Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010

Section 806(e)(1) *
Section 806(e)(2) *

Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934
Section 3C(b)(2) *

Exhibit 2 Sent As Paper Document
Exhibit 3 Sent As Paper Document

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

Executive Vice President and General Counsel

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.
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.

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).

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.

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.

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.

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.

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 the Proposed Rule Change**

   (a) Nasdaq ISE, LLC ("ISE" or "Exchange"), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")\(^1\) and Rule 19b-4 thereunder,\(^2\) is filing with the Securities and Exchange Commission ("SEC" or "Commission") a proposal to memorialize an optional Kill Switch protection.\(^3\) The Kill Switch allows Members to cancel open orders and prevent new order submission.

   A notice of the proposed rule change for publication in the *Federal Register* is at Exhibit 1 and the text of the amended Exchange Rule is at Exhibit 5.

   (b) Not applicable.

   (c) Not applicable.

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 (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:

   Angela Saccomandi Dunn
   Principal Associate General Counsel
   Nasdaq, Inc.
   215-496-5692

---


\(^3\) Today, this feature is offered to Members. ISE transitioned from its legacy trading system to INET, the current technology, in 2017. While ISE offered this feature on its legacy system, the feature was not codified in the ISE Rulebook. At this time, the Exchange is codifying the Kill Switch feature to reflect the functionality.
3. **Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change**

   a. **Purpose**

   The Exchange proposes to memorialize its Kill Switch risk protection which is applicable to all Members at ISE Rule 711(d). The Kill Switch allows Members to cancel open orders and prevent new order submission. This feature provides Members with a powerful risk management tool for immediate control of their order activity.

   The Kill Switch is an optional tool that enables Members to initiate a message(s)\(^4\) to the trading system (“System”) to promptly cancel orders and restrict entry of new orders until re-entry has been enabled. Members may submit a request to the System to cancel orders for that Member. Members may not remove orders by symbol using the Kill Switch. The System will send an automated message to the Member when a Kill Switch request has been processed by the Exchange’s System.\(^5\)

   The Member must send a message to the Exchange to request the cancellation of all orders for the Member. The Member is unable to enter additional orders until re-entry has been enabled pursuant to subsection (d)(2) of Rule 711.

   Proposed subsection (d)(2) stipulates that after orders are cancelled by the Member utilizing the Kill Switch, the Member is unable to enter additional orders until the Member has made a request to the Exchange and Exchange staff has set a re-entry

---

4. Members are able to send a message to the Exchange to initiate the Kill Switch or they may contact the Exchange directly. A message to remove orders may be sent through FIX, OTTO or Precise.

5. Opening Sweep Orders will also be cancelled. Consistent with current auction functionality, PIM auction orders and responses will not be cancelled. See ISE Rule 723. Other auctions orders and responses would cancel. Quotes are unaffected.
indicator to enable re-entry. Once enabled for re-entry, the System will send a Re-entry Notification Message to the Member. The applicable Clearing Member for that Member also is notified of the re-entry into the System after orders are cancelled as a result of the Kill Switch, provided the Clearing Member has requested to receive such notification.

b. **Statutory Basis**

The Exchange believes that its proposal is consistent with Section 6(b) of the Act\(^7\) in general, and furthers the objectives of Section 6(b)(5) of the Act\(^8\) in particular, in that it is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general to protect investors and the public interest, by memorializing a risk protection available to Exchange Members. This risk feature promotes policy goals of the Commission which has encouraged execution venues, exchange and non-exchange alike, to offer risk protection tools and other mechanisms to decrease risk and increase stability. The Exchange believes that memorializing this feature will provide Members with specific information on cancelling orders.

The individual firm benefits of enhanced risk protections flow downstream to counter-parties both at the Exchange and at other options exchanges, thereby increasing systemic protections as well. This risk feature allows Members to enter orders without fear of inadvertent exposure to excessive risk, which in turn benefits investors through increased liquidity for the execution of their orders, thereby protecting investors and the

---

6 The Member must directly and verbally contact the Exchange to request the re-set.


public interest. By memorializing the features in this rule change, Members are aware of
the impact of utilizing this risk tool.

