

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * <input type="text" value="27"/>	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4	File No.* SR - <input type="text" value="2018"/> - * <input type="text" value="001"/>	Amendment No. (req. for Amendments *) <input type="text"/>
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Filing by NASDAQ BX, Inc.  
Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial * <input checked="" type="checkbox"/>	Amendment * <input type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) * <input type="checkbox"/>	Section 19(b)(3)(A) * <input checked="" type="checkbox"/>	Section 19(b)(3)(B) * <input type="checkbox"/>
			Rule		
Pilot <input type="checkbox"/>	Extension of Time Period for Commission Action * <input type="checkbox"/>	Date Expires * <input type="text"/>	<input type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)	
			<input type="checkbox"/> 19b-4(f)(2)	<input type="checkbox"/> 19b-4(f)(5)	
			<input type="checkbox"/> 19b-4(f)(3)	<input checked="" type="checkbox"/> 19b-4(f)(6)	

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010	Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934
Section 806(e)(1) * <input type="checkbox"/>	Section 806(e)(2) * <input type="checkbox"/>
Section 3C(b)(2) * <input type="checkbox"/>	

Exhibit 2 Sent As Paper Document <input type="checkbox"/>	Exhibit 3 Sent As Paper Document <input type="checkbox"/>
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**Description**

Provide a brief description of the action (limit 250 characters, required when Initial is checked \*).

A proposal to add a new Rule 4765 to authorize the Exchange to share Participant-designated risk settings in the Exchange trading system with the clearing member that clears transactions on behalf of the Participant.

**Contact Information**

Provide the name, telephone number, and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the action.

First Name * <input type="text" value="Brett"/>	Last Name * <input type="text" value="Kitt"/>
Title * <input type="text" value="Senior Associate General Counsel"/>	
E-mail * <input type="text" value="Brett.Kitt@nasdaq.com"/>	
Telephone * <input type="text" value="(301) 978-8132"/>	Fax <input type="text"/>

**Signature**

Pursuant to the requirements of the Securities Exchange Act of 1934,

has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

(Title \*)

Date <input type="text" value="01/11/2018"/>	<input type="text" value="Executive Vice President and General Counsel"/>
By <input type="text" value="Edward S. Knight"/>	<input type="text" value="edward.knight@nasdaq.com"/>

NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EFFF website.

**Form 19b-4 Information \***

Add Remove View

The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.

**Exhibit 1 - Notice of Proposed Rule Change \***

Add Remove View

The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

**Exhibit 1A- Notice of Proposed Rule Change, Security-Based Swap Submission, or Advance Notice by Clearing Agencies \***

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The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change, security-based swap submission, or advance notice being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

**Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications**

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Exhibit Sent As Paper Document

Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.

**Exhibit 3 - Form, Report, or Questionnaire**

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Exhibit Sent As Paper Document

Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.

**Exhibit 4 - Marked Copies**

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The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.

**Exhibit 5 - Proposed Rule Text**

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The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.

**Partial Amendment**

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If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

1. Text of Proposed Rule Change

(a) Nasdaq BX, Inc. (“BX” or “Exchange”), 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> is filing with the Securities and Exchange Commission (“SEC” or “Commission”) a proposal to add a new Rule 4765 and commentary thereto to codify Participant risk settings in the Exchange’s trading system and to authorize the Exchange to share such risk settings with the clearing member that clears transactions on behalf of the Participant.

A notice of the proposed rule change for publication in the Federal Register is attached hereto as Exhibit 1. The text of the proposed rule change is set forth below. New language is underlined; deleted language is bracketed.

\* \* \* \* \*

**Rules of Nasdaq BX**

**Equity Rules**

\* \* \* \* \*

**Rule 4765. Exchange Sharing of Participant Risk Settings**

The Exchange may share any Participant risk settings in the trading system specified in the commentary below with the clearing member that clears transactions on behalf of the Participant. For purposes of this Rule, the term “Participant” has the meaning set forth in Rule 4701(c).

