

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * 23	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4		File No.* SR - 2018 - * 03	Amendment No. (req. for Amendments *)	
Filing by Nasdaq ISE, LLC 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"/>
Pilot <input type="checkbox"/>	Extension of Time Period for Commission Action * <input type="checkbox"/>	Date Expires * <input type="text"/>	Rule <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 Section 806(e)(1) * <input type="checkbox"/>			Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934 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"/>			
Description Provide a brief description of the action (limit 250 characters, required when Initial is checked *). Proposed rule change to amend Rule 714(b)(4) (Price Level Protection) to clarify the operation of the Price Level Protection.					
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 * Adrian Last Name * Griffiths Title * Senior Associate General Counsel E-mail * Adrian.Griffiths@nasdaq.com Telephone * (212) 231-5176 Fax					
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 01/02/2018 By Edward S. Knight (Name *) Executive Vice President and General Counsel 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 *

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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 *

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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 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 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 proposed rule change to amend Rule 714(b)(4) (Price Level Protection) to clarify the operation of the Price Level Protection.

The Exchange requests that the Commission waive the 30-day operative delay period contained in Exchange Act Rule 19b-4(f)(6)(iii).³

A notice of the proposed rule change for publication in the Federal Register is attached as Exhibit 1. The text of the proposed rule change is attached as 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 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.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 17 CFR 240.19b-4(f)(6)(iii).

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

Adrian Griffiths
Senior Associate General Counsel
Nasdaq, Inc.
212-231-5176

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

a. Purpose

The purpose of the proposed rule change is to amend Rule 714(b)(4) (Price Level Protection) to specify that the Price Level Protection: (1) only applies when there is no away market best bid or offer ("ABBO"), (2) does not apply to quotes on the complex order book, which are not eligible to trade with bids and offers for the component legs, and (3) determines the maximum number of price levels by reference to the component leg(s) where the protection has been triggered. The proposed changes will increase transparency around the operation of the Exchange with respect to the Price Level Protection, and no changes to the Exchange's trading or other systems are being proposed.

Currently, Rule 714(b)(4), which applies to complex orders executed on the Exchange, provides that "[t]here is a limit on the number of price levels at which an incoming order or quote to sell (buy) will be executed automatically with the bids or offers of each component leg." Furthermore, as currently written, Rule 714(b)(4) also provides that "orders and quotes are executed at each successive price level until the maximum number of price levels is reached, and any balance is canceled." The number

of price levels for the component leg, which may be between one (1) and ten (10), is determined by the Exchange from time-to-time on a class-by-class basis.⁴

Previously, this rule, which applied to both simple and complex orders executed on the Exchange, provided additionally that the protection applied “when there are no bids (offers) from other exchanges at any price for the options series.” This language was inadvertently removed in SR-ISE-2017-03, when the Exchange adopted its Acceptable Trade Range (“ATR”) protection for simple orders and retained the Price Level Protection for complex orders in connection with the migration of the Exchange’s trading system to Nasdaq INET.⁵ The Exchange proposes to re-introduce this language to clarify that the trading system continues to apply this protection only when there is no ABBO available.

Furthermore, Rule 714(b)(4) also contains references to quotes that were not removed when the Exchange filed SR-ISE-2017-03 to apply the Price Level Protection solely to complex orders. Although the previous version of the Price Level Protection for simple orders applied to both orders and quotes, quotes have never been included in the Price Level Protection for complex orders. Specifically, quotes are excluded from the Price Level Protection for complex orders because quotes are not permitted to leg into the regular market to trade with bids and offers on the Exchange for the individual legs of the

⁴ Currently, this limit is set to five price levels. The Exchange will provide at least a two week notice to members via an Options Trader Alert prior to changing the price level limit to allow members the opportunity to perform any system changes. Any change to the price level limit would be subject to consultations with members.

