Required fields are shown with yellow backgrounds and asterisks.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
Form 19b-4

File No. * SR 2023 - * 31

Amendment No. (req. for Amendments *)

Filing by   Nasdaq ISE, LLC

Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial * ✓

Amendment * ☐

Withdrawal ☐

Section 19(b)(2) * ☐

Section 19(b)(3)(A) * ✓

Section 19(b)(3)(B) * ☐

Pilot ☐

Extension of Time Period for Commission Action * ☐

Date Expires *

Rule

19b-4(f)(1) ☐   19b-4(f)(4) ☐
19b-4(f)(2) ☐   19b-4(f)(5) ☐
19b-4(f)(3) ☐   19b-4(f)(6) ✓

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 ☐

Description

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

Amend Legging Orders

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 * Angela

Last Name * Dunn

Title * Principal Associate General Counsel

E-mail * angela.dunn@nasdaq.com

Telephone * (215) 496-5692

Fax

Signature

Pursuant to the requirements of the Securities Exchange of 1934,   Nasdaq ISE, LLC
has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

Date 11/29/2023

By John Zecca

(Name *)

(Title *)

EVP and Chief Legal Officer

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

John A. Zecca (signature)   Date: 2023.11.29
11:29:11 -05'00'

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

Form 19b-4 Information *			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.
Add	Remove	View	
SR-ISE-2023-31 19b-4.doc			

Exhibit 1 - Notice of Proposed Rule Change *			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)
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SR-ISE-2023-31 Exhibit 1.doc			

Exhibit 1A - Notice of Proposed Rule Change, Security-Based Swap Submission, or Advanced Notice by Clearing Agencies *			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)
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Exhibit 2- Notices, Written Comments, Transcripts, Other Communications			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.
Add	Remove	View	
			☐ Exhibit Sent As Paper Document

Exhibit 3 - Form, Report, or Questionnaire			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.
Add	Remove	View	
			☐ Exhibit Sent As Paper Document

Exhibit 4 - Marked Copies			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.
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Exhibit 5 - Proposed Rule Text			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
Add	Remove	View	
SR-ISE-2023-31 Exhibit 5.doc			

Partial Amendment			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.
Add	Remove	View	

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 ("Commission") a proposal to amend Options

3, Section 7, Types of Orders and Order and Quote Protocols, and Options 3, Section 16,

Complex Order Risk Protection.

          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 (the "Board"). 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.   Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis
          for, the Proposed Rule Change

          a.   Purpose

          The Exchange proposes to amend Options 3, Section 7, Types of Orders and

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[1]   15 U.S.C. 78s(b)(1).

[2]   17 CFR 240.19b-4.

Order and Quote Protocols, and Section 16, Complex Order Risk Protections. Each change is described below.

Options 3, Section 7

The Exchange proposes to expand the description of Legging Orders to add detail to describe the current System[3] functionality. The proposed amendments reflect the way the System handles Legging Orders today. The Exchange is not amending its current System functionality with respect to Legging Orders, rather, the proposed rule text is intended to add more detail to ISE Options 3, Section 7(k) to conform the level of detail to Nasdaq Phlx LLC ("Phlx") Options 3, Sections 7(b)(10) and 14(f)(iii)(C), which describes Phlx's legging orders, as well as The Miami International Securities Exchange, LLC ("MIAX") Rule 518(a)(10), which describes derived orders.

Generally, the Exchange proposes to amend the phrase "regular limit order book" in ISE Options 3, Section 7(k) to "single-leg limit order book" to conform the rule text to the manner in which that order book is described in ISE Options 3, Section 14, Complex Orders.

Currently, ISE Options 3, Section 7(k) provides,

Legging Orders. A legging order is a limit order on the regular limit order book that represents one side of a Complex Options Order that is to buy or sell an equal quantity of two options series resting on the Exchange's Complex Order Book. Legging orders are firm orders that are included in the Exchange's displayed best bid or offer.

(1) A legging order may be automatically generated for one leg of a Complex Options Order at a price: (i) that matches or improves upon the best displayed bid or offer on the regular limit order book; and (ii) at which the net price can be achieved when the other leg is executed against the best displayed bid or offer on the regular limit order book. A legging order will not be created at a price that locks or crosses the best

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bid or offer of another exchange or during a Posting Period in progress on the same side in the series, pursuant to Options 3, Section 15 regarding Acceptable Trade Range.

(2) A legging order is executed only after all other executable orders (including any non-displayed size) and quotes at the same price are executed in full. When a legging order is executed, the other portion of the Complex Options Order will be automatically executed against the displayed best bid or offer on the Exchange.

(3) A legging order is automatically removed from the regular limit order book if: (i) the price of the legging order is no longer at the displayed best bid or offer on the regular limit order book, (ii) execution of the legging order would no longer achieve the net price of the Complex Options Order when the other leg is executed against the best displayed bid or offer on the regular limit order book, (iii) the Complex Options Order is executed in full or in part on the Complex Order Book, or (iv) the Complex Options Order is cancelled or modified.

The Exchange proposes to amend the first paragraph of ISE Options 3, Section 7(k) to

instead provide,

A Legging Order is a Limit Order on the single-leg limit order book in an individual series that represents one leg of a two-legged Complex Options Order that is to buy or sell an equal quantity of two options series resting on the Exchange's Complex Order Book. Legging Orders are firm orders that are included in the Exchange's displayed best bid or offer. Legging Orders are not routable and have a TIF of Day.

Generally, the Exchange proposes to capitalize the terms "Legging Order" and "Limit

Order" throughout ISE Options 3, Section 7(k). The Exchange also proposes to amend

the term "one side of a Complex Options Order" to more specifically state, "one leg of a

two-legged Complex Options Order." The Exchange also proposes to add a new

sentence to the end of the paragraph which provides, "Legging Orders are not routable

and have a TIF of Day." Specifying that Legging Orders, which are an individual

component of a Complex Options Order,[4] are also not routable will add detail to the

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[4]   The terms "Complex Options Order," "Stock-Option Order," and "Stock-Complex Order" refer to orders for a Complex Options Strategy, Stock-Option Strategy, and Stock-Complex Strategy,

description of the order type and make clear the current System handling. Similarly,

specifying that Legging Orders will be Limit Orders[5] with a TIF of Day makes clear the

way these orders are currently handled by the System. Legging Orders are not based on

Member instruction and are intended to facilitate more interaction between the single-leg

order book and the Complex Order Book, resulting in increased execution opportunities

and better execution prices for Complex Orders and for orders resting on the single-leg

order book. For this reason, Legging Orders do not route and have a TIF of Day to

permit Members to interact with this order type. The Exchange believes the amended

rule text proposed in the first paragraph of ISE Options 3, Section 7(k) more accurately

describes a Legging Order and provides Members with greater information regarding this

order type. Phlx's rules at Options 3, Section 7(b)(10) similarly describes a Legging

Order as "one leg of a two-legged Complex Options Order" and specifies that Phlx's

Legging Orders are not routable and have a time-in-force of Day.

The Exchange proposes to add a new second paragraph to ISE Options 3, Section

7(k) to specifically explain the way the System will generate a Legging Order. The

Exchange proposes to state,

> The System will evaluate whether Legging Orders may be generated (1)
> when a Complex Options Order enters the Complex Order Book, and (2)
> after a time interval (to be determined by the Exchange, not to exceed 1
> second) when the NBBO or Exchange best bid or offer in any component
> of a Complex Options Order changes. The Exchange may determine to
> limit the number of Legging Orders generated on an objective basis and
> may determine to remove existing Legging Orders in order to maintain a
> fair and orderly market in times of extreme volatility or uncertainty.

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respectively. The term "Complex Order" includes Complex Options Orders, Stock-Option Orders, and Stock-Complex Orders. See ISE Options 3, Section 14(a)(5). See also ISE Options 3, Section 14(a)(1)-(3).

[5]   A Limit Order is an order to buy or sell a stated number of options contracts at a specified price or better. See ISE Options 3, Section 7(b).

> Legging Orders are treated as having no Priority Customer capacity on the
> single-leg order book, regardless of being generated from Priority
> Customer Complex Options Orders.

The Exchange proposes to make clear that the System will evaluate whether Legging

Orders may be generated, which occurs at the time a Complex Options Order enters the

Complex Order Book or after a time interval (to be determined by the Exchange, not to

exceed one second)[6] when the NBBO or Exchange best bid or offer in any component of

a Complex Options Order changes. The Exchange proposes to state that it may

determine to limit the number of Legging Orders generated on an objective basis and may

determine to remove existing Legging Orders, and cease the creation of additional

Legging Orders, to maintain a fair and orderly market in times of extreme volatility or

uncertainty. Phlx has similar rule text in Phlx Options 3, Section 14(f)(iii)(C).[7] This

limitation assists the Exchange in managing the number of Legging Orders generated to

ensure that Legging Orders do not negatively impact the Exchange's System capacity and

performance so that ISE may maintain a fair and orderly market in times of extreme

volatility or uncertainty. Of note, the Exchange does not limit the generation of Legging

Orders on the basis of the entering Member or the Member category of the order (i.e.,

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[6]   Today, the time interval is set to one hundred milliseconds.

[7]   Phlx's rule states, in part, in Options 3, Section 14(f)(iii)(C) that, "…The System will evaluate the
       CBOOK when a Complex Order enters the CBOOK and at a regular time interval, to be
       determined by the Exchange (which interval shall not exceed 1 second), following a change in the
       national best bid and/or offer ('NBBO') or Phlx best bid and/or offer ('PBBO') in any component
       of a Complex Order eligible to generate Legging Orders, to determine whether Legging Orders
       may be generated. The Exchange may determine to limit the number of Legging Orders generated
       on an objective basis and may determine to remove existing Legging Orders in order to maintain a
       fair and orderly market in times of extreme volatility or uncertainty."

Professional or Priority Customer). Phlx similarly made this representation when it proposed to adopt rules related to the generation and execution of "legging orders."[8]

Finally, the Exchange proposes to provide that Legging Orders are treated as having no Priority Customer capacity on the single leg order book, regardless of being generated from Priority Customer Complex Options Orders. A Legging Order is handled in the same manner as other orders on the single-leg order book except as otherwise provided in ISE Options 3, Section 7(k), and is executed only after all other executable orders and quotes at the same price are executed in full. When a Legging Order is executed, the other component of the Complex Order on the Complex Order Book will be automatically executed against the best bid or offer on the Exchange. The Exchange believes that a Legging Order, created for the execution of a Complex Order, should not be afforded priority over resting orders and quotes on the single-leg order book, and therefore has determined to protect the priority on the single-leg order book of such resting orders and quotes. MIAX similarly executes a derived order only after all other executable orders and quotes at the same price are executed in full.[9]

The Exchange proposes to amend ISE Options 3, Section 7(k)(1) and add the title "Generation of Legging Orders" to describe the contents of the paragraph. The Exchange proposes to amend the first sentence which currently states,

> A legging order may be automatically generated for one leg of a Complex
> Options Order at a price: (i) that matches or improves upon the best
> displayed bid or offer on the regular limit order book; and (ii) at which the

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8   See Securities Exchange Act Release No. 73545 (November 6, 2014), 79 FR 67498 (November 13, 2014) (SR-Phlx-2014-54) (Notice of Filing of Amendment No. 1 and Order Granting Accelerated Approval of a Proposed Rule Change, as Modified by Amendment No. 1, To Add a New Complex Order Process Called Legging Orders).

9   See MIAX Rule 518(a)(10)(iv). See also Securities Exchange Act Release No. 79072 (October 7, 2016), 81 FR 71131 (October 14, 2016) (SR-MIAX-2016-26) (Order Approving a Proposed Rule Change to Adopt New Rules to Govern the Trading of Complex Orders).

net price can be achieved when the other leg is executed against the best
displayed bid or offer on the regular limit order book. A legging order will
not be created at a price that locks or crosses the best bid or offer of
another exchange or during a Posting Period in progress on the same side
in the series, pursuant to Options 3, Section 15 regarding Acceptable
Trade Range.

The Exchange proposes to instead provide in Options 3, Section 7(k)(1),

A Legging Order may be automatically generated for one or both leg(s) of
a Complex Options Order resting on top of the Complex Order Book at a
price: (i) that matches or improves upon the best displayed bid or offer on
the single-leg limit order book; and (ii) at which the net price can be
achieved when the other leg is executed against the best displayed bid or
offer on the single-leg limit order book, excluding other Legging Orders.
Legging Orders will be generated and executed in the minimum increment
for that options series.

The Exchange is proposing to add "or both leg(s)" to the first sentence of ISE Options 3,

Section 7(k)(1) to make clear a Legging Order may be generated for each leg of a two-

legged Complex Order. The Exchange notes that Legging Orders may be generated for

each leg of a two-legged options orders with the same quantity on both legs.

Automatically generating Legging Orders, which will only be executed after all other

executable interest at the same price (including non-displayed interest) is executed in full,

will provide additional execution opportunities for Complex Orders, without negatively

impacting any investors in the single-leg market. In fact, the generation of Legging

Orders may enhance execution quality for investors in the single-leg market by

improving the price and/or size of the ISE BBO and by providing additional execution

opportunity for resting orders on the single-leg order book. The generation of Legging

Orders is fully compliant with all regulatory requirements. In particular, Legging Orders

are firm orders that will be displayed at the ISE BBO. Also, a Legging Order will be

automatically removed if it is no longer displayable at the ISE BBO or if the net price of

the Complex Order can no longer be achieved. Finally, the generation of Legging Orders

is limited in scope, as they may be generated only for Complex Options Orders with two

legs. Additionally, as noted herein, the Exchange will closely manage and curtail the

generation of Legging Orders to assure that they do not negatively impact system

capacity and performance. Phlx's Legging Orders differ from ISE's Legging Orders in

that, on Phlx, where two legging orders may be generated, only one of those can execute

as part of the execution of a particular complex order.