This optional risk tool as noted above is offered to all Members. The Exchange
further represents that its proposal operates consistently with the firm quote obligations of
a broker-dealer pursuant to Rule 602 of Regulation NMS and that the functionality is not
mandatory. Specifically, any interest that is executable against a Member’s orders that
are received\(^9\) by the Exchange, prior to the time the Kill Switch is processed by the
System, will automatically execute at the price up to the Member’s size prior to the
removal of orders from the System as a result of the Kill Switch. The Kill Switch
message is accepted by the System in the order of receipt in the queue and is processed in
that order so that interest that is already accepted into the System is processed prior to the
Kill Switch message.

With respect to providing information regarding the cancellation of orders as a
result of the Kill Switch to the Clearing Member, each Member that transacts through a
Clearing Member on the Exchange accepts financial responsibility for all Exchange
transactions made by the Member on whose behalf the Clearing Member agrees to
clear.\(^{10}\) The Exchange believes that because Clearing Members guarantee all transactions
on behalf of a Member, and therefore bear the risk associated with those transactions, it is
appropriate for Clearing Members to have knowledge of the utilization by the member of
the Kill Switch, should the Clearing Member request such notification.

---

\(^9\) The time of receipt for an order is the time such message is processed by the
Exchange Order Book.

\(^{10}\) See ISE Rule 808(b).
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 not necessary or appropriate in furtherance of the purposes of the Act. The proposal does not impose an undue burden on intra-market competition because all Members may avail themselves of the Kill Switch. The Kill Switch functionality is optional. The proposed rule change protects Members in the event the Member is suffering from a systems issue or from the occurrence of unusual or unexpected market activity that would require them to withdraw from the market in order to protect investors. Utilizing this Kill Switch will permit the Member to protect itself from inadvertent exposure to excessive risk. Reducing such risk will enable Members to enter orders without fear of inadvertent exposure to excessive risk, which in turn will benefit investors through increased liquidity for the execution of their orders. Such increased liquidity benefits investors because they receive better prices and because it lowers volatility in the options market. For these reasons, the Exchange does not believe this proposal imposes an undue burden on inter-market competition because other exchanges offer the same functionality, which is being memorialized herein.

5. **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.

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)\(^{11}\) of the Act and Rule 19b-4(f)(6) thereunder\(^{12}\) 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 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. Other options exchanges today offer Kill Switches to its market participants.\(^{13}\) The proposed rule change is meant to protect Members in the event the Member is suffering from a systems issue or from the occurrence of unusual or unexpected market activity that would require them to withdraw from the market in order to protect investors. Utilizing this Kill Switch will permit the Member to protect itself from inadvertent exposure to excessive risk.

The proposal does not significantly affect the protection of investors or the public interest, because the proposal offers Members a Kill Switch to control their risk and thereby enable Members to enter orders without fear of inadvertent exposure to excessive risk, which in turn will benefit investors through increased liquidity for the execution of their orders. Such increased liquidity benefits investors because they receive better prices and because it lowers volatility in the options market.

---


\(^{13}\) See note 14 below.
The Kill Switch enables Members to better manage their risk, which is consistent with the protection of investors and the public interest. The proposal does not impose any significant burden on competition because all Members may avail themselves of the Kill Switch, which functionality is optional. The proposed rule change is meant to protect Members in the event the Member is suffering from a systems issue or from the occurrence of unusual or unexpected market activity that would require them to withdraw from the market in order to protect investors.

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.

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. Rule 19b-4(f)(6)(iii), however, permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange requests that the Commission waive the 30-day operative delay contained in Rule 19b-4(f)(6)(iii) so that the Exchange may codify this feature within its Rules to better inform Members of the availability of this
feature. The Exchange offers this feature to Members today and desires to memorialize this feature within its Rulebook so that Members may refer to the rule for details regarding this feature.