**Commentary:**

The Exchange offers certain risk settings applicable to a Participant’s activities on the Exchange. The risk settings currently offered by the Exchange are:

- (a) Share Size Control – When enabled by a Participant, this optional control will allow a Participant to limit the number of shares that the Participant may associate with an order placed on the Exchange;
- (b) ISO Control – When enabled by a Participant, this optional control will prevent a Participant from entering an ISO order onto the Exchange;

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

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

- (c) Cancel-on-Disconnect Control – When enabled by a Participant, this optional control will allow a Participant, when it experiences a disruption in its connection to the Exchange, to immediately cancel all pending Exchange orders except for Good-Till-Canceled orders (RASH & FIX only);
- (d) The BX Kill Switch – This control is described in Rule 4764;
- (e) Limit Order Protection – This control is described in Rule 4757(d);
- (f) Price Collar Check – This control will automatically restrict a routed order from executing at a price that differs from the NBBO (at the time of order entry) by more than five percent or \$0.25, whichever difference is greater. The system will proceed to route an order unless and until it crosses the greater of these two price collars, and if it does so, then the system will block further routings of the order that fall outside of the collars. For example, if the NBBO is \$99 x \$100 at the time of entry of a buy order, then the system will route the order at prices at or below \$105, but will stop doing so if the offer price rises above \$105 (five percent of the NBO).
- (g) Maximum Order Volume Check – This control will automatically reject an order for routing away that exceeds a maximum volume of shares. As applied to equity orders, the default maximum order volume is set at 25,000 shares, but the Participant may request that the Exchange set a higher default based on historic volume.
- (h) Cumulative Order Volume Check – This control will automatically block an attempt by a Participant using a particular MPID to route orders away to buy or sell equity securities that, cumulatively, exceed 9.5 million shares during a five second time period; and
- (i) Duplication Control – This control will automatically reject an order that a Participant submits to the Exchange to the extent that it is duplicative of another order that the Participant submitted to the Exchange during the prior five seconds.

\* \* \* \* \*

## 2. Procedures of the Self-Regulatory Organization

The proposed rule change was approved by senior management of the Exchange pursuant to authority delegated by the Board of Directors of the Exchange (the “Board”) on September 19, 2017. Exchange staff will advise the Board of any action taken pursuant to delegated authority. No other action is necessary for the filing of the rule change.

Questions and comments on the proposed rule change may be directed to:

Brett M. Kitt  
Senior Associate General Counsel  
Nasdaq, Inc.  
(301) 978-8132

3. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

a. Purpose

The Exchange proposes to adopt proposed commentary to Rule 4765, which codifies a comprehensive list of Participant risk settings in the Exchange's trading system. The Exchange also proposes to adopt new Rule 4765 to authorize the Exchange to share these risk settings with the clearing member that clears transactions on behalf of the Participant. For purposes of Rule 4765, the term "Participant" has the meaning set forth in Rule 4701(c).<sup>3</sup>

Participants are required to be members of the Exchange. Rule 4618 states that "all transactions through the facilities of the Nasdaq BX Equities Market shall be cleared and settled through a registered clearing agency using a continuous net settlement system." It further provides that this requirement may be satisfied by "direct participation, use of direct clearing services, by entry into a correspondent clearing arrangement with another member that clears trades through such a clearing agency...." Further, pursuant to Rule 4627, every clearing member acting on a Participant's behalf that constitutes a side of a system trade is responsible for honoring such trades of that Participant.

All Participants that are not clearing members require a clearing member's consent to clear transactions on their behalf in order to conduct business on the

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<sup>3</sup> Rule 4701(c) defines a "Participant" as an entity that fulfills the obligations contained in Rule 4611 regarding participation in the System, and includes Equities ECNs, Equities Market Makers, and Order Entry Firms.

Exchange. Each Participant that transacts through a clearing member on the Exchange must have an arrangement between the Participant and the clearing member. The Exchange is provided notice of which clearing members have relationships with which Participants. The clearing member that guarantees the Participant's transactions on the Exchange has a financial interest in understanding the risk tolerance of the Participant. The proposal would provide the Exchange with authority to directly provide clearing members with information that may otherwise be available to such clearing members by virtue of their relationship with the respective Participants.<sup>4</sup>

The proposed commentary to Rule 4765 would codify a list of risk settings that are currently offered by the Exchange and would be covered by proposed Rule 4765. This list is comprehensive with respect to the risk settings that the Exchange presently offers. Certain of these risk settings are mandatory for Participants, meaning that the Exchange either imposes specific risk tolerances that are uniform for all Participants or it sets default risk tolerances, but it affords flexibility to Participants to select their own risk tolerance levels. In certain instances, the Exchange does not require Participants to utilize risk settings, but instead makes them available for use at the option of Participants. The risk settings set forth in the proposed commentary to Rule 4765 comprise the following:

- Share Size Control - When enabled by a Participant, this optional control will allow a Participant to limit the number of shares that the Participant may associate with an order placed on the Exchange;

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<sup>4</sup> The Exchange notes that its proposal would cover Sponsored Participants, as set forth in Rule 4615, meaning that the proposal would authorize the Exchange to share the risk settings of Sponsored Participants with clearing members that clear trades on their behalf.