The addition of "resting on the top of the Complex Order Book" in the first

sentence of ISE Options 3, Section 7(k)(1) will make clear that the priority of orders in

the Complex Order Book controls with respect to the generation of Legging Orders. The

addition of this language is intended to provide greater detail with respect to the

generation of Legging Order.

The Exchange proposes to amend the second sentence of ISE Options 3, Section

7(k)(1) to add "excluding other Legging Orders" to the end of the sentence to make clear

that the price of a Legging Order is not considered in the BBO for purposes of

determining whether the net price of a Complex Order could be achieved were it to

generate a Legging Order. Below is an example of the manner in which the System

calculates the net price and excludes a Legging Order.

Example # 1

Assume
Leg A is quoted 4.20 (100) x 4.25 (100)
Leg B is quoted 4.00 (100) x 4.10 (100)
Leg C is quoted 3.80 (100) x 3.90 (100)

Create A-B strategy, ratio of 1. cBBO[10] for A-B is 0.10 x 0.25

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[10]   The cBBO is the net best bid or offer comprised of the best bids and offers of the individual legs
         of the complex strategy.

Create B-C strategy, ratio of 1. cBBO for B-C is 0.10 x 0.30

Generation of Legging Orders
Complex Order is entered to Buy A-B 10 @ 0.20
System generates Legging Order on leg A's bid @ 4.20
System generates Legging Order on Leg B's offer @ 4.05

Complex Order is entered to Buy B-C 10 @ 0.20
System generates Legging Order on leg B's bid @ 4.00
System generates Legging Order on Leg C's offer @ 3.90

Executions
If Complex Order B-C sold leg C @ 3.90, it would have to buy leg B for 4.10 or less to satisfy its net price of 0.20. Given that a Legging Order is available on Leg B's offer at 4.05, this Legging Order on leg C would have been able to generate at 3.85 instead of 3.90 if the Legging Order at 4.05 was included in the calculation of possible net execution price, but since it is not, the Legging Order is generated at 3.90 on Leg C's offer instead of 3.85.[11]

The Exchange is removing the last sentence of ISE Options 3, Section 7(k)(1)[12]

because that concept is being relocated to proposed new paragraph Options 3, Section

7(k)(2) as described below.

Finally, the Exchange proposes to add a sentence to ISE Options 3, Section

7(k)(1) which states, "Legging Orders will be generated and executed in the minimum

increment for that options series." Options 3, Section 3 describes the minimum

increments for options traded on ISE. This rule makes clear that the minimum increment

rule in ISE Options 3, Section 3 is applicable to Legging Orders. MIAX Rule

518(a)(10)(iii) similarly provides that ISE's derived orders will not be created at a price

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[11]   Furthermore, if a single-leg order arrives to buy for 3.90 on Leg C, the B-C strategy trades with the 4.10 offer of Leg B and the 4.05 Legging Order is removed.

[12]   The last sentence of ISE Options 3, Section 7(k)(1) states, "A legging order will not be created at a price that locks or crosses the best bid or offer of another exchange or during a Posting Period in progress on the same side in the series, pursuant to Options 3, Section 15 regarding Acceptable Trade Range."

increment less than the minimum established by Rule 510.[13]

The Exchange proposes to add proposed new paragraph ISE Options 3, Section 7(k)(2) with the title "When Legging Orders Will Not Be Generated" to describe the contents of the paragraph. The Exchange proposes to state in proposed ISE Options 3, Section 7(k)(2),

> *When Legging Orders Will Not Be Generated.* A Legging Order will not be generated: (i) at a price that locks or crosses the best bid or offer of another exchange, (ii) if there is a complex auction on either side in the Complex Options Strategy, or a single-leg auction on either side in any component of the Complex Options Strategy, or a Posting Period in progress on the same side in the series, pursuant to Options 3, Section 15 regarding Acceptable Trade Range; (iii) if the price of the leg(s) of a Complex Options Order is outside of the price limits described in Options 3, Section 16(a); (iv) if there is already a Legging Order in that options series on the same side of the market at the same price; or (v) for Complex Orders with 2 option legs, where both legs are buying or both legs are selling and both legs are calls or both legs are puts, as described in Options 3, Section 14(d)(3)(A); or (vi) if the Exchange has not opened; or a particular option series has not opened or such options series is halted.

This paragraph will describe when Legging Orders will not be generated.

First, a Legging Order will not be generated at a price that locks or crosses the best bid or offer of another exchange as stated in the last sentence of ISE Options 3, Section 7(k)(1). This concept is consistent with ISE Options 5, Sections 2 and 3 which describe order protection and locked and crossed markets.[14]

Second, the Exchange proposes to add a provision which states that a Legging Order will not be generated if there is a complex auction on either side in the Complex

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[13]   MIAX Rule 510 specifies the minimum increments for options traded on MIAX.

[14]   ISE Options 5 is incorporated by reference to ISE Options 5. Specifically, ISE Options 5, Section 2 and 3 apply to ISE.

Options Strategy,[15] or a single-leg auction on either side in any component of the

Complex Options Strategy, or a Posting Period in progress on the same side in the series,

pursuant to ISE Options 3, Section 15 regarding Acceptable Trade Range ("ATR").[16]

The last part of this proposed sentence concerning ATR was relocated from the last

sentence of ISE Options 3, Section 7(k)(1).

Third, the Exchange proposes to add a provision which states that a Legging

Order will not be generated if the price of the leg(s) of a Complex Options Order is

outside of the price limits described in ISE Options 3, Section 16(a). In the instance

where a Legging Order generated is currently outside the price parameter (because the

ABBO has moved), the System will remove the Legging Order that was outside the price

limits pursuant to proposed ISE Options 3, Section 7(k)(2)(iii) and will attempt to re-

generate a new Legging Order that is in the price limits described in ISE Options 3,

Section 16(a) as proposed in ISE Options 3, Section 7(k)(4)(v). Today, ISE Options 3,

Section 16(a) would restrict the execution of a Legging Order through price limits for

Complex Orders. By adding the aforementioned rule text in proposed new paragraph

Options 3, Section 7(k)(2), all limitations related to the generation of Legging Orders will

be memorialized in Options 3, Section 7(k).[17]

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15   A Complex Options Strategy is the simultaneous purchase and/or sale of two or more different
        options series in the same underlying security, for the same account, in a ratio that is equal to or
        greater than one-to-three (.333) and less than or equal to three-to-one (3.00) and for the purpose of
        executing a particular investment strategy. Only those Complex Options Strategies with no more
        than the applicable number of legs, as determined by the Exchange on a class-by-class basis, are
        eligible for processing. See ISE Options 3, Section 14(a)(1).

16   ATR is a risk protection which sets dynamic boundaries within which quotes and orders may
        trade. ATR is designed to guard the System from experiencing dramatic price swings by
        preventing the immediate execution of quotes and orders beyond the thresholds set by this risk
        protection.

17   Phlx's rule similarly indicates that a Legging Order is subject to certain price parameters by
        stating that a Legging Order will not be generated if the price of the Complex Order is outside of

Fourth, the Exchange proposes to add a provision which states that a Legging Order will not be generated if there is already a Legging Order in that options series on the same side of the market at the same price. This provision addresses a situation of overlapping Legging Orders. Phlx has a similar sentence in Phlx Options 3, Section 7(b)(10)(2).[18] The addition of this rule text will make clear an existing limitation to the generation of orders in ISE Options 3, Section 7(k).

Fifth, the Exchange proposes to add a provision which states that a Legging Order will not be generated for Complex Orders with two option legs, where both legs are buying or both legs are selling and both legs are calls or both legs are puts, as described in ISE Options 3, Section 14(d)(3)(A). This limitation is currently provided for in ISE Options 3, Section 14(d)(3)(A) and is being added to proposed new paragraph ISE Options 3, Section 7(k)(2) to provide Members with a complete list of when Legging Orders will not be generated in Options 3, Section 7(k).

Sixth, the Exchange proposes to add a provision which states that a Legging Order will not be generated if the Exchange has not opened; or a particular option series

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the relevant ACE Parameter. See Phlx Options 3, Section 7(b)(10)(2). The ACE Parameter differs from the price limits described in ISE Options 3, Section 16(a). Phlx's ACE Parameter defines a price range outside of which a Complex Order will not be executed. The ACE Parameter is either a percentage or number as defined by Phlx and may be set at a different percentage or number for Complex Orders where one of the components is the underlying security. The ACE Parameter price range is based on the cNBBO at the time an order would be executed. A Complex Order to sell will not be executed at a price that is lower than the cNBBO bid by more than the ACE Parameter. A Complex Order to buy will not be executed at a price that is higher than the cNBBO offer by more than the ACE Parameter. A Complex Order or a portion of a Complex Order that cannot be executed within the ACE Parameter pursuant to this rule will be placed on the CBOOK. See Phlx Options 3, Section 16(b)(i).

[18]   Phlx Options 3, Section 7(b)(10)(2)) states, in part, that Legging Order will not be generated if there is already a Legging Order in that series on the same side of the market at the same price (unless it has priority based on the participant type, under existing Exchange rules). The phrase "unless it has priority based on the participant type, under existing Exchange rules" is not being added to ISE's Rule as Options 3, Section 10 which describes allocation on the single-leg order book, because as stated in proposed ISE Options 3, Section 7(k), "Legging Orders are treated as having no Priority Customer capacity on the single-leg order book, regardless of being generated from Priority Customer Complex Options Orders."

has not opened or such options series is halted. Since a complex strategy must be available for trading to generate a Legging Order, the failure of an options series that is a component of the complex strategy to open or a subsequent halt would cause Legging Orders not to generate. Phlx has a similar rule in Phlx Options 3, Section 7(b)(10)(1).[19]

The Exchange proposes to renumber current ISE Options 3, Section 7(k)(2) as (k)(3) and add the title "Execution of Legging Orders" to describe the contents of the paragraph. The Exchange proposes to state in proposed ISE Options 3, Section 7(k)(3) that,

> A Legging Order is executed only after all other executable orders (including any non-displayed size) and quotes at the same price are executed in full. When a Legging Order is executed, the other leg of the Complex Options Order will be automatically executed against the displayed best bid or offer on the Exchange and any other Legging Order not executed as part of the Complex Options Order will be removed. Two Legging Orders related to the same Complex Options Order can be generated, and both can execute as part of the execution of a particular Complex Options Order.

The Exchange's proposal, similar to Phlx Options 3, Section 7(b)(10)(3)describes current System handling when a Legging Order is executed and subsequently the other leg of the Complex Order will be automatically executed against the displayed best bid or offer on the Exchange, and any other Legging Order based on that Complex Order will be removed. The Exchange proposes to replace the word "portion" with "leg" to make the rule text more explicit. The Exchange proposes to add the phrase "and any other Legging order not executed as part of the Complex Options Order will be removed" to the end of the second sentence in proposed ISE Options 3, Section 7(k)(3). Phlx has a substantively

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[19]   Phlx Options 3, Section 7(b)(10)(1)states, in part, that Legging Orders will not be generated if the Exchange or a particular option has not opened, is halted or is otherwise not available for trading. ISE believes that not opening and a halt are the two possible scenarios and therefore Phlx's rule and ISE's rule are substantively the same in this regard.

similar sentence in Options 3, Section 7(b)(10)(3).[20] The addition of this phrase is

intended to provide additional information regarding the treatment of unexecuted

Legging Orders in ISE Options 3, Section 7(k). By way of example,

Example # 2

Assume:
Complex A-B (ratio 1:1) strategy, ratio of 1 is created
MM Quote for leg A 4.20 (100) x 4.50 (100)
MM Quote for leg B 4.00 (100) x 4.10 (100)
A-B Derived BBO: 0.10 x 0.50
Complex Order to Buy A-B 10 @ net price of 0.45
System generates a Legging Order on leg A's bid for quantity of 10 @ 4.45
System generates a Legging Order leg B's offer for quantity of 10 @ 4.05
Single-leg order to sell 10 @ 4.45 on Leg A arrives

Execution:
Complex Order A-B Legging Order trades 10 with Single leg order on Leg A @ 4.45

Complex Order A-B other leg trades 10 with MM Quote on Leg B @ 4.00

Removal of Legging Order:

Legging Order that was generated for quantity of 10 on Leg B @ 4.05 is removed from
the order book.

Next, the Exchange proposes to add a new sentence to ISE Options 3, Section 7(k)(3)

which states, "Two Legging Orders related to the same Complex Options Order can be

generated, and both can execute as part of the execution of a particular Complex Options

Order." As noted above, two Legging Orders related to the same Complex Options Order

can be generated, and both can execute as part of the execution of a particular Complex

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[20]   Phlx Options 3, Section 7(b)(10)(3)states, "A Legging Order is executed only after all other
         executable orders (including any non-displayed size) and quotes at the same price are executed in
         full. When a Legging Order is executed, the other leg of the Complex Order will be automatically
         executed against the displayed best bid or offer on the Exchange and any other Legging Order
         based on that Complex Order will be removed." ISE explicitly states "not executed as part of the
         Complex Options Order" where Phlx says "based on that Complex Order."