⁵ See Securities Exchange Act Release No. 80432 (April 11, 2017), 82 FR 18191 (April 17, 2017) (SR-ISE-2017-03) (Approval Order).

complex strategy.⁶ Because quotes on the complex order book do not leg into the regular market, they are excluded from the Price Level Protection, which applies when a complex order is executed with bids and offers for the component legs of the complex strategy. The Exchange therefore proposes to amend Rule 714(b)(4) by removing outdated references to quotes. In addition, to further reinforce that the Price Level Protection applies to complex orders and not simple orders, the Exchange also proposes to add the word “complex” before references to orders contained in Rule 714(b)(4).

Finally, the Exchange proposes to add language to the rule that specifies that complex orders are executed at each successive price level until the maximum number of price levels is reached *on a component leg where the protection has been triggered*. For example, assume a member enters a complex order to buy 20 contracts of series A and 20 contracts of series B. If there is no ABBO at any price in series B and the complex order legs into the regular order book, the complex order would be able to trade up to five price levels in series B (e.g., \$1.00, \$1.05, \$1.10, \$1.15, and \$1.20 but not \$1.25 or greater).⁷ The complex order would also trade with the corresponding number of contracts of series A but there would be no restriction on the number of price levels that could be traded in series A if there is sufficient quantity available at the five price levels permitted to trade in series B and the executions in series A are at or inside the ABBO for the series (e.g., if the ABBO in series A is \$1.30 and all 20 contracts can be traded at permitted prices in series B, the corresponding 20 contracts in series A could be executed at \$0.95, \$1.00, \$1.05, \$1.10, \$1.15, \$1.20, \$1.25, and \$1.30 without triggering the protection). Although

⁶ See Supplementary Material .03 to Rule 722.

⁷ See footnote 4 supra.

currently implied by the rule, the Exchange believes that it is appropriate to explicitly reference that the number of price levels is determined based on a component leg where the protection has been triggered to avoid any potential member confusion. Although a complex order that legs into the regular market must trade with all component legs to satisfy the complex order, the Price Level Protection is applied solely on component legs that trigger the protection – i.e., where there is no away market as discussed earlier in this proposed rule change. As such, the maximum number of price levels discussed in Rule 714(b)(4) is computed by reference to component legs where the protection has been triggered.

b. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,⁸ in general, and furthers the objectives of Section 6(b)(5) of the Act,⁹ 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. The Exchange believes that the proposed rule change is consistent with the protection of investors and the public interest as it will increase transparency around the operation of the Exchange and, in particular, the Price Level Protection for complex orders.

The Price Level Protection is designed to ensure that complex orders that leg into the regular order book and trade against bids and offers for the component legs are protected from trading at unreasonable prices when there is no away market. Thus, this

⁸ 15 U.S.C. 78f(b).

⁹ 15 U.S.C. 78f(b)(5).

protection only applies when there are no bids (offers) from other exchanges at any price for the options series, as stated in the previous version of the rule. The Exchange believes that applying this protection when there is no away market promotes just and equitable principles of trade as executions are prevented only when there is no ABBO to establish reasonable execution bounds. When there is an away market, the Exchange believes that this protection is not necessary, as executions on the regular order book, including the execution of complex orders that leg in to access liquidity on the bids and offers for the individual legs, must occur at or inside the ABBO. The Exchange believes that it is appropriate to re-introduce the proposed language described above so that members are properly apprised of when the Price Level Protection will prevent the execution of complex orders that leg into the regular order book.

The proposed rule change also clarifies that the Price Level Protection applies only to complex orders and not to quotes entered on the complex order book. The Exchange believes that this change is consistent with the protection of investors and the public interest because quotes are not permitted to leg into the regular market¹⁰ and therefore are not eligible to trigger the Price Level Protection, which only affects complex orders that trade with bids and offers for the component legs. The Exchange therefore believes that this change better reflects functionality offered on the Exchange and will increase transparency for members.