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

   The proposed rule change is similar to The NASDAQ Options Market LLC (“NOM”) and NASDAQ OMX BX, Inc. (“BX”) Rules.¹⁴ ISE will only provide a Kill Switch protection for orders, while these other markets provide such protection for orders and quotes. Additionally, NOM and BX allow its members to remove orders and quotes based on a user or group level, while ISE does not permit a Member to select which orders will be removed. All orders must be removed on ISE.

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 for publication in the Federal Register.
    5. Proposed rule text.

---

¹⁴ See NOM Rules at Chapter VI, Section 6 and BX Rules at Chapter VI, Section 6.
Self-Regulatory Organizations; Nasdaq ISE, LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to an Optional Kill Switch Protection

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),¹ and Rule 19b-4 thereunder,² notice is hereby given that on October 18, 2017, Nasdaq ISE, LLC (“ISE” 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 memorialize an optional Kill Switch protection.³ The Kill Switch allows Members to cancel open orders and prevent new order submission.

The text of the proposed rule change is available on the Exchange’s Website at www.ise.com, at the principal office of the Exchange, and at the Commission’s Public Reference Room.

³ Today, this feature is offered to Members. ISE transitioned from its legacy trading system to INET, the current technology, in 2017. While ISE offered this feature on its legacy system, the feature was not codified in the ISE Rulebook. At this time, the Exchange is codifying the Kill Switch feature to reflect the functionality.
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 memorialize its Kill Switch risk protection which is applicable to all Members at ISE Rule 711(d). The Kill Switch allows Members to cancel open orders and prevent new order submission. This feature provides Members with a powerful risk management tool for immediate control of their order activity.

The Kill Switch is an optional tool that enables Members to initiate a message(s)4 to the trading system (“System”) to promptly cancel orders and restrict entry of new orders until re-entry has been enabled. Members may submit a request to the System to cancel orders for that Member. Members may not remove orders by symbol using the Kill Switch. The System will send an automated message to the Member when a Kill Switch request has been processed by the Exchange’s System.5

4 Members are able to send a message to the Exchange to initiate the Kill Switch or they may contact the Exchange directly. A message to remove orders may be sent through FIX, OTTO or Precise.

5 Opening Sweep Orders will also be cancelled. Consistent with current auction functionality, PIM auction orders and responses will not be cancelled. See ISE Rule 723. Other auctions orders and responses would cancel. Quotes are unaffected.
The Member must send a message to the Exchange to request the cancellation of all orders for the Member. The Member is unable to enter additional orders until re-entry has been enabled pursuant to subsection (d)(2) of Rule 711.

Proposed subsection (d)(2) stipulates that after orders are cancelled by the Member utilizing the Kill Switch, the Member is unable to enter additional orders until the Member has made a request to the Exchange and Exchange staff has set a re-entry indicator to enable re-entry. Once enabled for re-entry, the System will send a Re-entry Notification Message to the Member. The applicable Clearing Member for that Member also is notified of the re-entry into the System after orders are cancelled as a result of the Kill Switch, provided the Clearing Member has requested to receive such notification.

2. **Statutory Basis**

The Exchange believes that its proposal is consistent with Section 6(b) of the Act in general, and furthers the objectives of Section 6(b)(5) of the Act in particular, in that it is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general to protect investors and the public interest, by memorializing a risk protection available to Exchange Members. This risk feature promotes policy goals of the Commission which has encouraged execution venues, exchange and non-exchange alike, to offer risk protection tools and other mechanisms to decrease risk and increase stability.

---

6 The Member must directly and verbally contact the Exchange to request the re-set.


The Exchange believes that memorializing this feature will provide Members with specific information on cancelling orders.

