed penny order or quote is available for execution at its penny price but is displayed at the closest minimum trading increment that does not violate the limit price.<sup>6</sup> The Exchange does not offer non-displayed penny orders or quotes and therefore proposes to delete obsolete references to this order type from its rules. First, the Exchange proposes to delete Rule 715(b)(4), which defines non-displayed penny orders. Second, the Exchange proposes to delete language in Rule 804(b)(1) and Rule 805(a) that permits market makers to enter non-displayed penny quotes and orders, respectively. Third, the Exchange proposes to delete language in Supplementary Material .06 to Rule 716 concerning split prices for non-displayed penny orders and quotes entered into the Facilitation and Solicitation Mechanisms. Finally, the Exchange proposes to delete language in Supplementary Material .03 to Rule 717 concerning the execution of non-displayed penny orders that an Electronic Access Member represents as agent against principal orders and orders solicited from other broker dealers.

###### 3. Customer Participation Orders

A customer participation order (“CPO”) is an order type that can be used by Public Customers<sup>7</sup> to participate in the Price Improvement Mechanism (“PIM”).<sup>8</sup> Upon entry of a Crossing Transaction into the PIM,<sup>9</sup> a

<sup>5</sup> See Rule 715(b)(4), Rule 804(b)(1) and Rule 805(a).

<sup>6</sup> See Rule 715(b)(4) and Rule 804(b)(1).

<sup>7</sup> The term “Public Customer” means a person or entity that is not a broker or dealer in securities. See Rule 100(a)(38).

<sup>8</sup> The PIM 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 an order it represents as agent, and/or a transaction wherein the Electronic Access Member solicited interest to execute against an order it represents as agent (a “Crossing Transaction”). See Rule 723(a).

<sup>9</sup> A Crossing Transaction is comprised of the order the Electronic Access Member represents as agent (the “Agency Order”) and a counter-side order for the full size of the Agency Order (the “Counter-Side Order”). The Counter-Side Order may represent interest for the Member’s own account, or interest the Member has solicited from

<sup>3</sup> See also Securities Exchange Act Release No. 73808 (December 10, 2014), 79 FR 74797 (December 16, 2014) (SR-ISE-2014-54) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Make Technical Corrections to the International Securities Exchange, LLC (“ISE”) Rules).

<sup>4</sup> Symbols not included in the Penny Pilot generally trade in \$0.05 increments if the options contract is trading at less than \$3.00 per option, and \$0.10 increments if the options contract is trading at \$3.00 per option or higher. See Rule 710.

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

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

broadcast message is sent to all members, who then have 500 milliseconds to enter orders that indicate the size and price at which they want to participate in the execution (“Improvement Orders”).<sup>10</sup> The CPO is an instruction to the member to enter an Improvement Order on behalf of a Public Customer. Specifically, a CPO is a limit order on behalf of a Public Customer that, in addition to the limit order price in standard increments, includes a price stated in one cent increments at which the Public Customer wishes to participate in trades executed in the same options series in penny increments through the PIM.<sup>11</sup> The Exchange does not offer CPOs and therefore proposes to delete obsolete references to this order type from its rules. The Exchange first proposes to delete Rule 715(f), which defines CPOs. Furthermore, the Exchange proposes to remove two references to CPOs in other rules. Specifically, the Exchange proposes to remove references to CPOs in Supplementary Material .06 to Rule 723, which explains when Improvement Orders can be entered with respect to CPOs,<sup>12</sup> and in Rule 723(d), which notes that the agency side of an order entered into the Price Improvement Mechanism may execute against CPOs at the end of the exposure period.

#### 4. Linkage Rules

The Exchange proposes to delete Supplementary Material .04 and .05 to Rule 803, which contains duplicative and obsolete provisions relevant to away market routing. In particular, the content of Supplementary Material .04 and .05 to Rule 803 is now contained in Supplementary Material .06 and .07 to Rule 1901<sup>13</sup> because linkage handling is performed by unaffiliated broker dealers (*i.e.*, Linkage Handlers) on the Exchange. Therefore as described above, the Exchange proposes to delete this language from Rule 803, which concerns the obligations of market makers.

#### 5. Supplementary Material

The Exchange notes that certain supplementary material is mistakenly

one or more other parties, or a combination of both. See Rule 723(b).

<sup>10</sup> See Rule 723(c)(1).

<sup>11</sup> See Rule 715(f).

<sup>12</sup> Although CPOs are no longer available, members will continue to be able to enter Improvement Orders for the account of Public Customers.

<sup>13</sup> See Securities Exchange Act Release No. 73808 (December 10, 2014), 79 FR 74797 (December 16, 2014) (SR-ISE-2014-54) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Make Technical Corrections to the ISE Rules). Chapter 19 of the Exchange’s rulebook incorporates Chapter 19 of the ISE rulebook by reference.

labelled as “supplemental” material in the Exchange’s rulebook.<sup>14</sup> In order to achieve consistency with how other rules are labelled, the Exchange proposes to change these to instead refer to “supplementary” material. Finally, the Exchange proposes to make a non-substantive change to Supplementary Material to Rule 803, which concerns the obligations of market makers, by updating the word “To” to lower case.

#### 2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder that are applicable to a national securities exchange, and, in particular, with the requirements of Section 6(b) of the Act.<sup>15</sup> In particular, the proposal is consistent with Section 6(b)(5) of the Act<sup>16</sup> because it is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanisms of a free and open market and a national market system and, in general, to protect investors and the public interest. The Exchange believes it is appropriate to make the proposed technical corrections to its rules so that Exchange members and investors have a clear and accurate understanding of the meaning of the ISE Mercury rules.