Options Order. This behavior differs from Phlx where two legging orders may be

generated, but only one of those can execute as part of the execution of a particular

complex order. The Exchange believes that permitting both Legging Orders to execute as

part of the execution of a particular Complex Options Order will allow more Complex

Orders to execute while the price of the leg(s) will continue to be bounded by the price

limits described in ISE Options 3, Section 16(a). By way of example,

Example # 3

Assume:
Complex A-B strategy, ratio of 1 is created
Complex 2A-B strategy, ratio of 2:1 is created
MM Quote for leg A 4.20 (100) x 4.50 (100
MM Quote for leg B 4.00 (100) x 4.10 (100)
Complex BBO for A-B is 0.10 x 0.50
Complex BBO for 2A-B is 4.30 x 5.00

Leg Generation:
Complex Order to Buy A-B 10 @ 0.45
System generates a Legging Order on leg A's bid @ 4.45
System generates a Legging Order on leg B's offer @ 4.05
Execution:

Complex Order to Sell 2A-B 5 @ 4.85
2A-B Order trades with Legging Order on leg A 10 @ 4.45
2A-B Order trades with the Legging Order on leg B 5 @ 4.05
A-B trades with MM Quote on leg B 5 @ 4.00

The Exchange proposes to renumber ISE Options 3, Section 7(k)(3) as (k)(4) and

title the paragraph, "Removal of Generated Legging Orders" to describe the contents of

the paragraph. This paragraph describes when a Legging Order is automatically removed

from the single-leg limit order book. The Exchange proposes to add a clause to the end

of proposed ISE Options 3, Section 7(k)(4)(i) so that the sentence would state, "A

Legging Order is automatically removed from the single-leg limit order book if: (i) the

price of the Legging Order is no longer at the displayed best bid or offer on the single-leg

limit order book *or is at a price that locks or crosses the best bid or offer of another exchange…"*(emphasis added). Current ISE Options 3, Section 7(k)(1) already notes that a Legging Order will not be created at a price that locks or crosses the best bid or offer of another exchange. Adding the same rule text to proposed ISE Options 3, Section 7(k)(4) will make clear that a Legging Order that locks or crosses an away market would be removed from the limit order book.

The Exchange proposes to add a clause to proposed ISE Options 3, Section 7(k)(4)(ii) to provide that "A Legging Order is automatically removed from the single-leg limit order book if… (ii) execution of the Legging Order would no longer achieve that net price of the Complex Options Order when the other leg is executed against the best displayed bid or offer on the single-leg limit order book, *excluding other Legging Orders*" (emphasis added). Phlx has a similar sentence in Options 3, Section 7(b)(10)(4).[21] A Legging Order is removed if the BBO on the other leg worsens such that the Complex Order limit price could no longer be achieved by trading with the quote, even if it could be achieved by trading with a Legging Order generated by another Complex Order. The Exchange would not rely solely on the price of another Legging Order when calculating the net price of the Complex Options Order for purposes of determining at which price a Legging Order will execute. In the below example this point is illustrated in that the Legging Order could not rely on the 4.05 offer on Leg B derived from the other Legging Order, rather it must rely on the 4.10 offer on Leg B derived from the quote.

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[21]   Phlx Options 3, Section 7(b)(10)(4)provides, "if execution of the Legging Order would no longer achieve the net price of the Complex Order when the other leg is executed against the Exchange's best displayed bid or offer on the regular Limit Order book (other than another Legging Order)." This language is substantively the same as ISE's proposed rule text.

<u>Example # 4</u>

Assume:
Leg A is quoted 4.20 (100) x 4.25 (100)
Leg B is quoted 4.00 (100) x 4.05 (100)
Leg C is quoted 3.80 (100) x 3.90 (100)
Create A-B strategy, ratio of 1 with a cBBO for A-B is 0.15 x 0.25
Create B-C strategy, ratio of 1 with a cBBO for B-C is 0.10 x 0.30

Generation of Legging Orders:
Complex Order is entered to Buy B-C (Buy B, Sell C) 10 @ 0.20
System generates Legging Orders on Leg B's bid @ 4.00 & Leg C's offer @ 3.85.

Complex Order is entered to Buy A-B (Buy A, Sell B) 10 @ 0.20
System generates Legging Orders on Leg A's bid @ 4.20 & Leg B's offer @ 4.05

Removal of Legging Order:
Market Maker updates their quote for Leg B with a worsened offer: 4.00 (100) x 4.10 (100)

Even though the displayed best offer for Leg B did not change in price, it is derived from a Legging Order which is excluded from the System's calculations in determining whether the net price of this Complex Order can be achieved if its Legging Order trades. The Legging Order at 3.85 on Leg C can no longer achieve the Complex Order's net price were it to execute in addition to the quote for Leg B. The System will remove the Legging Order at 3.85 on Leg C and will regenerate a new Legging Order on Leg C at 3.90 and this would allow the Legging Order to achieve the net price of the Complex Order if it trades along with the quote on Leg B.

The Exchange proposes to add a new section "(v)" to proposed ISE Options 3, Section 7(k)(4) which states, "A Legging Order is automatically removed from the single-leg limit order book if… (v) the price of the leg(s) of a Complex Options Order is outside of the price limits described in current ISE Options 3, Section 16(a)." This limitation is currently described in ISE Options 3, Section 16(a) and is being added to this order type to complete the list of cases where a Legging Order would be removed from

the order book in Options 3, Section 7(k). Phlx has similar rule text in Options 3, Section 7(b)(10)(4).[22]

The Exchange proposes to add new section "(vi)" to proposed ISE Options 3, Section 7(k)(4) which states, "A Legging Order is automatically removed from the single-leg limit order book if …(vi) the System receives a complex auction on either side in the Complex Options Strategy, or the System receives a single-leg auction on either side in any component of the Complex Options Strategy." Phlx has similar language in Options 3, Section 7(b)(10)(4).[23] As noted above, the Exchange believes from a System processing and user acceptance standpoint, the best practice is to remove the System-generated Legging Order from the order book during the course of the auction, as that time is minimal, then the System can attempt to re-generate a Legging Order once the auction has concluded.

Finally, the Exchange proposes to add new section "(vii)" to proposed ISE Options 3, Section 7(k)(4) which states, "A Legging Order is automatically removed from the single-leg limit order book if…(vii) a Legging Order is generated by a different Complex Options Order in the same leg at a better price or the same price for a participant with a higher price priority." As noted in ISE Options 3, Section 7(k)(1), a Legging Order may be automatically generated at a price that matches or improves upon the best displayed bid or offer on the single-leg limit order book. The System removes

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[22]   Phlx Options 3, Section 7(b)(10)(4)states that "A Legging Order is automatically removed from the regular order book: … (v) if the price of the Complex Order is outside the ACE Parameter of paragraph (i)." As noted above, Phlx and ISE have different price parameters.

[23]   Id.

the Legging Order because it would have been at an inferior price. Phlx Options 3, Section 7(b)(10)(4)has similar language.[24]

As revised, the rule text proposed in ISE Options 3, Section 7(k)(4) is intended to cover all circumstances where a Legging Order would be automatically removed from the single-leg limit order.

Options 3, Section 16

The Exchange proposes to amend the language in ISE Options 3, Section 16(a) related to price limits for Complex Orders. As provided in ISE Options 3, Section 16(a)the legs of a complex strategy may be executed at prices that are inferior to the prices available on other exchanges trading the same options series. Notwithstanding the foregoing, the System will not permit any leg of a complex strategy to trade through the NBBO for the series or any stock component by a configurable amount calculated as the lesser of (i) an absolute amount not to exceed $0.10, and (ii) a percentage of the NBBO not to exceed 500%, as determined by the Exchange on a class, series or underlying basis. A Member can also include an instruction on a Complex Order that each leg of the Complex Order is to be executed only at a price that is equal to or better than the NBBO *on the opposite side* for the options series or any stock component, as applicable ("Do-Not-Trade-Through" or "DNTT"). The addition of the words "on the opposite side" is intended to make clear the manner in which the System will handle a DNTT instruction. That is, the System will check that the price is equal to or better than the NBBO on the

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[24]   Phlx Options 3, Section 7(b)(10)(4) states that "A Legging Order is automatically removed from the regular order book: … (vii) if a Legging Order is generated by a different Complex Order in the same leg at a better price or the same price for a participant with a higher price priority…". While Phlx's Options 3, Section 14 has priority overlays for different market participants within its allocation model, whereas ISE does not have similar priority overlays and the remainder of the language is not necessary.

opposite side of the options series or any stock component.

b.   Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the

Act,[25] in general, and furthers the objectives of Section 6(b)(5) of the Act,[26] in particular,

in that it is designed to promote just and equitable principles of trade and to protect

investors and the public interest.

Options 3, Section 7

The Exchange's proposal to amend ISE Options 3, Section 7(k), Legging Orders,

is consistent with the Act because the proposal expands the description of Legging

Orders to describe in more detail the current legging functionality, thereby increasing

transparency with respect to this order type. The proposed amendments reflect the way

Legging Orders work today. The Exchange is not amending its System functionality with

respect to Legging Orders, rather, the proposed rule text is intended to be more

descriptive and conform the level of detail in the order type to Phlx Options 3, Section

7(b)(10)which describes details of Phlx's legging orders and MIAX Rule 518(a)(10),

which describes derived orders.

Specifying that Legging Orders, which are an individual component of a Complex

Options Order, are "one leg of a two-legged Complex Options Order" and are not

routable in the first paragraph of ISE Options 3, Section 7(k) is consistent with the Act

because these terms better describe a Legging Order. Similarly, specifying that Legging

Orders will be Limit Orders with a TIF of Day makes clear the way these orders are

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handled by the System. Legging Orders are not based on Member instruction and are
intended to facilitate more interaction between the single-leg order book and the Complex
Order Book, resulting in increased execution opportunities and better execution prices for
Complex Orders and for orders resting on the single-leg order book. For this reason,
Legging Orders do not route and have a TIF of Day to permit Members to interact with
this order type. The Exchange believes the amended rule text more accurately describes
a Legging Order and makes clear to Members the behavior of Legging Orders. Also,
capitalizing the terms "Legging Order" and "Limit Order" and referring to a "single-leg"
order book throughout ISE Options 3, Section 7(k) conforms terms with those of ISE
Options 3, Section 14, Complex Orders.

The proposed text in the new second paragraph of ISE Options 3, Section 7(k)
makes clear the current System processing for Legging Orders. Specifically, the
proposed rule text makes clear that the System will evaluate whether Legging Orders
may be generated, which occurs at the time a Complex Options Order enters the Complex
Order Book or after a time interval (to be determined by the Exchange, not to exceed one
second)[27] when the NBBO or Exchange best bid or offer in any component of a Complex
Options Order changes. Further, the Exchange proposes to state that it may determine to
limit the number of Legging Orders generated on an objective basis and may determine to
remove existing Legging Orders, and cease the creation of additional Legging Orders, to
maintain a fair and orderly market in times of extreme volatility or uncertainty. Phlx has
similar rule text in Phlx Options 3, Section 14(f)(iii)(C).[28] The proposed limitation is

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[27]   Today, the time interval is set to one hundred milliseconds.

[28]   Phlx's rule states, in part, in Options 3, Section 14(f)(iii)(C) that, "…The System will evaluate the
         CBOOK when a Complex Order enters the CBOOK and at a regular time interval, to be

consistent with the Act because it assists the Exchange in managing the number of

Legging Orders generated to ensure that Legging Orders do not negatively impact the

Exchange's System capacity and performance so that ISE may maintain a fair and orderly

market in times of extreme volatility or uncertainty. Of note, the Exchange does not limit

the generation of Legging Orders on the basis of the entering Member or the Member

category of the order (i.e., Professional or Priority Customer). The Exchange proposes to

limit the number of Legging Orders, remove existing Legging Orders, and cease creation

of additional Legging Orders, in order to permit the Exchange to maintain a fair and

orderly market in times of extreme volatility or uncertainty. This discretion is consistent

with the Act because it assists the Exchange in managing the number of Legging Orders

generated to ensure that Legging Orders do not negatively impact the Exchange's System

capacity and performance.

The Exchange's proposal to provide that Legging Orders are treated as having no

Priority Customer capacity on the single leg order book, regardless of being generated

from Priority Customer Complex Options Orders is consistent with the Act and the

protection of investor and the public interest. A Legging Order is handled in the same

manner as other orders on the single-leg order book except as otherwise provided in ISE

Options 3, Section 7(k), and is executed only after all other executable orders and quotes

at the same price are executed in full. When a Legging Order is executed, the other

component of the Complex Order on the Complex Order Book will be automatically

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determined by the Exchange (which interval shall not exceed 1 second), following a change in the national best bid and/or offer ("NBBO") or Phlx best bid and/or offer ("PBBO") in any component of a Complex Order eligible to generate Legging Orders, to determine whether Legging Orders may be generated. The Exchange may determine to limit the number of Legging Orders generated on an objective basis and may determine to remove existing Legging Orders in order to maintain a fair and orderly market in times of extreme volatility or uncertainty."

executed against the best bid or offer on the Exchange. The Exchange believes that a

Legging Order, created for the execution of a Complex Order, should not be afforded

priority over resting orders and quotes on the single-leg order book, and therefore has

determined to protect the priority on the single-leg order book of such resting orders and

quotes. MIAX similarly executes a derived order only after all other executable orders

and quotes at the same price are executed in full.[29]

The Exchange's proposal to amend ISE Options 3, Section 7(k)(1) to make clear a

Legging Order may be generated for each leg of a two-legged Complex Order is

consistent with the Act. Legging Orders may be generated for each leg of a two-legged

options orders with the same quantity on both legs. Automatically generating Legging

Orders promotes just and equitable principles of trade because these orders will only be

executed after all other executable interest at the same price (including non-displayed

interest) is executed in full. This behavior is consistent with the Act because it will

provide additional execution opportunities for Complex Orders, without negatively

impacting any investors in the single-leg market. In fact, the generation of Legging

Orders may enhance execution quality for investors in the single-leg market by

improving the price and/or size of the ISE BBO and by providing additional execution

opportunity for resting orders on the single-leg order book. The generation of Legging

Orders is fully compliant with all regulatory requirements. In particular, Legging Orders

are firm orders that will be displayed at the ISE BBO. Also, a Legging Order will be

automatically removed if it is no longer displayable at the ISE BBO or if the net price of

the Complex Order can no longer be achieved. Finally, the generation of Legging Orders

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[29]   See MIAX Rule 518(a)(10)(iv). See also Securities Exchange Act Release No. 79072 (October 7, 2016), 81 FR 71131 (October 14, 2016) (SR-MIAX-2016-26) (Order Approving a Proposed Rule Change to Adopt New Rules to Govern the Trading of Complex Orders).

is limited in scope, as they may be generated only for Complex Options Orders with two legs. Additionally, as noted herein, the Exchange will closely manage and curtail the generation of Legging Orders to assure that they do not negatively impact system capacity and performance. Phlx's Legging Orders differ from ISE's Legging Orders in that, on Phlx, two legging orders may be generated, but only one of those can execute as part of the execution of a particular complex order.