- ISO Control – When enabled by a Participant, this optional control will prevent a Participant from entering an ISO order onto the Exchange;
- Cancel-on-Disconnect Control – When enabled by a Participant, this optional control will allow a Participant, when it experiences a disruption in its connection to the Exchange, to immediately cancel all pending Exchange orders except for Good-Till-Canceled orders (RASH & FIX only);
- The BX Kill Switch – This control is described in Rule 4764;
- Limit Order Protection – This control is described in Rule 4757(d);
- Price Collar Check – This control will automatically restrict a routed order from executing at a price that differs from the NBBO (at the time of order entry) by more than five percent or \$0.25, whichever difference is greater. The system will proceed to route an order unless and until it crosses the greater of these two price collars, and if it does so, then the system will block further routings of the order that fall outside of the collars. For example, if the NBBO is \$99 x \$100 at the time of entry of a buy order, then the system will route the order at prices at or below \$105, but will stop doing so if the offer price rises above \$105 (five percent of the NBO).
- Maximum Order Volume Check – This control will automatically reject an order for routing away that exceeds a maximum volume of shares. As applied to equity orders, the default maximum order volume is set at 25,000 shares, but the Participant may request that the Exchange set a higher default based on historic volume.
- Cumulative Order Volume Check – This control will automatically block an attempt by a Participant using a particular MPID to route orders away to buy

or sell equity securities that, cumulatively, exceed 9.5 million shares during a five second time period; and

- Duplication Control – This control will automatically reject an order that a Participant submits to the Exchange to the extent that it is duplicative of another order that the Participant submitted to the Exchange during the prior five seconds.

As set forth above, the proposal to authorize the Exchange to share any of the Participant's risk settings with the clearing member that clears transactions on behalf of the Participant would be limited to the risk settings specified in the proposed commentary to Rule 4765. The Exchange notes that use by a Participant of the risk settings offered by the Exchange is optional for share size, ISO, kill switch, and cancel-on disconnect controls, and is required in other instances.<sup>5</sup> By using the optional risk settings, following this proposed Rule change a Participant therefore also opts-in to the Exchange sharing its risk settings with its clearing member. The Exchange notes that any Participant that does not wish to share its mandatory risk settings with its clearing member could avoid sharing such settings by becoming a clearing member.

To the extent that a clearing member might reasonably require a Participant to provide access to its risk settings as a prerequisite to continuing to clear trades on the Participant's behalf, the Exchange's proposal to share those risk settings directly reduces the administrative burden on Participants and ensures that clearing members are receiving information that is up-to-date and conforms to the settings active in the Exchange's trading system. Further, the Exchange believes that the proposal will help such clearing

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<sup>5</sup> As noted above, for the Maximum Order Volume Check, the Exchange sets a default order volume but Participants have flexibility to adjust this level.



members to better monitor and manage the potential risks that they assume when clearing for Participants of the Exchange.

b. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,<sup>6</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act,<sup>7</sup> in particular, in that it is designed to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, 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.

The proposed rule change will allow the Exchange to directly provide a Participant's risk settings to the clearing member that clears trades on behalf of the Participant. A clearing member guarantees transactions executed on BX for members with whom it has entered into a clearing arrangement, and therefore bears the risk associated with those transactions. The Exchange therefore believes that it is appropriate for the clearing member to have knowledge of what risk settings the Participant may utilize within the Exchange's trading system. The proposal will permit clearing members who have a financial interest in the risk settings of Participants with whom the Participants have entered into clearing arrangements to better monitor and manage the potential risks assumed by clearing members, thereby providing clearing members with greater control and flexibility over setting their own risk tolerance and exposure and aiding clearing members in complying with the Act. To the extent a clearing member

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<sup>6</sup> 15 U.S.C. 78f(b).