Finally, the proposed rule change makes clear that the maximum number of price levels described in Rule 714(b)(4) is determined by reference to component leg(s) where the protection is triggered. Although all legs of a complex order must be executed in

¹⁰ See Supplementary Material .03 to Rule 722.

order for the complex order to be traded, the Price Level Protection is designed to prevent executions at unreasonable prices when there is no away market in one or more component legs. As such, the maximum number of price levels is determined by reference to the component leg(s) that trigger the protection by virtue of there being no away market prices to constrain executions in that particular options series. Once this limit has been exceeded on a component leg where the protection has been triggered, no further executions can take place, and any remaining balance of the complex order is cancelled. The Exchange believes that adding the proposed language will increase transparency and avoid potential confusion about when a complex order that legs into the regular market will trigger the Price Level Protection. The Exchange therefore believes that this change is consistent with the protection of investors and the public interest.

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 proposed rule change would increase transparency around the operation of the Exchange and, in particular, the Price Level Protection by re-introducing inadvertently deleted language about when the protection is triggered, eliminating outdated references to quotes, and reinforcing that the maximum number of price levels is determined by reference to the component leg(s) that trigger the protection. The Exchange therefore believes that the proposed rule change will have no impact on competition.

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)(iii)¹¹ of the Act and Rule 19b-4(f)(6) thereunder¹² 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.

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, as it reintroduces inadvertently deleted rule text that clarifies that the Price Level Protection only applies when there is no away market, eliminates outdated references to quotes, and reinforces that the maximum number of price levels is determined by reference to the component leg(s) that trigger the protection. The Exchange inadvertently removed language indicating that the Price Level Protection only applies when there is no away market, and inadvertently retained references to quotes in a prior rule change that was filed to apply the Price Level Protection solely to complex orders. Furthermore, the proposed language about the number of price levels adds additional clarity that was lacking in the rule after that rule change was filed. The

¹¹ 15 U.S.C. 78s(b)(3)(A)(iii).

¹² 17 CFR 240.19b-4(f)(6).

proposed rule change is designed to increase transparency by correcting the rule issues described above, and no changes to the Exchange's trading or other systems are proposed. The Exchange therefore believes that the proposed rule change raises no novel regulatory issues and qualifies for immediate effectiveness as a "non-controversial" proposed rule change.

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 can immediately update its rules to reflect the current operation of the Price Level Protection. The proposed rule change would clarify the operation of the Exchange by re-introducing inadvertently deleted rule language indicating that the Price Level Protection only applies

when there is no away market, eliminating outdated references to quotes, and reinforcing that the maximum number of price levels is determined by reference to the component leg(s) that trigger the protection. The Exchange believes that it is consistent with the public interest and the protection of investors to make these changes now so that members are properly apprised of the operation of the Price Level Protection.

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

The proposed rule change is not based on the rules of another self-regulatory organization or of the Commission.

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.
5. Text of the proposed rule change.

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION
(Release No. _____ ; File No. SR-ISE-2018-03)

January __, 2018

Self-Regulatory Organizations; Nasdaq ISE, LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend the Price Level Protection Rule

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 January 2, 2018, 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 amend Rule 714(b)(4) (Price Level Protection) to clarify the operation of the Price Level Protection.

The text of the proposed rule change is available on the Exchange’s Website at <http://ise.cchwallstreet.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

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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 purpose of the proposed rule change is to amend Rule 714(b)(4) (Price Level Protection) to specify that the Price Level Protection: (1) only applies when there is no away market best bid or offer ("ABBO"), (2) does not apply to quotes on the complex order book, which are not eligible to trade with bids and offers for the component legs, and (3) determines the maximum number of price levels by reference to the component leg(s) where the protection has been triggered. The proposed changes will increase transparency around the operation of the Exchange with respect to the Price Level Protection, and no changes to the Exchange's trading or other systems are being proposed.