The addition of "resting on the top of the Complex Order Book" in the first sentence of ISE Options 3, Section 7(k)(1) is consistent with the Act because it is consistent with existing Legging Order functionality that considers the best price on Phlx's order book. This addition will make clear that the priority of orders in the Complex Order Book controls with respect to the generation of Legging Orders.

The Exchange's proposal to amend the second sentence of ISE Options 3, Section 7(k)(1) to add "excluding other Legging Orders" to the end of the sentence is consistent with the Act because it makes clear that the price of a Legging Order is not considered in the BBO for purposes of determining whether the net price of a Complex Order could be achieved were it to generate a Legging Order.

Finally, the Exchange's proposal to add a sentence to ISE Options 3, Section 7(k)(1) which states, "Legging Orders will be generated and executed in the minimum increment for that options series" is consistent with the Act because ISE Options 3, Section 3 describes the minimum increments for options traded on ISE. Adding this rule text will make clear that the minimum increment rule in Options 3, Section 3 is applicable to Legging Orders. MIAX Rule 518(a)(10)(iii) similarly provides that ISE's

derived orders will not be created at a price increment less than the minimum established by Rule 510.[30]

Amending proposed new paragraph ISE Options 3, Section 7(k)(2) to note that a Legging Order will not be generated at a price that locks or crosses the best bid or offer of another exchange is already provided for in the last sentence of current Options 3, Section 7(k)(1). This concept is consistent with the Act in that the Exchange will not trade through away markets as specified in Options 5, Sections 2 and 3 which describe order protection and locked and crossed markets rules.

Adding a provision to proposed new paragraph ISE Options 3, Section 7(k)(2) which states that a Legging Order will not be generated if there is a complex auction on either side in the Complex Options Strategy, or a single-leg auction on either side in any component of the Complex Options Strategy, or a Posting Period in progress on the same side in the series, pursuant to Options 3, Section 15 regarding ATR is consistent with the Act. The Exchange believes from a System processing and user acceptance standpoint, the best practice is to wait for an auction in that options series to be complete, or for the ATR Posting Period to complete, as that time is minimal. Phlx's legging order rule in Options 3, Section 7(b)(10)(2)has the same restriction as proposed to be added to ISE's Legging Orders rule.[31]

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[30]   MIAX Rule 510 specifies the minimum increments for options traded on MIAX.

[31]   Phlx Options 3, Section 7(b)(1)(2) provides that "A Legging Order will not be created…"(ii) if there is an auction on either side or a Posting Period under Options 3, Section 15 regarding Acceptable Trade Range on the same side in progress in the series." Phlx's rules describe an auction on either side of the Legging Order while ISE's auction breaks down the auction into either a complex auction or single-leg auction. Of note, Phlx's Acceptable Trade Range rule has a Posting Period described in Options 3, Section 15. ISE does have an Acceptable Trade Range rule as well in Options 3, Section 15, but that rule differs from Phlx as there is no Posting Period.

Adding a provision to proposed new paragraph ISE Options 3, Section 7(k)(2) which states that a Legging Order will not be generated if the price of the leg(s) of a Complex Options Order is outside of the price limits described in Options 3, Section 16(a) is consistent with the Act. Today, ISE Options 3, Section 16(a) would restrict the generation of a Legging Order through price limits for Complex Orders, by adding this rule text in Options 3, Section 7(k)(2) all limitations related to the generation of Legging Orders will be memorialized in Options 3, Section 7(k).[32]

Adding a provision to proposed new paragraph ISE Options 3, Section 7(k)(2) which states that a Legging Order will not be generated if there is already a Legging Order in that options series on the same side of the market at the same price is consistent with the Act. This provision addresses a situation of overlapping Legging Orders and Legging Order dependencies in other components. Phlx has a similar sentence in Phlx Options 3, Section 7(b)(10)(2). Of note, the phrase "unless it has priority based on the participant type, under existing Exchange rules" from Phlx Options 3, Section 7(b)(10)(2) is not being added to ISE's Rule as Options 3, Section 10 which describes allocation on the single-leg order book, because as stated in proposed ISE Options 3, Section 7(k), "Legging Orders are treated as having no Priority Customer capacity on the single-leg order book, regardless of being generated from Priority Customer Complex Options Orders." The addition of this rule text will make clear an existing limitation to the generation of orders in Options 3, Section 7(k).

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[32]   Phlx's rule similarly indicates that a Legging Order is subject to certain price parameters by stating that a Legging Order will not be generated if the price of the Complex Order is outside of the ACE Parameter of paragraph in subparagraph (i) of Options 3, Section 14. The ACE Parameter differs from the price limits described in ISE Options 3, Section 16(a).

Adding a provision to proposed new paragraph ISE Options 3, Section 7(k)(2) which states that a Legging Order will not be generated for Complex Orders with two option legs, where both legs are buying or both legs are selling and both legs are calls or both legs are puts, as described in Options 3, Section 14(d)(3)(A) is consistent with the Act. This limitation is already provided for in current ISE Options 3, Section 14(d)(3)(A) and is being added to proposed new paragraph Options 3, Section 7(k)(2) to provide Members with a complete list of when Legging Orders will not be generated in Options 3, Section 7(k).

Adding a provision to proposed new paragraph ISE Options 3, Section 7(k)(2) which states that a Legging Order will not be generated if the Exchange has not opened; or a particular option series has not opened or such options series is halted is consistent with the Act. Since a complex strategy must be available for trading to generate a Legging Order, the failure of an options series that is a component of the complex strategy to open or a subsequent halt would cause Legging Orders not to generate. Phlx has a similar rule in Phlx Options 3, Section 7(b)(10)(1).

Amending proposed ISE Options 3. Section 7(k)(3), similar to Phlx Options 3, Section 7(b)(10)(3)to describe current System handling when a Legging Order is executed and subsequently the other leg of the Complex Order is automatically executed against the displayed best bid or offer on the Exchange, and, therefore, any other Legging Order based on that Complex Order is removed is consistent with the Act. This example demonstrates that the Exchange will execute against the best bid or offer on the Exchange and will remove Legging Orders. The proposal to replace the word "portion" with "leg" will make the rule text more explicit. Adding the phrase "and any other Legging order

not executed as part of the Complex Options Order will be removed" to the end of the

second sentence in proposed Options 3, Section 7(k)(3) is consistent with the Act because

the phrase will provide additional information regarding the treatment of unexecuted

Legging Orders in Options 3, Section 7(k). Phlx has a substantively similar sentence in

Options 3, Section 7(b)(10)(3).[33]

Amending proposed ISE Options 3, Section 7(k)(3) to add a new sentence to

Options 3, Section 7(k)(3) which states, "Two Legging Orders related to the same

Complex Options Order can be generated, and both can execute as part of the execution

of a particular Complex Options Order" is consistent with the Act. As noted above, two

Legging Orders related to the same Complex Options Order can be generated, and both

can execute as part of the execution of a particular Complex Options Order. This

behavior differs from Phlx where two legging orders may be generated, but only one of

those can execute as part of the execution of a particular complex order. The Exchange

believes that permitting both Legging Orders to execute as part of the execution of a

particular Complex Options Order will allow more Complex Orders to execute while the

price of the leg(s) will continue to be bounded by the price limits described in ISE

Options 3, Section 16(a).

Amending proposed ISE Options 3, Section 7(k)(4)(i) to state, "A Legging Order

is automatically removed from the single-leg limit order book if: (i) the price of the

Legging Order is no longer at the displayed best bid or offer on the single-leg limit order

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[33]   Phlx Options 3, Section 7(b)(10)(3) states, "A Legging Order is executed only after all other
         executable orders (including any non-displayed size) and quotes at the same price are executed in
         full. When a Legging Order is executed, the other leg of the Complex Order will be automatically
         executed against the displayed best bid or offer on the Exchange and any other Legging Order
         based on that Complex Order will be removed." ISE explicitly states "not executed as part of the
         Complex Options Order" where Phlx says "based on that Complex Order."

book *or is at a price that locks or crosses the best bid or offer of another exchange…"*
(emphasis added) is consistent with the Act. Current Options 3, Section 7(k)(2) already
notes that a Legging Order will not be created at a price that locks or crosses the best bid
or offer of another exchange. Adding the same rule text to proposed Options 3, Section
7(k)(4) will make clear that a Legging Order that locks or crosses an away market would
be removed from the limit order book.

Amending proposed ISE Options 3, Section 7(k)(4)(ii) to add a clause to current
Options 3, Section 7(k)(3) at (ii) to provide that "A Legging Order is automatically
removed from the single-leg limit order book if… (ii) execution of the Legging Order
would no longer achieve that net price of the Complex Options Order when the other leg
is executed against the best displayed bid or offer on the single-leg limit order book,
excluding other Legging Orders" (emphasis added) is consistent with the Act. A
Legging Order is removed if the BBO on the other leg worsens such that the Complex
Order limit price could no longer be achieved by trading with the quote, even if it could
be achieved by trading with a Legging Order generated by another Complex Order. Phlx
has a similar sentence in Options 3, Section 7(b)(10)(4).

Amending proposed ISE Options 3, Section 7(k)(4) to add a new section "(v)" to
this paragraph which states, "A Legging Order is automatically removed from the single-
leg limit order book if… (v) the price of the leg(s) of a Complex Options Order is outside
of the price limits described in current Options 3, Section 16(a)" is consistent with the
Act. This limitation is currently described in ISE Options 3, Section 16(a) and is being
added to this order type to complete the list of cases where a Legging Order would be

removed from the order book in Options 3, Section 7(k). Phlx has similar rule text in Options 3, Section 7(b)(10)(4).

Amending proposed ISE Options 3, Section 7(k)(4) to add a new section "(vi)" to this paragraph which states, "A Legging Order is automatically removed from the single-leg limit order book if …(vi) the System receives a complex auction on either side in the Complex Options Strategy, or the System receives a single-leg auction on either side in any component of the Complex Options Strategy" is consistent with the Act. As noted above, the Exchange believes from a System processing and user acceptance standpoint, the best practice is to remove the System-generated Legging Order from the order book during the course of the auction, as that time is minimal, then the System can attempt to re-generate a Legging Order once the auction has concluded. Phlx has similar language in Options 3, Section 7(b)(10)(4).

Amending proposed ISE Options 3, Section 7(k)(4) to add a new section "(vii)" to this paragraph which states, "A Legging Order is automatically removed from the single-leg limit order book if…(vii) a Legging Order is generated by a different Complex Options Order in the same leg at a better price or the same price for a participant with a higher price priority." As noted in proposed Options 3, Section 7(k)(1), a Legging Order may be automatically generated at a price that matches or improves upon the best displayed bid or offer on the single-leg limit order book. The System removes the Legging Order because it would have been at an inferior price. Phlx Options 3, Section 7(b)(10)(4)has similar language.

Options 3, Section 16

The Exchange's proposal to amend the language in ISE Options 3, Section 16(a)

related to price limits for Complex Orders is consistent with the Act and protects

investors and the general public by ensuring that the DNTT instruction causes a Complex

Order is to be executed only at a price that is equal to or better than the NBBO on the

opposite side for the options series or any stock component. The proposed rule text

makes transparent the manner in which the System is currently handling the DNTT

instruction.

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.

Options 3, Section 7

The Exchange's proposal to amend ISE Options 3, Section 7(k), Legging Orders,

does not impose an intra-market burden on competition because all market participants

may interact with Legging Orders on the single-leg order book. The Exchange's proposal

to amend ISE Options 3, Section 7(k), Legging Orders, does not impose an inter-market

burden on competition because other options exchanges may offer Legging Orders with

similar functionality. Enhancing the description of the Legging Orders functionality will

allow ISE to compete effectively with other options exchanges that offer similar

functionality.

The Exchange's proposal to limit the number of Legging Orders and the ability to

remove existing Legging Orders does not impose an intra-market burden on competition

because the functionality will permit the Exchange to maintain a fair and orderly market

in times of extreme volatility or uncertainty. Further, the Exchange does not limit the

generation of Legging Orders on the basis of the entering Member or the Member

category of the order (i.e., Professional or Priority Customer). The Exchange's proposal

to limit the number of Legging Orders and the ability to remove existing Legging Orders

does not impose an inter-market burden on competition because this discretion is

consistent with the treatment of Legging Orders on other options exchanges.[34]

> Options 3, Section 16

The Exchange's proposal to amend the language in ISE Options 3, Section 16(a)

related to price limits for Complex Orders to specify that a Complex Order must be

executed at a price that is equal to or better than the NBBO *on the opposite side* for the

options series or any stock component does not impose an intra-market burden on

competition because the System applies this price check to all Members executing

Complex Orders in the same manner. The Exchange's proposal to amend the language in

ISE Options 3, Section 16(a) does not impose an inter-market burden on competition

because any options exchange could offer similar functionality.

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

The Exchange does not consent to an extension of the time period for

Commission action.

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

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34   See Phlx Options 3, Section 14(f)(iii)(C).

19(b)(3)(A)(iii)[35] of the Act and Rule 19b-4(f)(6) thereunder[36] 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 its proposal does not significantly affect the protection of

investors or the public interest. Amending ISE Options 3, Section 7(k), Legging Orders

will increase transparency with respect to this order type. The Exchange is not amending

its System functionality with respect to Legging Orders, rather, the proposed rule text is

intended to be more descriptive and conform the level of detail of Legging Orders to Phlx

Options 3, Section 7(b)(10)which describes details of Phlx's Legging Orders, and MIAX

Rule 518(a)(10), which describes derived orders. The proposed amendments will bring

greater transparency to the current System handling for Legging Orders. Amending ISE

Options 3, Section 16(a) related to price limits for Complex Orders does not significantly

affect the protection of investors or the public interest because it makes transparent the

manner in which the System is currently handling the DNTT instruction.