<sup>7</sup> 15 U.S.C. 78f(b)(5).

might reasonably require a Participant to provide access to its risk settings as a prerequisite to continuing to clear trades on the Participant's behalf, the Exchange's proposal to share those risk settings directly reduces the administrative burden on Participants and ensures that clearing members are receiving information that is up-to-date and conforms to the settings active in the Exchange's trading system. Moreover, the proposal will foster cooperation and coordination with persons engaged in facilitating transactions in securities and more generally, will protect investors and the public interest, by reducing administrative burdens on both clearing members and other Participants and by allowing clearing members to better monitor their risk exposure.

The Exchange further believes that codifying the risk settings described above in proposed commentary to Rule 4765 is consistent with the Act. These settings assist Participants in managing and controlling the risks associated with their access to and activity on the Exchange, both for the benefit of Participants and investors. The Exchange's risk settings, moreover, are consistent with risk settings employed by other exchanges, such as Cboe BYX. Although the Exchange presently offers these risk settings, codifying them will provide additional transparency to Participants regarding the risk settings offered by the Exchange. It will also foster cooperation and coordination with persons engaged in facilitating transactions in securities and more generally, will protect investors and the public interest, by providing additional transparency regarding risk settings offered by the Exchange.

#### 4. 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 that is not necessary or appropriate in furtherance of the purposes of the Act, as amended. The proposed rule change is not designed to address any

competitive issues and does not pose an undue burden on non-clearing members because, unlike clearing members, non-clearing members do not guarantee the execution of a Participant's transactions on the Exchange. Moreover, the proposal to share risk settings with clearing members will not burden competition among clearing members because it will apply to all clearing members equally and regardless of size. The Exchange notes that this proposal will not affect competition among Participants because the proposal provides for sharing of all of Participants' risk settings set forth in the commentary to Rule 4765. Any Participant that does not wish to share its risk settings with its clearing member could avoid sharing such settings by becoming a clearing member. Lastly, the proposal to codify the Exchange's risk settings will not burden competition among Participants because the risk settings are already available to or required of Participants and will continue to be available or required of all Participants going forward.

5. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

Written comments were neither solicited nor received.

6. Extension of Time Period for Commission Action

Not applicable.

7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2)

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)(iii)<sup>8</sup> of the Act and Rule 19b-4(f)(6) thereunder<sup>9</sup> in that it effects a change that: (i) does not significantly affect the protection of investors or the public interest; (ii) does not impose any significant burden on competition; and (iii) by its terms, does not

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<sup>8</sup> 15 U.S.C. 78s(b)(3)(A)(iii).

<sup>9</sup> 17 CFR 240.19b-4(f)(6).

become operative for 30 days after the date of the filing, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest.

The Exchange believes that the proposed rule change does not significantly affect the protection of investors or the public interest and does not impose any significant burden on competition. The Exchange notes that the proposed risk settings are substantially similar to those offered by Cboe BYX.<sup>10</sup> Moreover, the proposal to share these risk settings is substantially similar to a rule that Cboe BYX recently adopted.<sup>11</sup> Moreover, the proposal to share these risk settings is substantially similar to an existing rule applicable to the BX Options Market. BX Options Market Rules, Chapter VI, Section 20 authorizes the Exchange to share any Participant risk settings in the trading system with the clearing member that clears the transactions on behalf of the Participant. The proposed Rule 4765 will apply to the Exchange's equities market the same information sharing authority that exists in its options market.

In addition, the proposed rule change does not significantly affect the protection of investors or the public interest because the proposal will permit clearing members, who have a financial interest in the risk settings of Participants to better monitor and manage the potential risks assumed by such Participants, thereby aiding clearing members in complying with the Act.

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<sup>10</sup> See Cboe BYX Rule 11.13, Interpretations and Policies .01.

<sup>11</sup> See Securities Exchange Act Release No. 34-80612 (May 5, 2017), 82 FR 22024 (May 11, 2017) (SR-BatsBYX-2017-07). The Exchange notes that unlike Cboe BYX, certain of its proposed risk settings will be mandatory. Therefore, a Participant may avoid sharing such mandatory risk settings only by becoming a clearing member.

Furthermore, Rule 19b-4(f)(6)(iii) requires a self-regulatory organization to give the Commission written notice of its intent to file a proposed rule change under that subsection at least five business days prior to the date of filing, or such shorter time as designated by the Commission. The Exchange has provided such notice.

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.

8. Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission

The proposed rule change is based on BX Options Market Rules, Chapter VI, Sec. 20 and Cboe BYX Rule 11.13, Interpretation and Policy .01, and Rule 11.15. However, the risk settings that the Exchange proposes to designate for sharing with clearing members differs from those risk settings that Cboe BYX has designated for sharing in its rules in that all of the Cboe BYX risk settings are optional, whereas certain of the Exchange's proposed risk settings are optional and others are mandatory. Thus, whereas Cboe BYX participants may avoid sharing their risk settings with clearing members altogether by either becoming clearing members themselves or by declining to use risk settings, Exchange Participants may only avoid sharing mandatory risk settings by becoming clearing members.

9. Security-Based Swap Submissions Filed Pursuant to Section 3C of the Act

Not applicable.

10. Advance Notices Filed Pursuant to Section 806(e) of the Payment, Clearing and Settlement Supervision Act

Not applicable.

11. Exhibits

1. Notice of Proposed Rule Change for publication in the Federal Register.

**EXHIBIT 1**

SECURITIES AND EXCHANGE COMMISSION  
(Release No. \_\_\_\_\_ ; File No. SR-BX-2018-001)

January \_\_, 2018

Self-Regulatory Organizations; Nasdaq BX, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Add a New Rule 4765 and Commentary Thereto to Codify Participant Risk Settings and to Authorize the Exchange to Share those Risk Settings with the Clearing Member that Clears Transactions on behalf of the Participant.

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 January 11, 2018, Nasdaq BX, Inc. (“BX” or “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 add a new Rule 4765 and commentary thereto to codify Participant risk settings in the Exchange’s trading system and to authorize the Exchange to share such risk settings with the clearing member that clears transactions on behalf of the Participant.

The text of the proposed rule change is set forth below. Proposed new language is underlined; deleted text is in brackets.

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

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

**Rules of Nasdaq BX****Equity Rules**

\* \* \* \* \*

**Rule 4765. Exchange Sharing of Participant Risk Settings**

The Exchange may share any Participant risk settings in the trading system specified in the commentary below with the clearing member that clears transactions on behalf of the Participant. For purposes of this Rule, the term “Participant” has the meaning set forth in Rule 4701(c).

**Commentary:**

The Exchange offers certain risk settings applicable to a Participant’s activities on the Exchange. The risk settings currently offered by the Exchange are:

- (a) Share Size Control – When enabled by a Participant, this optional control will allow a Participant to limit the number of shares that the Participant may associate with an order placed on the Exchange;
- (b) ISO Control – When enabled by a Participant, this optional control will prevent a Participant from entering an ISO order onto the Exchange;
- (c) Cancel-on-Disconnect Control – When enabled by a Participant, this optional control will allow a Participant, when it experiences a disruption in its connection to the Exchange, to immediately cancel all pending Exchange orders except for Good-Till-Canceled orders (RASH & FIX only);
- (d) The BX Kill Switch – This control is described in Rule 4764;



- (e) Limit Order Protection – This control is described in Rule 4757(d);
- (f) Price Collar Check – This control will automatically restrict a routed order from executing at a price that differs from the NBBO (at the time of order entry) by more than five percent or \$0.25, whichever difference is greater. The system will proceed to route an order unless and until it crosses the greater of these two price collars, and if it does so, then the system will block further routings of the order that fall outside of the collars. For example, if the NBBO is \$99 x \$100 at the time of entry of a buy order, then the system will route the order at prices at or below \$105, but will stop doing so if the offer price rises above \$105 (five percent of the NBO).
- (g) Maximum Order Volume Check – This control will automatically reject an order for routing away that exceeds a maximum volume of shares. As applied to equity orders, the default maximum order volume is set at 25,000 shares, but the Participant may request that the Exchange set a higher default based on historic volume.
- (h) Cumulative Order Volume Check – This control will automatically block an attempt by a Participant using a particular MPID to route orders away to buy or sell equity securities that, cumulatively, exceed 9.5 million shares during a five second time period; and
- (i) Duplication Control – This control will automatically reject an order that a Participant submits to the Exchange to the extent that it is duplicative of another order that the Participant submitted to the Exchange during the prior five seconds.