#### 1. No Bid Options/Limit Price

The Exchange currently operates a pilot program to permit designated options classes to be quoted and traded in increments as low as one cent. The Exchange is proposing to amend Rule 713(b) to account for the fact that option classes selected for inclusion in the Penny Pilot are permitted to trade in penny increments. For penny classes that are quoted no bid, the Exchange will convert a market order to sell to a limit order with a price of one cent. In addition, the proposed rule change clarifies that Rule 713(b) applies to all series with a bid of \$0.00, and not just those series that also have an offer of \$0.05. The proposed rule change is necessary to account for options trading in multiple trading increments, including under the Penny Pilot, and will ensure that market orders to sell are not inadvertently executed at a price of zero. The Exchange believes that these changes more accurately reflect the intent of Rule 713(b), as described above, and will eliminate investor confusion with respect to the operation of this rule by more accurately

describing the functionality provided by the Exchange.

#### 2. Non-Displayed Penny Orders and Quotes/Customer Participation Orders

As explained above, the Exchange does not offer non-displayed penny orders and quotes or customer participation orders, and thus proposes to remove obsolete definitions and other outdated references to these order types. The Exchange believes that these changes will eliminate investor confusion regarding order types available for trading on ISE Mercury to the benefit of members and investors.

#### 3. Linkage Rules

The proposed changes to the linkage rules are non-substantive and intended to reduce investor confusion. As explained above, the Exchange is deleting duplicative and obsolete rule text from Chapter 8 of its rulebook because linkage handling is handled by Linkage Handlers. Therefore, the Exchange believes that these rules are more appropriately located in Chapter 19 of the Exchange’s rulebook, which incorporates by reference Chapter 19 of the ISE rulebook.

#### 4. Supplementary Material

The proposed change to label supplementary material correctly is non-substantive and is intended to achieve consistency in how these rules are labelled to the benefit of members and investors.

#### B. Self-Regulatory Organization’s Statement on Burden on Competition

In accordance with Section 6(b)(8) of the Act,<sup>17</sup> the Exchange does not believe that the proposed rule change will impose any burden on intermarket or intramarket competition that is not necessary or appropriate in furtherance of the purposes of the Act. The proposed rule change makes technical, non-substantive amendments to the Exchange’s rules in order to eliminate investor confusion, and is not designed to have any competitive impact.

#### 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

<sup>14</sup> See “Supplemental” Material to Rules 717 and 809. See also reference in Rule 721(a)(3) to “Supplemental” Material .01 to Rule 717.

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

<sup>16</sup> 15 U.S.C. 78f(b)(5).

<sup>17</sup> 15 U.S.C. 78f(b)(8).

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>18</sup> and subparagraph (f)(6) of Rule 19b-4 thereunder.<sup>19</sup>

A proposed rule change filed under Rule 19b-4(f)(6) normally does not become operative prior to 30 days after the date of filing. However, Rule 19b-4(f)(6)(iii)<sup>20</sup> permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest. In its filing with the Commission, the Exchange requests that the Commission waive the 30-day operative delay. The Exchange asserts that waiver of the operative delay is consistent with the protection of investors and the public interest because the proposed rule change makes non-substantive, technical changes to the Exchange's rules. The Exchange also believes that the proposed rule change increases the clarity of ISE Mercury rules to the benefit of members and investors that trade on the Exchange. For these reasons, the Commission believes that waiver of the 30-day operative delay is consistent with the protection of investors and the public interest. Therefore, the Commission designates the proposed rule change to be operative upon filing.<sup>21</sup>

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.

<sup>18</sup> 15 U.S.C. 78s(b)(3)(A)(iii).

<sup>19</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, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.

<sup>20</sup> 17 CFR 240.19b-4(f)(6)(iii).

<sup>21</sup> For purposes only of waiving the 30-day operative delay, the Commission also has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

#### 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 email to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-ISEMercury-2016-20 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-ISEMercury-2016-20. This file number should be included on the subject line if email 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 Web site (<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 Web site 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; 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-ISEMercury-2016-20 and should be submitted on or before December 13, 2016.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>22</sup>

**Brent J. Fields,**  
Secretary.

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-79322; File No. SR-Phlx-2016-97]

### Self-Regulatory Organizations; NASDAQ PHLX LLC; Order Granting Approval of Proposed Rule Change To Delete Outdated or Unnecessary Rule Language in Phlx Rule 1020

November 16, 2016.

#### I. Introduction

On September 27, 2016, NASDAQ PHLX LLC ("Exchange" or "Phlx") filed with the Securities and Exchange Commission ("SEC" or "Commission"), 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> a proposed rule change to delete or amend its rules relating to specialists. The proposed rule change was published for comment in the **Federal Register** on October 14, 2016.<sup>3</sup> The Commission received no comment letters on the proposed rule change. This order approves the proposed rule change.

#### II. Description of the Proposal

Phlx Rule 1020 contains provisions relating to the registration and functions of options specialists.<sup>4</sup> Section (b) provides that a member registered as a specialist in one or more options has an obligation to assist in the maintenance of a fair and orderly market, "in addition to the execution of orders entrusted to him in such options." The Exchange proposes to delete the language in section (b) regarding execution of entrusted orders. The Exchange represents that today, specialists on the Exchange trade only for their own account and "no longer handle any agency orders whatsoever in their role as specialists."<sup>5</sup>

<sup>22</sup> 17 CFR 200.30-3(a)(12).

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

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

<sup>3</sup> See Securities Exchange Act Release No. 79073 (October 11, 2016), 81 FR 71153 (October 14, 2016) ("Notice").

<sup>4</sup> A "specialist" is an Exchange member who is registered as an options specialist pursuant to Phlx Rule 1020(a). Specialists are subject to quoting and registration obligations set forth in Phlx Rules 1014(b), 1020 and 1080.02.

<sup>5</sup> See Notice, *supra* note 3, at 71154.