The Exchange's proposal does not impose any significant burden on competition.

The Exchange's proposal to amend ISE Options 3, Section 7(k), Legging Orders,

expands the description of Legging Orders to describe in more detail the current legging

functionality, thereby increasing transparency with respect to this order type. Any

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[35]   15 U.S.C. 78s(b)(3)(A)(iii).

[36]   17 CFR 240.19b-4(f)(6).

Member on ISE may utilize a Legging Order. The proposal to limit the number of

Legging Orders and the ability to remove existing Legging Orders will permit the

Exchange to maintain a fair and orderly market in times of extreme volatility or

uncertainty. This discretion is consistent with the treatment of Legging Orders on other

options exchanges.[37] The Exchange does not limit the generation of Legging Orders on

the basis of the entering Member or the Member category of the order (i.e., Professional

or Priority Customer). Amending the language in ISE Options 3, Section 16(a) related to

price limits for Complex Orders to make clear a Complex Order is to be executed only at

a price that is equal to or better than the NBBO on the opposite side for the options series

or any stock component does not impose any significant burden on competition because

the System applies this price check to all Members executing Complex Orders in the

same manner.

 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

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[37] See Phlx Options 3, Section 14(f)(iii)(C).

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 ISE may

immediately updates its rules to provide greater detail regarding Legging Orders. The

Exchange believes that the additional detail contained in the rule proposal will provide

market participants with greater transparency as to the manner in which the System

generates, executes, and removes Legging Orders.

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

        With respect to Legging Orders, this proposal adopts certain rule text similar to

Phlx Options 3, Sections 7(b)(10) and 14(f)(iii)(C), with respect to Legging Orders, and

MIAX Rule 518 (a)(10)(i) with respect to derived orders. Specifically,

> ▪ Phlx's rules at Options 3, Section 7(b)(10) similarly describes a Legging Order
> as "one leg of a two-legged Complex Options Order" and specifies that Phlx's
> Legging Orders are not routable and have a time-in-force of Day as proposed in
> Options 3, Section 7(k).

> ▪ Phlx's rules at Options 3, Section 14(f)(iii)(C) similarly limits the number of
> Legging Orders generated on an objective basis and may determine to remove
> existing Legging Orders, and cease the creation of additional Legging Orders as
> proposed in Options 3, Section 7(k).

> ▪ MIAX Rule 518(a)(10)(iv) similarly executes Legging Orders only after all
> other executable orders and quotes at the same price are executed in full as
> proposed in Options 3, Section 7(k).

> ▪ Phlx Options 3, Section 7(b)(10)(1), like ISE, does not consider the price of a
> Legging Order in the BBO for purposes of determining whether the net price of a
> Complex Order could be achieved were it to generate a Legging Order as
> proposed in Options 3, Section 7(k)(1).

> ▪ MIAX Rule 518(a)(10)(iii) similarly provides, as proposed in Options 3, Section
> 7(k)(1), that its derived orders will not be created at a price increment less than
> the minimum established by its minimum increment rule.

▪ Phlx's legging order rule in Options 3, Section 7(b)(10)(2)has a similar restriction as proposed in ISE Options 3, Section 7(k)(2) that a Legging Order will not be generated if there is a complex auction on either side in the Complex Options Strategy, or a single-leg auction on either side in any component of the Complex Options Strategy.

▪ Phlx Options 3, Section 7(b)(10)(2)has a similar restriction as proposed in ISE Options 3, Section 7(k)(2) in that a Legging Order will not be generated if there is already a Legging Order in that options series on the same side of the market at the same price. The phrase "unless it has priority based on the participant type, under existing Exchange rules" is not being added to ISE's Rule as Options 3, Section 10 which describes allocation on the single-leg order book, because as stated in proposed ISE Options 3, Section 7(k), "Legging Orders are treated as having no Priority Customer capacity on the single-leg order book, regardless of being generated from Priority Customer Complex Options Orders.".

▪ Phlx Options 3, Section 7(b)(10)(1)has a similar restriction as proposed in ISE Options 3, Section 7(k)(2) that a Legging Order will not be generated if the Exchange has not opened; or a particular option series has not opened or such options series is halted. Phlx's rules provides, "…or is otherwise not available for trading." ISE believes that not opening and a halt are the two possible scenarios and therefore Phlx's rule and ISE's rule are identical in this regard.

▪ Phlx Options 3, Section 7(b)(10)(3)has a similar restriction as proposed in ISE Options 3, Section 7(k)(3), "and any other Legging order not executed as part of the Complex Options Order will be removed," although ISE explicitly states "not executed as part of the Complex Options Order" where Phlx says "based on that Complex Order."

▪ ISE's proposal to add Two Legging Orders related to the same Complex Options Order can be generated, and both can execute as part of the execution of a particular Complex Options Order" to proposed ISE Options 3, Section 7(k)(3) differs from Phlx where two legging orders may be generated, but only one of those can execute as part of the execution of a particular complex order.

▪ Phlx Options 3, Section 7(b)(10)(4)has a similar restriction as proposed in ISE Options 3, Section 7(k)(4)(ii) wherein a Legging Order is automatically removed from the single-leg limit order book if execution of the Legging Order would no longer achieve that net price of the Complex Options Order when the other leg is executed against the best displayed bid or offer on the single-leg limit order book, *excluding other* Legging *Orders*.

▪ Phlx Options 3, Section 7(b)(10)(4)has a similar restriction as proposed in ISE Options 3, Section 7(k)(4)(vi) wherein a Legging Order is automatically removed from the single-leg limit order book if the System receives a complex auction on

either side in the Complex Options Strategy, or the System receives a single-leg auction on either side in any component of the Complex Options Strategy.

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

Not applicable.

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

Not applicable.

11.   <u>Exhibits</u>

1.   Notice of Proposed Rule Change for publication in the <u>Federal Register</u>.

5.   Text of the proposed rule change.

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION
(Release No.   ; File No. SR-ISE-2023-31)

November __, 2023

Self-Regulatory Organizations; Nasdaq ISE, LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend Legging Orders

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 November 29, 2023, 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.   <u>Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change</u>

The Exchange proposes to amend Options 3, Section 7, Types of Orders and Order and Quote Protocols, and Options 3, Section 16, Complex Order Risk Protection.

The text of the proposed rule change is available on the Exchange's Website at https://listingcenter.nasdaq.com/rulebook/ise/rules, at the principal office of the Exchange, and at the Commission's Public Reference Room.

II.   <u>Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change</u>

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

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[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 Exchange proposes to amend Options 3, Section 7, Types of Orders and Order and Quote Protocols, and Section 16, Complex Order Risk Protections. Each change is described below.

Options 3, Section 7

The Exchange proposes to expand the description of Legging Orders to add detail to describe the current System[3] functionality. The proposed amendments reflect the way the System handles Legging Orders today. The Exchange is not amending its current System functionality with respect to Legging Orders, rather, the proposed rule text is intended to add more detail to ISE Options 3, Section 7(k) to conform the level of detail to Nasdaq Phlx LLC ("Phlx") Options 3, Sections 7(b)(10) and 14(f)(iii)(C), which describes Phlx's legging orders, as well as The Miami International Securities Exchange, LLC ("MIAX") Rule 518(a)(10), which describes derived orders.

Generally, the Exchange proposes to amend the phrase "regular limit order book" in ISE Options 3, Section 7(k) to "single-leg limit order book" to conform the rule text to the manner in which that order book is described in ISE Options 3, Section 14, Complex Orders.

Currently, ISE Options 3, Section 7(k) provides,

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[3]   The term "System" means the electronic system operated by the Exchange that receives and disseminates quotes, executes orders and reports transactions. See Options 1, Section 1(a)(49).

Legging Orders. A legging order is a limit order on the regular limit order book that represents one side of a Complex Options Order that is to buy or sell an equal quantity of two options series resting on the Exchange's Complex Order Book. Legging orders are firm orders that are included in the Exchange's displayed best bid or offer.

(1) A legging order may be automatically generated for one leg of a Complex Options Order at a price: (i) that matches or improves upon the best displayed bid or offer on the regular limit order book; and (ii) at which the net price can be achieved when the other leg is executed against the best displayed bid or offer on the regular limit order book. A legging order will not be created at a price that locks or crosses the best bid or offer of another exchange or during a Posting Period in progress on the same side in the series, pursuant to Options 3, Section 15 regarding Acceptable Trade Range.

(2) A legging order is executed only after all other executable orders (including any non-displayed size) and quotes at the same price are executed in full. When a legging order is executed, the other portion of the Complex Options Order will be automatically executed against the displayed best bid or offer on the Exchange.

(3) A legging order is automatically removed from the regular limit order book if: (i) the price of the legging order is no longer at the displayed best bid or offer on the regular limit order book, (ii) execution of the legging order would no longer achieve the net price of the Complex Options Order when the other leg is executed against the best displayed bid or offer on the regular limit order book, (iii) the Complex Options Order is executed in full or in part on the Complex Order Book, or (iv) the Complex Options Order is cancelled or modified.

The Exchange proposes to amend the first paragraph of ISE Options 3, Section 7(k) to

instead provide,

A Legging Order is a Limit Order on the single-leg limit order book in an individual series that represents one leg of a two-legged Complex Options Order that is to buy or sell an equal quantity of two options series resting on the Exchange's Complex Order Book. Legging Orders are firm orders that are included in the Exchange's displayed best bid or offer. Legging Orders are not routable and have a TIF of Day.

Generally, the Exchange proposes to capitalize the terms "Legging Order" and "Limit

Order" throughout ISE Options 3, Section 7(k). The Exchange also proposes to amend

the term "one side of a Complex Options Order" to more specifically state, "one leg of a

two-legged Complex Options Order." The Exchange also proposes to add a new

sentence to the end of the paragraph which provides, "Legging Orders are not routable

and have a TIF of Day." Specifying that Legging Orders, which are an individual

component of a Complex Options Order,[4] are also not routable will add detail to the

description of the order type and make clear the current System handling. Similarly,

specifying that Legging Orders will be Limit Orders[5] with a TIF of Day makes clear the

way these orders are currently handled by the System. Legging Orders are not based on

Member instruction and are intended to facilitate more interaction between the single-leg

order book and the Complex Order Book, resulting in increased execution opportunities

and better execution prices for Complex Orders and for orders resting on the single-leg

order book. For this reason, Legging Orders do not route and have a TIF of Day to

permit Members to interact with this order type. The Exchange believes the amended

rule text proposed in the first paragraph of ISE Options 3, Section 7(k) more accurately

describes a Legging Order and provides Members with greater information regarding this

order type. Phlx's rules at Options 3, Section 7(b)(10) similarly describes a Legging

Order as "one leg of a two-legged Complex Options Order" and specifies that Phlx's

Legging Orders are not routable and have a time-in-force of Day.

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[4]   The terms "Complex Options Order," "Stock-Option Order," and "Stock-Complex Order" refer to orders for a Complex Options Strategy, Stock-Option Strategy, and Stock-Complex Strategy, respectively. The term "Complex Order" includes Complex Options Orders, Stock-Option Orders, and Stock-Complex Orders. See ISE Options 3, Section 14(a)(5). See also ISE Options 3, Section 14(a)(1)-(3).

[5]   A Limit Order is an order to buy or sell a stated number of options contracts at a specified price or better. See ISE Options 3, Section 7(b).

The Exchange proposes to add a new second paragraph to ISE Options 3, Section 7(k) to specifically explain the way the System will generate a Legging Order. The Exchange proposes to state,

> The System will evaluate whether Legging Orders may be generated (1) when a Complex Options Order enters the Complex Order Book, and (2) after a time interval (to be determined by the Exchange, not to exceed 1 second) when the NBBO or Exchange best bid or offer in any component of a Complex Options Order changes. The Exchange may determine to limit the number of Legging Orders generated on an objective basis and may determine to remove existing Legging Orders in order to maintain a fair and orderly market in times of extreme volatility or uncertainty. Legging Orders are treated as having no Priority Customer capacity on the single-leg order book, regardless of being generated from Priority Customer Complex Options Orders.

The Exchange proposes to make clear that the System will evaluate whether Legging Orders may be generated, which occurs at the time a Complex Options Order enters the Complex Order Book or after a time interval (to be determined by the Exchange, not to exceed one second)[6] when the NBBO or Exchange best bid or offer in any component of a Complex Options Order changes. The Exchange proposes to state that it may determine to limit the number of Legging Orders generated on an objective basis and may determine to remove existing Legging Orders, and cease the creation of additional Legging Orders, to maintain a fair and orderly market in times of extreme volatility or uncertainty. Phlx has similar rule text in Phlx Options 3, Section 14(f)(iii)(C).[7] This limitation assists the Exchange in managing the number of Legging Orders generated to

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[6]   Today, the time interval is set to one hundred milliseconds.

[7]   Phlx's rule states, in part, in Options 3, Section 14(f)(iii)(C) that, "…The System will evaluate the CBOOK when a Complex Order enters the CBOOK and at a regular time interval, to be determined by the Exchange (which interval shall not exceed 1 second), following a change in the national best bid and/or offer ('NBBO') or Phlx best bid and/or offer ('PBBO') in any component of a Complex Order eligible to generate Legging Orders, to determine whether Legging Orders may be generated. The Exchange may determine to limit the number of Legging Orders generated on an objective basis and may determine to remove existing Legging Orders in order to maintain a fair and orderly market in times of extreme volatility or uncertainty."

ensure that Legging Orders do not negatively impact the Exchange's System capacity and

performance so that ISE may maintain a fair and orderly market in times of extreme

volatility or uncertainty. Of note, the Exchange does not limit the generation of Legging

Orders on the basis of the entering Member or the Member category of the order (i.e.,

Professional or Priority Customer). Phlx similarly made this representation when it

proposed to adopt rules related to the generation and execution of "legging orders."[8]

Finally, the Exchange proposes to provide that Legging Orders are treated as

having no Priority Customer capacity on the single leg order book, regardless of being

generated from Priority Customer Complex Options Orders. A Legging Order is handled

in the same manner as other orders on the single-leg order book except as otherwise

provided in ISE Options 3, Section 7(k), and is executed only after all other executable

orders and quotes at the same price are executed in full. When a Legging Order is

executed, the other component of the Complex Order on the Complex Order Book will be

automatically executed against the best bid or offer on the Exchange. The Exchange

believes that a Legging Order, created for the execution of a Complex Order, should not

be afforded priority over resting orders and quotes on the single-leg order book, and

therefore has determined to protect the priority on the single-leg order book of such

resting orders and quotes. MIAX similarly executes a derived order only after all other

executable orders and quotes at the same price are executed in full.[9]

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8   See Securities Exchange Act Release No. 73545 (November 6, 2014), 79 FR 67498 (November
        13, 2014) (SR-Phlx-2014-54) (Notice of Filing of Amendment No. 1 and Order Granting
        Accelerated Approval of a Proposed Rule Change, as Modified by Amendment No. 1, To Add a
        New Complex Order Process Called Legging Orders).