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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 proposes to adopt proposed commentary to Rule 4765, which codifies a comprehensive list of Participant risk settings in the Exchange’s trading system. The Exchange also proposes to adopt new Rule 4765 to authorize the Exchange to share these risk settings with the clearing member that clears transactions on behalf of the Participant. For purposes of Rule 4765, the term “Participant” has the meaning set forth in Rule 4701(c).<sup>3</sup>

Participants are required to be members of the Exchange. Rule 4618 states that “all transactions through the facilities of the Nasdaq BX Equities Market shall be cleared and settled through a registered clearing agency using a continuous net settlement system.” It further provides that this requirement may be satisfied by “direct participation, use of direct clearing services, by entry into a correspondent clearing arrangement with another member that clears trades through such a clearing agency....”

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<sup>3</sup> Rule 4701(c) defines a “Participant” as an entity that fulfills the obligations contained in Rule 4611 regarding participation in the System, and includes Equities ECNs, Equities Market Makers, and Order Entry Firms.

Further, pursuant to Rule 4627, every clearing member acting on a Participant's behalf that constitutes a side of a system trade is responsible for honoring such trades of that Participant.

All Participants that are not clearing members require a clearing member's consent to clear transactions on their behalf in order to conduct business on the Exchange. Each Participant that transacts through a clearing member on the Exchange must have an arrangement between the Participant and the clearing member. The Exchange is provided notice of which clearing members have relationships with which Participants. The clearing member that guarantees the Participant's transactions on the Exchange has a financial interest in understanding the risk tolerance of the Participant. The proposal would provide the Exchange with authority to directly provide clearing members with information that may otherwise be available to such clearing members by virtue of their relationship with the respective Participants.<sup>4</sup>

The proposed commentary to Rule 4765 would codify a list of risk settings that are currently offered by the Exchange and would be covered by proposed Rule 4765. This list is comprehensive with respect to the risk settings that the Exchange presently offers. Certain of these risk settings are mandatory for Participants, meaning that the Exchange either imposes specific risk tolerances that are uniform for all Participants or it sets default risk tolerances, but it affords flexibility to Participants to select their own risk tolerance levels. In certain instances, the Exchange does not require Participants to utilize risk settings, but instead makes them available for use at the option of

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<sup>4</sup> The Exchange notes that its proposal would cover Sponsored Participants, as set forth in Rule 4615, meaning that the proposal would authorize the Exchange to share the risk settings of Sponsored Participants with clearing members that clear trades on their behalf.

Participants. The risk settings set forth in the proposed commentary to Rule 4765 comprise the following:

- Share Size Control - When enabled by a Participant, this optional control will allow a Participant to limit the number of shares that the Participant may associate with an order placed on the Exchange;
- ISO Control – When enabled by a Participant, this optional control will prevent a Participant from entering an ISO order onto the Exchange;
- Cancel-on-Disconnect Control – When enabled by a Participant, this optional control will allow a Participant, when it experiences a disruption in its connection to the Exchange, to immediately cancel all pending Exchange orders except for Good-Till-Canceled orders (RASH & FIX only);
- The BX Kill Switch – This control is described in Rule 4764;
- Limit Order Protection – This control is described in Rule 4757(d);
- Price Collar Check – This control will automatically restrict a routed order from executing at a price that differs from the NBBO (at the time of order entry) by more than five percent or \$0.25, whichever difference is greater. The system will proceed to route an order unless and until it crosses the greater of these two price collars, and if it does so, then the system will block further routings of the order that fall outside of the collars. For example, if the NBBO is \$99 x \$100 at the time of entry of a buy order, then the system will route the order at prices at or below \$105, but will stop doing so if the offer price rises above \$105 (five percent of the NBO).

- Maximum Order Volume Check – This control will automatically reject an order for routing away that exceeds a maximum volume of shares. As applied to equity orders, the default maximum order volume is set at 25,000 shares, but the Participant may request that the Exchange set a higher default based on historic volume.
- Cumulative Order Volume Check – This control will automatically block an attempt by a Participant using a particular MPID to route orders away to buy or sell equity securities that, cumulatively, exceed 9.5 million shares during a five second time period; and
- Duplication Control – This control will automatically reject an order that a Participant submits to the Exchange to the extent that it is duplicative of another order that the Participant submitted to the Exchange during the prior five seconds.