The individual firm benefits of enhanced risk protections flow downstream to counter-parties both at the Exchange and at other options exchanges, thereby increasing systemic protections as well. This risk feature allows Members to enter orders without fear of inadvertent exposure to excessive risk, which in turn benefits investors through increased liquidity for the execution of their orders, thereby protecting investors and the public interest. By memorializing the features in this rule change, Members are aware of the impact of utilizing this risk tool.

This optional risk tool as noted above is offered to all Members. The Exchange further represents that its proposal operates consistently with the firm quote obligations of a broker-dealer pursuant to Rule 602 of Regulation NMS and that the functionality is not mandatory. Specifically, any interest that is executable against a Member’s orders that are received\(^9\) by the Exchange, prior to the time the Kill Switch is processed by the System, will automatically execute at the price up to the Member’s size prior to the removal of orders from the System as a result of the Kill Switch. The Kill Switch message is accepted by the System in the order of receipt in the queue and is processed in that order so that interest that is already accepted into the System is processed prior to the Kill Switch message.

With respect to providing information regarding the cancellation of orders as a result of the Kill Switch to the Clearing Member, each Member that transacts through a Clearing Member on the Exchange accepts financial responsibility for all Exchange

\(^9\) The time of receipt for an order is the time such message is processed by the Exchange Order Book.
transactions made by the Member on whose behalf the Clearing Member agrees to clear. The Exchange believes that because Clearing Members guarantee all transactions on behalf of a Member, and therefore bear the risk associated with those transactions, it is appropriate for Clearing Members to have knowledge of the utilization by the member of the Kill Switch, should the Clearing Member request such notification.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. The proposal does not impose an undue burden on intra-market competition because all Members may avail themselves of the Kill Switch. The Kill Switch functionality is optional. The proposed rule change protects Members in the event the Member is suffering from a systems issue or from the occurrence of unusual or unexpected market activity that would require them to withdraw from the market in order to protect investors. Utilizing this Kill Switch will permit the Member to protect itself from inadvertent exposure to excessive risk. Reducing such risk will enable Members to enter orders without fear of inadvertent exposure to excessive risk, which in turn will benefit investors through increased liquidity for the execution of their orders. Such increased liquidity benefits investors because they receive better prices and because it lowers volatility in the options market. For these reasons, the Exchange does not believe this proposal imposes an undue burden on inter-market competition because other exchanges offer the same functionality, which is being memorialized herein.

---

10 See ISE Rule 808(b).
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\textsuperscript{11} and subparagraph (f)(6) of Rule 19b-4 thereunder.\textsuperscript{12}

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.


\textsuperscript{12} 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.
IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic comments:

- Use the Commission’s Internet comment form (http://www.sec.gov/rules/sro.shtml); or

- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-ISE-2017-94 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-ISE-2017-94. 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-ISE-2017-94 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.\(^\text{13}\)

Eduardo A. Aleman
Assistant Secretary

\(^{13}\) 17 CFR 200.30-3(a)(12).
Rule 711. Acceptance of Quotes and Orders

(a) – (c) No change.

(d) **Kill Switch** enables Members to initiate a message to the Exchange’s trading system (“System”) to promptly cancel orders and restrict entry of new orders until re-entry has been enabled. Members may submit a request to the System to cancel orders for that Member. The System will send an automated message to the Member when a Kill Switch request has been processed by the Exchange’s System.

(1) If orders are cancelled by the Member utilizing the Kill Switch, it will result in the cancellation of all orders for the Member. The Member will be unable to enter additional orders until re-entry has been enabled pursuant to section (d)(2).

(2) After orders are cancelled by the Member utilizing the Kill Switch, the Member will be unable to enter additional orders until the Member has made a verbal request to the Exchange and Exchange staff has set a re-entry indicator to enable re-entry. Once enabled for re-entry, the System will send a Re-entry Notification Message to the Member. The applicable Clearing Member also will be notified of the re-entry into the System after orders are cancelled as a result of the Kill Switch, provided the Clearing Member has requested to receive such notification.

* * * * *