9   See MIAX Rule 518(a)(10)(iv). See also Securities Exchange Act Release No. 79072 (October 7,
        2016), 81 FR 71131 (October 14, 2016) (SR-MIAX-2016-26) (Order Approving a Proposed Rule
        Change to Adopt New Rules to Govern the Trading of Complex Orders).

The Exchange proposes to amend ISE Options 3, Section 7(k)(1) and add the title

"Generation of Legging Orders" to describe the contents of the paragraph. The Exchange

proposes to amend the first sentence which currently states,

> A legging order may be automatically generated for one leg of a Complex
> Options Order at a price: (i) that matches or improves upon the best
> displayed bid or offer on the regular limit order book; and (ii) at which the
> net price can be achieved when the other leg is executed against the best
> displayed bid or offer on the regular limit order book. A legging order will
> not be created at a price that locks or crosses the best bid or offer of
> another exchange or during a Posting Period in progress on the same side
> in the series, pursuant to Options 3, Section 15 regarding Acceptable
> Trade Range.

The Exchange proposes to instead provide in Options 3, Section 7(k)(1),

> A Legging Order may be automatically generated for one or both leg(s) of
> a Complex Options Order resting on top of the Complex Order Book at a
> price: (i) that matches or improves upon the best displayed bid or offer on
> the single-leg limit order book; and (ii) at which the net price can be
> achieved when the other leg is executed against the best displayed bid or
> offer on the single-leg limit order book, excluding other Legging Orders.
> Legging Orders will be generated and executed in the minimum increment
> for that options series.

The Exchange is proposing to add "or both leg(s)" to the first sentence of ISE Options 3,

Section 7(k)(1) to make clear a Legging Order may be generated for each leg of a two-

legged Complex Order. The Exchange notes that Legging Orders may be generated for

each leg of a two-legged options orders with the same quantity on both legs.

Automatically generating Legging Orders, which will only be executed after all other

executable interest at the same price (including non-displayed interest) is executed in full,

will provide additional execution opportunities for Complex Orders, without negatively

impacting any investors in the single-leg market. In fact, the generation of Legging

Orders may enhance execution quality for investors in the single-leg market by

improving the price and/or size of the ISE BBO and by providing additional execution

opportunity for resting orders on the single-leg order book. The generation of Legging

Orders is fully compliant with all regulatory requirements. In particular, Legging Orders

are firm orders that will be displayed at the ISE BBO. Also, a Legging Order will be

automatically removed if it is no longer displayable at the ISE BBO or if the net price of

the Complex Order can no longer be achieved. Finally, the generation of Legging Orders

is limited in scope, as they may be generated only for Complex Options Orders with two

legs. Additionally, as noted herein, the Exchange will closely manage and curtail the

generation of Legging Orders to assure that they do not negatively impact system

capacity and performance. Phlx's Legging Orders differ from ISE's Legging Orders in

that, on Phlx, where two legging orders may be generated, only one of those can execute

as part of the execution of a particular complex order.

The addition of "resting on the top of the Complex Order Book" in the first

sentence of ISE Options 3, Section 7(k)(1) will make clear that the priority of orders in

the Complex Order Book controls with respect to the generation of Legging Orders. The

addition of this language is intended to provide greater detail with respect to the

generation of Legging Order.

The Exchange proposes to amend the second sentence of ISE Options 3, Section

7(k)(1) to add "excluding other Legging Orders" to the end of the sentence to make clear

that the price of a Legging Order is not considered in the BBO for purposes of

determining whether the net price of a Complex Order could be achieved were it to

generate a Legging Order. Below is an example of the manner in which the System

calculates the net price and excludes a Legging Order.

Example # 1

Assume
Leg A is quoted 4.20 (100) x 4.25 (100)
Leg B is quoted 4.00 (100) x 4.10 (100)
Leg C is quoted 3.80 (100) x 3.90 (100)

Create A-B strategy, ratio of 1. cBBO[10] for A-B is 0.10 x 0.25
Create B-C strategy, ratio of 1. cBBO for B-C is 0.10 x 0.30

Generation of Legging Orders
Complex Order is entered to Buy A-B 10 @ 0.20
System generates Legging Order on leg A's bid @ 4.20
System generates Legging Order on Leg B's offer @ 4.05

Complex Order is entered to Buy B-C 10 @ 0.20
System generates Legging Order on leg B's bid @ 4.00
System generates Legging Order on Leg C's offer @ 3.90

Executions
If Complex Order B-C sold leg C @ 3.90, it would have to buy leg B for 4.10 or less to satisfy its net price of 0.20. Given that a Legging Order is available on Leg B's offer at 4.05, this Legging Order on leg C would have been able to generate at 3.85 instead of 3.90 if the Legging Order at 4.05 was included in the calculation of possible net execution price, but since it is not, the Legging Order is generated at 3.90 on Leg C's offer instead of 3.85.[11]

The Exchange is removing the last sentence of ISE Options 3, Section 7(k)(1)[12]

because that concept is being relocated to proposed new paragraph Options 3, Section

7(k)(2) as described below.

Finally, the Exchange proposes to add a sentence to ISE Options 3, Section

7(k)(1) which states, "Legging Orders will be generated and executed in the minimum

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[10]   The cBBO is the net best bid or offer comprised of the best bids and offers of the individual legs of the complex strategy.

[11]   Furthermore, if a single-leg order arrives to buy for 3.90 on Leg C, the B-C strategy trades with the 4.10 offer of Leg B and the 4.05 Legging Order is removed.

[12]   The last sentence of ISE Options 3, Section 7(k)(1) states, "A legging order will not be created at a price that locks or crosses the best bid or offer of another exchange or during a Posting Period in progress on the same side in the series, pursuant to Options 3, Section 15 regarding Acceptable Trade Range."

increment for that options series." Options 3, Section 3 describes the minimum

increments for options traded on ISE. This rule makes clear that the minimum increment

rule in ISE Options 3, Section 3 is applicable to Legging Orders. MIAX Rule

518(a)(10)(iii) similarly provides that ISE's derived orders will not be created at a price

increment less than the minimum established by Rule 510.[13]

The Exchange proposes to add proposed new paragraph ISE Options 3, Section

7(k)(2) with the title "When Legging Orders Will Not Be Generated" to describe the

contents of the paragraph. The Exchange proposes to state in proposed ISE Options 3,

Section 7(k)(2),

> *When Legging Orders Will Not Be Generated.* A Legging Order will not
> be generated: (i) at a price that locks or crosses the best bid or offer of
> another exchange, (ii) if there is a complex auction on either side in the
> Complex Options Strategy, or a single-leg auction on either side in any
> component of the Complex Options Strategy, or a Posting Period in
> progress on the same side in the series, pursuant to Options 3, Section 15
> regarding Acceptable Trade Range; (iii) if the price of the leg(s) of a
> Complex Options Order is outside of the price limits described in Options
> 3, Section 16(a); (iv) if there is already a Legging Order in that options
> series on the same side of the market at the same price; or (v) for Complex
> Orders with 2 option legs, where both legs are buying or both legs are
> selling and both legs are calls or both legs are puts, as described in
> Options 3, Section 14(d)(3)(A); or (vi) if the Exchange has not opened; or
> a particular option series has not opened or such options series is halted.

This paragraph will describe when Legging Orders will not be generated.

First, a Legging Order will not be generated at a price that locks or crosses the

best bid or offer of another exchange as stated in the last sentence of ISE Options 3,

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[13]   MIAX Rule 510 specifies the minimum increments for options traded on MIAX.

Section 7(k)(1). This concept is consistent with ISE Options 5, Sections 2 and 3 which

describe order protection and locked and crossed markets.[14]

Second, the Exchange proposes to add a provision which states that a Legging

Order will not be generated if there is a complex auction on either side in the Complex

Options Strategy,[15] or a single-leg auction on either side in any component of the

Complex Options Strategy, or a Posting Period in progress on the same side in the series,

pursuant to ISE Options 3, Section 15 regarding Acceptable Trade Range ("ATR").[16]

The last part of this proposed sentence concerning ATR was relocated from the last

sentence of ISE Options 3, Section 7(k)(1).

Third, the Exchange proposes to add a provision which states that a Legging

Order will not be generated if the price of the leg(s) of a Complex Options Order is

outside of the price limits described in ISE Options 3, Section 16(a). In the instance

where a Legging Order generated is currently outside the price parameter (because the

ABBO has moved), the System will remove the Legging Order that was outside the price

limits pursuant to proposed ISE Options 3, Section 7(k)(2)(iii) and will attempt to re-

generate a new Legging Order that is in the price limits described in ISE Options 3,

Section 16(a) as proposed in ISE Options 3, Section 7(k)(4)(v). Today, ISE Options 3,

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[14]   ISE Options 5 is incorporated by reference to ISE Options 5. Specifically, ISE Options 5, Section
        2 and 3 apply to ISE.

[15]   A Complex Options Strategy is the simultaneous purchase and/or sale of two or more different
        options series in the same underlying security, for the same account, in a ratio that is equal to or
        greater than one-to-three (.333) and less than or equal to three-to-one (3.00) and for the purpose of
        executing a particular investment strategy. Only those Complex Options Strategies with no more
        than the applicable number of legs, as determined by the Exchange on a class-by-class basis, are
        eligible for processing. See ISE Options 3, Section 14(a)(1).

[16]   ATR is a risk protection which sets dynamic boundaries within which quotes and orders may
        trade. ATR is designed to guard the System from experiencing dramatic price swings by
        preventing the immediate execution of quotes and orders beyond the thresholds set by this risk
        protection.

Section 16(a) would restrict the execution of a Legging Order through price limits for Complex Orders. By adding the aforementioned rule text in proposed new paragraph Options 3, Section 7(k)(2), all limitations related to the generation of Legging Orders will be memorialized in Options 3, Section 7(k).[17]

Fourth, the Exchange proposes to add a provision which states that a Legging Order will not be generated if there is already a Legging Order in that options series on the same side of the market at the same price. This provision addresses a situation of overlapping Legging Orders. Phlx has a similar sentence in Phlx Options 3, Section 7(b)(10)(2).[18] The addition of this rule text will make clear an existing limitation to the generation of orders in ISE Options 3, Section 7(k).

Fifth, the Exchange proposes to add a provision which states that a Legging Order will not be generated for Complex Orders with two option legs, where both legs are buying or both legs are selling and both legs are calls or both legs are puts, as described in ISE Options 3, Section 14(d)(3)(A). This limitation is currently provided for in ISE

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[17]   Phlx's rule similarly indicates that a Legging Order is subject to certain price parameters by stating that a Legging Order will not be generated if the price of the Complex Order is outside of the relevant ACE Parameter. See Phlx Options 3, Section 7(b)(10)(2). The ACE Parameter differs from the price limits described in ISE Options 3, Section 16(a). Phlx's ACE Parameter defines a price range outside of which a Complex Order will not be executed. The ACE Parameter is either a percentage or number as defined by Phlx and may be set at a different percentage or number for Complex Orders where one of the components is the underlying security. The ACE Parameter price range is based on the cNBBO at the time an order would be executed. A Complex Order to sell will not be executed at a price that is lower than the cNBBO bid by more than the ACE Parameter. A Complex Order to buy will not be executed at a price that is higher than the cNBBO offer by more than the ACE Parameter. A Complex Order or a portion of a Complex Order that cannot be executed within the ACE Parameter pursuant to this rule will be placed on the CBOOK. See Phlx Options 3, Section 16(b)(i).

[18]   Phlx Options 3, Section 7(b)(10)(2)) states, in part, that Legging Order will not be generated if there is already a Legging Order in that series on the same side of the market at the same price (unless it has priority based on the participant type, under existing Exchange rules). The phrase "unless it has priority based on the participant type, under existing Exchange rules" is not being added to ISE's Rule as Options 3, Section 10 which describes allocation on the single-leg order book, because as stated in proposed ISE Options 3, Section 7(k), "Legging Orders are treated as having no Priority Customer capacity on the single-leg order book, regardless of being generated from Priority Customer Complex Options Orders."

Options 3, Section 14(d)(3)(A) and is being added to proposed new paragraph ISE

Options 3, Section 7(k)(2) to provide Members with a complete list of when Legging

Orders will not be generated in Options 3, Section 7(k).

Sixth, the Exchange proposes to add a provision which states that a Legging

Order will not be generated if the Exchange has not opened; or a particular option series

has not opened or such options series is halted. Since a complex strategy must be

available for trading to generate a Legging Order, the failure of an options series that is a

component of the complex strategy to open or a subsequent halt would cause Legging

Orders not to generate. Phlx has a similar rule in Phlx Options 3, Section 7(b)(10)(1).[19]

The Exchange proposes to renumber current ISE Options 3, Section 7(k)(2) as

(k)(3) and add the title "Execution of Legging Orders" to describe the contents of the

paragraph. The Exchange proposes to state in proposed ISE Options 3, Section 7(k)(3)

that,

> A Legging Order is executed only after all other executable orders
> (including any non-displayed size) and quotes at the same price are
> executed in full. When a Legging Order is executed, the other leg of the
> Complex Options Order will be automatically executed against the
> displayed best bid or offer on the Exchange and any other Legging Order
> not executed as part of the Complex Options Order will be removed. Two
> Legging Orders related to the same Complex Options Order can be
> generated, and both can execute as part of the execution of a particular
> Complex Options Order.