Currently, Rule 714(b)(4), which applies to complex orders executed on the Exchange, provides that "[t]here is a limit on the number of price levels at which an incoming order or quote to sell (buy) will be executed automatically with the bids or offers of each component leg." Furthermore, as currently written, Rule 714(b)(4) also provides that "orders and quotes are executed at each successive price level until the maximum number of price levels is reached, and any balance is canceled." The number

of price levels for the component leg, which may be between one (1) and ten (10), is determined by the Exchange from time-to-time on a class-by-class basis.³

Previously, this rule, which applied to both simple and complex orders executed on the Exchange, provided additionally that the protection applied “when there are no bids (offers) from other exchanges at any price for the options series.” This language was inadvertently removed in SR-ISE-2017-03, when the Exchange adopted its Acceptable Trade Range (“ATR”) protection for simple orders and retained the Price Level Protection for complex orders in connection with the migration of the Exchange’s trading system to Nasdaq INET.⁴ The Exchange proposes to re-introduce this language to clarify that the trading system continues to apply this protection only when there is no ABBO available.

Furthermore, Rule 714(b)(4) also contains references to quotes that were not removed when the Exchange filed SR-ISE-2017-03 to apply the Price Level Protection solely to complex orders. Although the previous version of the Price Level Protection for simple orders applied to both orders and quotes, quotes have never been included in the Price Level Protection for complex orders. Specifically, quotes are excluded from the Price Level Protection for complex orders because quotes are not permitted to leg into the regular market to trade with bids and offers on the Exchange for the individual legs of the

³ Currently, this limit is set to five price levels. The Exchange will provide at least a two week notice to members via an Options Trader Alert prior to changing the price level limit to allow members the opportunity to perform any system changes. Any change to the price level limit would be subject to consultations with members.

⁴ See Securities Exchange Act Release No. 80432 (April 11, 2017), 82 FR 18191 (April 17, 2017) (SR-ISE-2017-03) (Approval Order).

complex strategy.⁵ Because quotes on the complex order book do not leg into the regular market, they are excluded from the Price Level Protection, which applies when a complex order is executed with bids and offers for the component legs of the complex strategy. The Exchange therefore proposes to amend Rule 714(b)(4) by removing outdated references to quotes. In addition, to further reinforce that the Price Level Protection applies to complex orders and not simple orders, the Exchange also proposes to add the word “complex” before references to orders contained in Rule 714(b)(4).

Finally, the Exchange proposes to add language to the rule that specifies that complex orders are executed at each successive price level until the maximum number of price levels is reached *on a component leg where the protection has been triggered*. For example, assume a member enters a complex order to buy 20 contracts of series A and 20 contracts of series B. If there is no ABBO at any price in series B and the complex order legs into the regular order book, the complex order would be able to trade up to five price levels in series B (e.g., \$1.00, \$1.05, \$1.10, \$1.15, and \$1.20 but not \$1.25 or greater).⁶

The complex order would also trade with the corresponding number of contracts of series A but there would be no restriction on the number of price levels that could be traded in series A if there is sufficient quantity available at the five price levels permitted to trade in series B and the executions in series A are at or inside the ABBO for the series (e.g., if the ABBO in series A is \$1.30 and all 20 contracts can be traded at permitted prices in series B, the corresponding 20 contracts in series A could be executed at \$0.95, \$1.00, \$1.05, \$1.10, \$1.15, \$1.20, \$1.25, and \$1.30 without triggering the protection).

⁵ See Supplementary Material .03 to Rule 722.

⁶ See footnote 3 *supra*.

Although currently implied by the rule, the Exchange believes that it is appropriate to explicitly reference that the number of price levels is determined based on a component leg where the protection has been triggered to avoid any potential member confusion. Although a complex order that legs into the regular market must trade with all component legs to satisfy the complex order, the Price Level Protection is applied solely on component legs that trigger the protection – i.e., where there is no away market as discussed earlier in this proposed rule change. As such, the maximum number of price levels discussed in Rule 714(b)(4) is computed by reference to component legs where the protection has been triggered.

2. 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. The Exchange believes that the proposed rule change is consistent with the protection of investors and the public interest as it will increase transparency around the operation of the Exchange and, in particular, the Price Level Protection for complex orders.