As set forth above, the proposal to authorize the Exchange to share any of the Participant's risk settings with the clearing member that clears transactions on behalf of the Participant would be limited to the risk settings specified in the proposed commentary to Rule 4765. The Exchange notes that use by a Participant of the risk settings offered by the Exchange is optional for share size, ISO, kill switch, and cancel-on disconnect controls, and is required in other instances.<sup>5</sup> By using the optional risk settings, following this proposed Rule change a Participant therefore also opts-in to the Exchange sharing its risk settings with its clearing member. The Exchange notes that any

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<sup>5</sup> As noted above, for the Maximum Order Volume Check, the Exchange sets a default order volume but Participants have flexibility to adjust this level.

Participant that does not wish to share its mandatory risk settings with its clearing member could avoid sharing such settings by becoming a clearing member.

To the extent that a clearing member might reasonably require a Participant to provide access to its risk settings as a prerequisite to continuing to clear trades on the Participant's behalf, the Exchange's proposal to share those risk settings directly reduces the administrative burden on Participants and ensures that clearing members are receiving information that is up-to-date and conforms to the settings active in the Exchange's trading system. Further, the Exchange believes that the proposal will help such clearing members to better monitor and manage the potential risks that they assume when clearing for Participants of the Exchange.

## 2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,<sup>6</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act,<sup>7</sup> in particular, in that it is designed to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, 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.

The proposed rule change will allow the Exchange to directly provide a Participant's risk settings to the clearing member that clears trades on behalf of the Participant. A clearing member guarantees transactions executed on BX for members with whom it has entered into a clearing arrangement, and therefore bears the risk

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<sup>6</sup> 15 U.S.C. 78f(b).

<sup>7</sup> 15 U.S.C. 78f(b)(5).

associated with those transactions. The Exchange therefore believes that it is appropriate for the clearing member to have knowledge of what risk settings the Participant may utilize within the Exchange's trading system. The proposal will permit clearing members who have a financial interest in the risk settings of Participants with whom the Participants have entered into clearing arrangements to better monitor and manage the potential risks assumed by clearing members, thereby providing clearing members with greater control and flexibility over setting their own risk tolerance and exposure and aiding clearing members in complying with the Act. To the extent a clearing member might reasonably require a Participant to provide access to its risk settings as a prerequisite to continuing to clear trades on the Participant's behalf, the Exchange's proposal to share those risk settings directly reduces the administrative burden on Participants and ensures that clearing members are receiving information that is up-to-date and conforms to the settings active in the Exchange's trading system. Moreover, the proposal will foster cooperation and coordination with persons engaged in facilitating transactions in securities and more generally, will protect investors and the public interest, by reducing administrative burdens on both clearing members and other Participants and by allowing clearing members to better monitor their risk exposure.

The Exchange further believes that codifying the risk settings described above in proposed commentary to Rule 4765 is consistent with the Act. These settings assist Participants in managing and controlling the risks associated with their access to and activity on the Exchange, both for the benefit of Participants and investors. The Exchange's risk settings, moreover, are consistent with risk settings employed by other exchanges, such as Cboe BYX. Although the Exchange presently offers these risk

settings, codifying them will provide additional transparency to Participants regarding the risk settings offered by the Exchange. It will also foster cooperation and coordination with persons engaged in facilitating transactions in securities and more generally, will protect investors and the public interest, by providing additional transparency regarding risk settings offered by the Exchange.

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 that is not necessary or appropriate in furtherance of the purposes of the Act, as amended. The proposed rule change is not designed to address any competitive issues and does not pose an undue burden on non-clearing members because, unlike clearing members, non-clearing members do not guarantee the execution of a Participant's transactions on the Exchange. Moreover, the proposal to share risk settings with clearing members will not burden competition among clearing members because it will apply to all clearing members equally and regardless of size. The Exchange notes that this proposal will not affect competition among Participants because the proposal provides for sharing of all of Participants' risk settings set forth in the commentary to Rule 4765. Any Participant that does not wish to share its risk settings with its clearing member could avoid sharing such settings by becoming a clearing member. Lastly, the proposal to codify the Exchange's risk settings will not burden competition among Participants because the risk settings are already available to or required of Participants and will continue to be available or required of all Participants going forward.

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>8</sup> and subparagraph (f)(6) of Rule 19b-4 thereunder.<sup>9</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.

### 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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<sup>8</sup> 15 U.S.C. 78s(b)(3)(A)(iii).

<sup>9</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.

- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-BX-2018-001 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-BX-2018-001. 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 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 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; 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-BX-2018-001 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>10</sup>

Eduardo A. Aleman  
Assistant Secretary

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<sup>10</sup> 17 CFR 200.30-3(a)(12).