The Exchange's proposal, similar to Phlx Options 3, Section 7(b)(10)(3)describes current

System handling when a Legging Order is executed and subsequently the other leg of the

Complex Order will be automatically executed against the displayed best bid or offer on

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[19]   Phlx Options 3, Section 7(b)(10)(1)states, in part, that Legging Orders will not be generated if the Exchange or a particular option has not opened, is halted or is otherwise not available for trading. ISE believes that not opening and a halt are the two possible scenarios and therefore Phlx's rule and ISE's rule are substantively the same in this regard.

the Exchange, and any other Legging Order based on that Complex Order will be removed. The Exchange proposes to replace the word "portion" with "leg" to make the rule text more explicit. The Exchange proposes to add the phrase "and any other Legging order not executed as part of the Complex Options Order will be removed" to the end of the second sentence in proposed ISE Options 3, Section 7(k)(3). Phlx has a substantively similar sentence in Options 3, Section 7(b)(10)(3).[20] The addition of this phrase is intended to provide additional information regarding the treatment of unexecuted Legging Orders in ISE Options 3, Section 7(k). By way of example,

Example # 2

Assume:
Complex A-B (ratio 1:1) strategy, ratio of 1 is created
MM Quote for leg A 4.20 (100) x 4.50 (100)
MM Quote for leg B 4.00 (100) x 4.10 (100)
A-B Derived BBO: 0.10 x 0.50
Complex Order to Buy A-B 10 @ net price of 0.45
System generates a Legging Order on leg A's bid for quantity of 10 @ 4.45
System generates a Legging Order leg B's offer for quantity of 10 @ 4.05
Single-leg order to sell 10 @ 4.45 on Leg A arrives

Execution:
Complex Order A-B Legging Order trades 10 with Single leg order on Leg A @ 4.45

Complex Order A-B other leg trades 10 with MM Quote on Leg B @ 4.00

Removal of Legging Order:

Legging Order that was generated for quantity of 10 on Leg B @ 4.05 is removed from the order book.

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[20]   Phlx Options 3, Section 7(b)(10)(3)states, "A Legging Order is executed only after all other executable orders (including any non-displayed size) and quotes at the same price are executed in full. When a Legging Order is executed, the other leg of the Complex Order will be automatically executed against the displayed best bid or offer on the Exchange and any other Legging Order based on that Complex Order will be removed." ISE explicitly states "not executed as part of the Complex Options Order" where Phlx says "based on that Complex Order."

Next, the Exchange proposes to add a new sentence to ISE Options 3, Section 7(k)(3) which states, "Two Legging Orders related to the same Complex Options Order can be generated, and both can execute as part of the execution of a particular Complex Options Order." As noted above, two Legging Orders related to the same Complex Options Order can be generated, and both can execute as part of the execution of a particular Complex Options Order. This behavior differs from Phlx where two legging orders may be generated, but only one of those can execute as part of the execution of a particular complex order. The Exchange believes that permitting both Legging Orders to execute as part of the execution of a particular Complex Options Order will allow more Complex Orders to execute while the price of the leg(s) will continue to be bounded by the price limits described in ISE Options 3, Section 16(a). By way of example,

Example # 3

Assume:
Complex A-B strategy, ratio of 1 is created
Complex 2A-B strategy, ratio of 2:1 is created
MM Quote for leg A 4.20 (100) x 4.50 (100
MM Quote for leg B 4.00 (100) x 4.10 (100)
Complex BBO for A-B is 0.10 x 0.50
Complex BBO for 2A-B is 4.30 x 5.00

Leg Generation:
Complex Order to Buy A-B 10 @ 0.45
System generates a Legging Order on leg A's bid @ 4.45
System generates a Legging Order on leg B's offer @ 4.05
Execution:

Complex Order to Sell 2A-B 5 @ 4.85
2A-B Order trades with Legging Order on leg A 10 @ 4.45
2A-B Order trades with the Legging Order on leg B 5 @ 4.05
A-B trades with MM Quote on leg B 5 @ 4.00

The Exchange proposes to renumber ISE Options 3, Section 7(k)(3) as (k)(4) and title the paragraph, "Removal of Generated Legging Orders" to describe the contents of

the paragraph. This paragraph describes when a Legging Order is automatically removed from the single-leg limit order book. The Exchange proposes to add a clause to the end of proposed ISE Options 3, Section 7(k)(4)(i) so that the sentence would state, "A Legging Order is automatically removed from the single-leg limit order book if: (i) the price of the Legging Order is no longer at the displayed best bid or offer on the single-leg limit order book *or is at a price that locks or crosses the best bid or offer of another exchange…"*(emphasis added). Current ISE Options 3, Section 7(k)(1) already notes that a Legging Order will not be created at a price that locks or crosses the best bid or offer of another exchange. Adding the same rule text to proposed ISE Options 3, Section 7(k)(4) will make clear that a Legging Order that locks or crosses an away market would be removed from the limit order book.

The Exchange proposes to add a clause to proposed ISE Options 3, Section 7(k)(4)(ii) to provide that "A Legging Order is automatically removed from the single-leg limit order book if… (ii) execution of the Legging Order would no longer achieve that net price of the Complex Options Order when the other leg is executed against the best displayed bid or offer on the single-leg limit order book, *excluding other Legging Orders*" (emphasis added). Phlx has a similar sentence in Options 3, Section 7(b)(10)(4).[21] A Legging Order is removed if the BBO on the other leg worsens such that the Complex Order limit price could no longer be achieved by trading with the quote, even if it could be achieved by trading with a Legging Order generated by another Complex Order. The Exchange would not rely solely on the price of another Legging

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Order when calculating the net price of the Complex Options Order for purposes of

determining at which price a Legging Order will execute. In the below example this

point is illustrated in that the Legging Order could not rely on the 4.05 offer on Leg B

derived from the other Legging Order, rather it must rely on the 4.10 offer on Leg B

derived from the quote.

Example # 4

Assume:
Leg A is quoted 4.20 (100) x 4.25 (100)
Leg B is quoted 4.00 (100) x 4.05 (100)
Leg C is quoted 3.80 (100) x 3.90 (100)
Create A-B strategy, ratio of 1 with a cBBO for A-B is 0.15 x 0.25
Create B-C strategy, ratio of 1 with a cBBO for B-C is 0.10 x 0.30

Generation of Legging Orders:
Complex Order is entered to Buy B-C (Buy B, Sell C) 10 @ 0.20
System generates Legging Orders on Leg B's bid @ 4.00 & Leg C's offer @ 3.85.

Complex Order is entered to Buy A-B (Buy A, Sell B) 10 @ 0.20
System generates Legging Orders on Leg A's bid @ 4.20 & Leg B's offer @ 4.05

Removal of Legging Order:
Market Maker updates their quote for Leg B with a worsened offer: 4.00 (100) x 4.10 (100)

Even though the displayed best offer for Leg B did not change in price, it is derived from
a Legging Order which is excluded from the System's calculations in determining
whether the net price of this Complex Order can be achieved if its Legging Order trades.
The Legging Order at 3.85 on Leg C can no longer achieve the Complex Order's net
price were it to execute in addition to the quote for Leg B. The System will remove the
Legging Order at 3.85 on Leg C and will regenerate a new Legging Order on Leg C at
3.90 and this would allow the Legging Order to achieve the net price of the Complex
Order if it trades along with the quote on Leg B.

     The Exchange proposes to add a new section "(v)" to proposed ISE Options 3,

Section 7(k)(4) which states, "A Legging Order is automatically removed from the

single-leg limit order book if… (v) the price of the leg(s) of a Complex Options Order is

outside of the price limits described in current ISE Options 3, Section 16(a)." This

limitation is currently described in ISE Options 3, Section 16(a) and is being added to this

order type to complete the list of cases where a Legging Order would be removed from

the order book in Options 3, Section 7(k). Phlx has similar rule text in Options 3, Section

7(b)(10)(4).[22]

The Exchange proposes to add new section "(vi)" to proposed ISE Options 3,

Section 7(k)(4) which states, "A Legging Order is automatically removed from the

single-leg limit order book if …(vi) the System receives a complex auction on either side

in the Complex Options Strategy, or the System receives a single-leg auction on either

side in any component of the Complex Options Strategy." Phlx has similar language in

Options 3, Section 7(b)(10)(4).[23] As noted above, the Exchange believes from a System

processing and user acceptance standpoint, the best practice is to remove the System-

generated Legging Order from the order book during the course of the auction, as that

time is minimal, then the System can attempt to re-generate a Legging Order once the

auction has concluded.

Finally, the Exchange proposes to add new section "(vii)" to proposed ISE

Options 3, Section 7(k)(4) which states, "A Legging Order is automatically removed

from the single-leg limit order book if…(vii) a Legging Order is generated by a different

Complex Options Order in the same leg at a better price or the same price for a

participant with a higher price priority." As noted in ISE Options 3, Section 7(k)(1), a

Legging Order may be automatically generated at a price that matches or improves upon

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[22]   Phlx Options 3, Section 7(b)(10)(4)states that "A Legging Order is automatically removed from
         the regular order book: … (v) if the price of the Complex Order is outside the ACE Parameter of
         paragraph (i)." As noted above, Phlx and ISE have different price parameters.

[23]   Id.

the best displayed bid or offer on the single-leg limit order book. The System removes the Legging Order because it would have been at an inferior price. Phlx Options 3, Section 7(b)(10)(4)has similar language.[24]

As revised, the rule text proposed in ISE Options 3, Section 7(k)(4) is intended to cover all circumstances where a Legging Order would be automatically removed from the single-leg limit order.

Options 3, Section 16

The Exchange proposes to amend the language in ISE Options 3, Section 16(a) related to price limits for Complex Orders. As provided in ISE Options 3, Section 16(a)the legs of a complex strategy may be executed at prices that are inferior to the prices available on other exchanges trading the same options series. Notwithstanding the foregoing, the System will not permit any leg of a complex strategy to trade through the NBBO for the series or any stock component by a configurable amount calculated as the lesser of (i) an absolute amount not to exceed $0.10, and (ii) a percentage of the NBBO not to exceed 500%, as determined by the Exchange on a class, series or underlying basis. A Member can also include an instruction on a Complex Order that each leg of the Complex Order is to be executed only at a price that is equal to or better than the NBBO *on the opposite side* for the options series or any stock component, as applicable ("Do-Not-Trade-Through" or "DNTT"). The addition of the words "on the opposite side" is intended to make clear the manner in which the System will handle a DNTT instruction.

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[24]   Phlx Options 3, Section 7(b)(10)(4) states that "A Legging Order is automatically removed from the regular order book: … (vii) if a Legging Order is generated by a different Complex Order in the same leg at a better price or the same price for a participant with a higher price priority…". While Phlx's Options 3, Section 14 has priority overlays for different market participants within its allocation model, whereas ISE does not have similar priority overlays and the remainder of the language is not necessary.

That is, the System will check that the price is equal to or better than the NBBO on the opposite side of the options series or any stock component.

    2.   Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,[25] in general, and furthers the objectives of Section 6(b)(5) of the Act,[26] in particular, in that it is designed to promote just and equitable principles of trade and to protect investors and the public interest.

Options 3, Section 7

The Exchange's proposal to amend ISE Options 3, Section 7(k), Legging Orders, is consistent with the Act because the proposal expands the description of Legging Orders to describe in more detail the current legging functionality, thereby increasing transparency with respect to this order type. The proposed amendments reflect the way Legging Orders work today. The Exchange is not amending its System functionality with respect to Legging Orders, rather, the proposed rule text is intended to be more descriptive and conform the level of detail in the order type to Phlx Options 3, Section 7(b)(10)which describes details of Phlx's legging orders and MIAX Rule 518(a)(10), which describes derived orders.

Specifying that Legging Orders, which are an individual component of a Complex Options Order, are "one leg of a two-legged Complex Options Order" and are not routable in the first paragraph of ISE Options 3, Section 7(k) is consistent with the Act because these terms better describe a Legging Order. Similarly, specifying that Legging

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[25]   15 U.S.C. 78f(b).

[26]   15 U.S.C. 78f(b)(5).

Orders will be Limit Orders with a TIF of Day makes clear the way these orders are

handled by the System. Legging Orders are not based on Member instruction and are

intended to facilitate more interaction between the single-leg order book and the Complex

Order Book, resulting in increased execution opportunities and better execution prices for

Complex Orders and for orders resting on the single-leg order book. For this reason,

Legging Orders do not route and have a TIF of Day to permit Members to interact with

this order type. The Exchange believes the amended rule text more accurately describes

a Legging Order and makes clear to Members the behavior of Legging Orders. Also,

capitalizing the terms "Legging Order" and "Limit Order" and referring to a "single-leg"

order book throughout ISE Options 3, Section 7(k) conforms terms with those of ISE

Options 3, Section 14, Complex Orders.