The Price Level Protection is designed to ensure that complex orders that leg into the regular order book and trade against bids and offers for the component legs are protected from trading at unreasonable prices when there is no away market. Thus, this

⁷ 15 U.S.C. 78f(b).

⁸ 15 U.S.C. 78f(b)(5).

protection only applies when there are no bids (offers) from other exchanges at any price for the options series, as stated in the previous version of the rule. The Exchange believes that applying this protection when there is no away market promotes just and equitable principles of trade as executions are prevented only when there is no ABBO to establish reasonable execution bounds. When there is an away market, the Exchange believes that this protection is not necessary, as executions on the regular order book, including the execution of complex orders that leg in to access liquidity on the bids and offers for the individual legs, must occur at or inside the ABBO. The Exchange believes that it is appropriate to re-introduce the proposed language described above so that members are properly apprised of when the Price Level Protection will prevent the execution of complex orders that leg into the regular order book.

The proposed rule change also clarifies that the Price Level Protection applies only to complex orders and not to quotes entered on the complex order book. The Exchange believes that this change is consistent with the protection of investors and the public interest because quotes are not permitted to leg into the regular market⁹ and therefore are not eligible to trigger the Price Level Protection, which only affects complex orders that trade with bids and offers for the component legs. The Exchange therefore believes that this change better reflects functionality offered on the Exchange and will increase transparency for members.

Finally, the proposed rule change makes clear that the maximum number of price levels described in Rule 714(b)(4) is determined by reference to component leg(s) where the protection is triggered. Although all legs of a complex order must be executed in

⁹ See Supplementary Material .03 to Rule 722.

order for the complex order to be traded, the Price Level Protection is designed to prevent executions at unreasonable prices when there is no away market in one or more component legs. As such, the maximum number of price levels is determined by reference to the component leg(s) that trigger the protection by virtue of there being no away market prices to constrain executions in that particular options series. Once this limit has been exceeded on a component leg where the protection has been triggered, no further executions can take place, and any remaining balance of the complex order is cancelled. The Exchange believes that adding the proposed language will increase transparency and avoid potential confusion about when a complex order that legs into the regular market will trigger the Price Level Protection. The Exchange therefore believes that this change is consistent with the protection of investors and the public interest.

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 proposed rule change would increase transparency around the operation of the Exchange and, in particular, the Price Level Protection by re-introducing inadvertently deleted language about when the protection is triggered, eliminating outdated references to quotes, and reinforcing that the maximum number of price levels is determined by reference to the component leg(s) that trigger the protection. The Exchange therefore believes that the proposed rule change will have no impact on competition.

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 Act¹⁰ and subparagraph (f)(6) of Rule 19b-4 thereunder.¹¹

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:

¹⁰ 15 U.S.C. 78s(b)(3)(A)(iii).

¹¹ 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.

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-2018-03 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-2018-03. 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-2018-03 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.¹²

Eduardo A. Aleman
Assistant Secretary

¹² 17 CFR 200.30-3(a)(12).

EXHIBIT 5

Deleted text is [bracketed]. New text is underlined.

**Nasdaq ISE, LLC
RULES**

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Rule 714. Automatic Execution of Orders

Incoming orders that are executable against orders and quotes in the System will be executed automatically by the System subject to the following:

(a) No change.

(b) Other Order Protections. Subject to the NBBO price protection in (a) above, the following additional order protections are automatically enforced by the System:

(1) – (3) No change.

(4) Price Level Protection. This protection shall apply to complex orders. There is a limit on the number of price levels at which an incoming complex order [or quote] to sell (buy) will be executed automatically with the bids or offers of each component leg when there are no bids (offers) from other exchanges at any price for the options series. Complex [O]orders [and quotes] are executed at each successive price level until the maximum number of price levels is reached on any component leg where the protection has been triggered, and any balance is canceled. The number of price levels for the component leg, which may be between one (1) and ten (10), is determined by the Exchange from time-to-time on a class-by-class basis.

(c) – (d) No change.

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