The proposed text in the new second paragraph of ISE Options 3, Section 7(k)

makes clear the current System processing for Legging Orders. Specifically, the

proposed rule text makes clear that the System will evaluate whether Legging Orders

may be generated, which occurs at the time a Complex Options Order enters the Complex

Order Book or after a time interval (to be determined by the Exchange, not to exceed one

second)[27] when the NBBO or Exchange best bid or offer in any component of a Complex

Options Order changes. Further, the Exchange proposes to state that it may determine to

limit the number of Legging Orders generated on an objective basis and may determine to

remove existing Legging Orders, and cease the creation of additional Legging Orders, to

maintain a fair and orderly market in times of extreme volatility or uncertainty. Phlx has

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[27]   Today, the time interval is set to one hundred milliseconds.

similar rule text in Phlx Options 3, Section 14(f)(iii)(C).[28] The proposed limitation is consistent with the Act because it assists the Exchange in managing the number of Legging Orders generated to ensure that Legging Orders do not negatively impact the Exchange's System capacity and performance so that ISE may maintain a fair and orderly market in times of extreme volatility or uncertainty. Of note, the Exchange does not limit the generation of Legging Orders on the basis of the entering Member or the Member category of the order (i.e., Professional or Priority Customer). The Exchange proposes to limit the number of Legging Orders, remove existing Legging Orders, and cease creation of additional Legging Orders, in order to permit the Exchange to maintain a fair and orderly market in times of extreme volatility or uncertainty. This discretion is consistent with the Act because it assists the Exchange in managing the number of Legging Orders generated to ensure that Legging Orders do not negatively impact the Exchange's System capacity and performance.

The Exchange's proposal to provide that Legging Orders are treated as having no Priority Customer capacity on the single leg order book, regardless of being generated from Priority Customer Complex Options Orders is consistent with the Act and the protection of investor and the public interest. A Legging Order is handled in the same manner as other orders on the single-leg order book except as otherwise provided in ISE Options 3, Section 7(k), and is executed only after all other executable orders and quotes at the same price are executed in full. When a Legging Order is executed, the other

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[28]   Phlx's rule states, in part, in Options 3, Section 14(f)(iii)(C) that, "…The System will evaluate the CBOOK when a Complex Order enters the CBOOK and at a regular time interval, to be determined by the Exchange (which interval shall not exceed 1 second), following a change in the national best bid and/or offer ("NBBO") or Phlx best bid and/or offer ("PBBO") in any component of a Complex Order eligible to generate Legging Orders, to determine whether Legging Orders may be generated. The Exchange may determine to limit the number of Legging Orders generated on an objective basis and may determine to remove existing Legging Orders in order to maintain a fair and orderly market in times of extreme volatility or uncertainty."

component of the Complex Order on the Complex Order Book will be automatically

executed against the best bid or offer on the Exchange. The Exchange believes that a

Legging Order, created for the execution of a Complex Order, should not be afforded

priority over resting orders and quotes on the single-leg order book, and therefore has

determined to protect the priority on the single-leg order book of such resting orders and

quotes. MIAX similarly executes a derived order only after all other executable orders

and quotes at the same price are executed in full.[29]

The Exchange's proposal to amend ISE Options 3, Section 7(k)(1) to make clear a

Legging Order may be generated for each leg of a two-legged Complex Order is

consistent with the Act. Legging Orders may be generated for each leg of a two-legged

options orders with the same quantity on both legs. Automatically generating Legging

Orders promotes just and equitable principles of trade because these orders will only be

executed after all other executable interest at the same price (including non-displayed

interest) is executed in full. This behavior is consistent with the Act because it will

provide additional execution opportunities for Complex Orders, without negatively

impacting any investors in the single-leg market. In fact, the generation of Legging

Orders may enhance execution quality for investors in the single-leg market by

improving the price and/or size of the ISE BBO and by providing additional execution

opportunity for resting orders on the single-leg order book. The generation of Legging

Orders is fully compliant with all regulatory requirements. In particular, Legging Orders

are firm orders that will be displayed at the ISE BBO. Also, a Legging Order will be

automatically removed if it is no longer displayable at the ISE BBO or if the net price of

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[29]   See MIAX Rule 518(a)(10)(iv). See also Securities Exchange Act Release No. 79072 (October 7,
         2016), 81 FR 71131 (October 14, 2016) (SR-MIAX-2016-26) (Order Approving a Proposed Rule
         Change to Adopt New Rules to Govern the Trading of Complex Orders).

the Complex Order can no longer be achieved. Finally, the generation of Legging Orders

is limited in scope, as they may be generated only for Complex Options Orders with two

legs. Additionally, as noted herein, the Exchange will closely manage and curtail the

generation of Legging Orders to assure that they do not negatively impact system

capacity and performance. Phlx's Legging Orders differ from ISE's Legging Orders in

that, on Phlx, two legging orders may be generated, but only one of those can execute as

part of the execution of a particular complex order.

The addition of "resting on the top of the Complex Order Book" in the first

sentence of ISE Options 3, Section 7(k)(1) is consistent with the Act because it is

consistent with existing Legging Order functionality that considers the best price on

Phlx's order book. This addition will make clear that the priority of orders in the

Complex Order Book controls with respect to the generation of Legging Orders.

The Exchange's proposal to amend the second sentence of ISE Options 3, Section

7(k)(1) to add "excluding other Legging Orders" to the end of the sentence is consistent

with the Act because it makes clear that the price of a Legging Order is not considered in

the BBO for purposes of determining whether the net price of a Complex Order could be

achieved were it to generate a Legging Order.

Finally, the Exchange's proposal to add a sentence to ISE Options 3, Section

7(k)(1) which states, "Legging Orders will be generated and executed in the minimum

increment for that options series" is consistent with the Act because ISE Options 3,

Section 3 describes the minimum increments for options traded on ISE. Adding this rule

text will make clear that the minimum increment rule in Options 3, Section 3 is

applicable to Legging Orders. MIAX Rule 518(a)(10)(iii) similarly provides that ISE's

derived orders will not be created at a price increment less than the minimum established by Rule 510.[30]

Amending proposed new paragraph ISE Options 3, Section 7(k)(2) to note that a Legging Order will not be generated at a price that locks or crosses the best bid or offer of another exchange is already provided for in the last sentence of current Options 3, Section 7(k)(1). This concept is consistent with the Act in that the Exchange will not trade through away markets as specified in Options 5, Sections 2 and 3 which describe order protection and locked and crossed markets rules.

Adding a provision to proposed new paragraph ISE Options 3, Section 7(k)(2) which states that a Legging Order will not be generated if there is a complex auction on either side in the Complex Options Strategy, or a single-leg auction on either side in any component of the Complex Options Strategy, or a Posting Period in progress on the same side in the series, pursuant to Options 3, Section 15 regarding ATR is consistent with the Act. The Exchange believes from a System processing and user acceptance standpoint, the best practice is to wait for an auction in that options series to be complete, or for the ATR Posting Period to complete, as that time is minimal. Phlx's legging order rule in Options 3, Section 7(b)(10)(2)has the same restriction as proposed to be added to ISE's Legging Orders rule.[31]

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[30]   MIAX Rule 510 specifies the minimum increments for options traded on MIAX.

[31]   Phlx Options 3, Section 7(b)(1)(2) provides that "A Legging Order will not be created…"(ii) if there is an auction on either side or a Posting Period under Options 3, Section 15 regarding Acceptable Trade Range on the same side in progress in the series." Phlx's rules describe an auction on either side of the Legging Order while ISE's auction breaks down the auction into either a complex auction or single-leg auction. Of note, Phlx's Acceptable Trade Range rule has a Posting Period described in Options 3, Section 15. ISE does have an Acceptable Trade Range rule as well in Options 3, Section 15, but that rule differs from Phlx as there is no Posting Period.

Adding a provision to proposed new paragraph ISE Options 3, Section 7(k)(2) which states that a Legging Order will not be generated if the price of the leg(s) of a Complex Options Order is outside of the price limits described in Options 3, Section 16(a) is consistent with the Act. Today, ISE Options 3, Section 16(a) would restrict the generation of a Legging Order through price limits for Complex Orders, by adding this rule text in Options 3, Section 7(k)(2) all limitations related to the generation of Legging Orders will be memorialized in Options 3, Section 7(k).[32]

Adding a provision to proposed new paragraph ISE Options 3, Section 7(k)(2) which states that a Legging Order will not be generated if there is already a Legging Order in that options series on the same side of the market at the same price is consistent with the Act. This provision addresses a situation of overlapping Legging Orders and Legging Order dependencies in other components. Phlx has a similar sentence in Phlx Options 3, Section 7(b)(10)(2). Of note, the phrase "unless it has priority based on the participant type, under existing Exchange rules" from Phlx Options 3, Section 7(b)(10)(2) is not being added to ISE's Rule as Options 3, Section 10 which describes allocation on the single-leg order book, because as stated in proposed ISE Options 3, Section 7(k), "Legging Orders are treated as having no Priority Customer capacity on the single-leg order book, regardless of being generated from Priority Customer Complex Options Orders." The addition of this rule text will make clear an existing limitation to the generation of orders in Options 3, Section 7(k).

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[32]   Phlx's rule similarly indicates that a Legging Order is subject to certain price parameters by stating that a Legging Order will not be generated if the price of the Complex Order is outside of the ACE Parameter of paragraph in subparagraph (i) of Options 3, Section 14. The ACE Parameter differs from the price limits described in ISE Options 3, Section 16(a).

Adding a provision to proposed new paragraph ISE Options 3, Section 7(k)(2) which states that a Legging Order will not be generated for Complex Orders with two option legs, where both legs are buying or both legs are selling and both legs are calls or both legs are puts, as described in Options 3, Section 14(d)(3)(A) is consistent with the Act. This limitation is already provided for in current ISE Options 3, Section 14(d)(3)(A) and is being added to proposed new paragraph Options 3, Section 7(k)(2) to provide Members with a complete list of when Legging Orders will not be generated in Options 3, Section 7(k).

Adding a provision to proposed new paragraph ISE Options 3, Section 7(k)(2) which states that a Legging Order will not be generated if the Exchange has not opened; or a particular option series has not opened or such options series is halted is consistent with the Act. Since a complex strategy must be available for trading to generate a Legging Order, the failure of an options series that is a component of the complex strategy to open or a subsequent halt would cause Legging Orders not to generate. Phlx has a similar rule in Phlx Options 3, Section 7(b)(10)(1).

Amending proposed ISE Options 3. Section 7(k)(3), similar to Phlx Options 3, Section 7(b)(10)(3)to describe current System handling when a Legging Order is executed and subsequently the other leg of the Complex Order is automatically executed against the displayed best bid or offer on the Exchange, and, therefore, any other Legging Order based on that Complex Order is removed is consistent with the Act. This example demonstrates that the Exchange will execute against the best bid or offer on the Exchange and will remove Legging Orders. The proposal to replace the word "portion" with "leg" will make the rule text more explicit. Adding the phrase "and any other Legging order

not executed as part of the Complex Options Order will be removed" to the end of the

second sentence in proposed Options 3, Section 7(k)(3) is consistent with the Act because

the phrase will provide additional information regarding the treatment of unexecuted

Legging Orders in Options 3, Section 7(k). Phlx has a substantively similar sentence in

Options 3, Section 7(b)(10)(3).[33]

Amending proposed ISE Options 3, Section 7(k)(3) to add a new sentence to

Options 3, Section 7(k)(3) which states, "Two Legging Orders related to the same

Complex Options Order can be generated, and both can execute as part of the execution

of a particular Complex Options Order" is consistent with the Act. As noted above, two

Legging Orders related to the same Complex Options Order can be generated, and both

can execute as part of the execution of a particular Complex Options Order. This

behavior differs from Phlx where two legging orders may be generated, but only one of

those can execute as part of the execution of a particular complex order. The Exchange

believes that permitting both Legging Orders to execute as part of the execution of a

particular Complex Options Order will allow more Complex Orders to execute while the

price of the leg(s) will continue to be bounded by the price limits described in ISE

Options 3, Section 16(a).

Amending proposed ISE Options 3, Section 7(k)(4)(i) to state, "A Legging Order

is automatically removed from the single-leg limit order book if: (i) the price of the

Legging Order is no longer at the displayed best bid or offer on the single-leg limit order

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[33]   Phlx Options 3, Section 7(b)(10)(3)states, "A Legging Order is executed only after all other
         executable orders (including any non-displayed size) and quotes at the same price are executed in
         full. When a Legging Order is executed, the other leg of the Complex Order will be automatically
         executed against the displayed best bid or offer on the Exchange and any other Legging Order
         based on that Complex Order will be removed." ISE explicitly states "not executed as part of the
         Complex Options Order" where Phlx says "based on that Complex Order."

book *or is at a price that locks or crosses the best bid or offer of another exchange…"*
(emphasis added) is consistent with the Act. Current Options 3, Section 7(k)(2) already
notes that a Legging Order will not be created at a price that locks or crosses the best bid
or offer of another exchange. Adding the same rule text to proposed Options 3, Section
7(k)(4) will make clear that a Legging Order that locks or crosses an away market would
be removed from the limit order book.

Amending proposed ISE Options 3, Section 7(k)(4)(ii) to add a clause to current
Options 3, Section 7(k)(3) at (ii) to provide that "A Legging Order is automatically
removed from the single-leg limit order book if… (ii) execution of the Legging Order
would no longer achieve that net price of the Complex Options Order when the other leg
is executed against the best displayed bid or offer on the single-leg limit order book,
excluding other Le*gging Orders*" (emphasis added) is consistent with the Act. A
Legging Order is removed if the BBO on the other leg worsens such that the Complex
Order limit price could no longer be achieved by trading with the quote, even if it could
be achieved by trading with a Legging Order generated by another Complex Order. Phlx
has a similar sentence in Options 3, Section 7(b)(10)(4).

Amending proposed ISE Options 3, Section 7(k)(4) to add a new section "(v)" to
this paragraph which states, "A Legging Order is automatically removed from the single-
leg limit order book if… (v) the price of the leg(s) of a Complex Options Order is outside
of the price limits described in current Options 3, Section 16(a)" is consistent with the
Act. This limitation is currently described in ISE Options 3, Section 16(a) and is being
added to this order type to complete the list of cases where a Legging Order would be

removed from the order book in Options 3, Section 7(k). Phlx has similar rule text in Options 3, Section 7(b)(10)(4).

Amending proposed ISE Options 3, Section 7(k)(4) to add a new section "(vi)" to this paragraph which states, "A Legging Order is automatically removed from the single-leg limit order book if …(vi) the System receives a complex auction on either side in the Complex Options Strategy, or the System receives a single-leg auction on either side in any component of the Complex Options Strategy" is consistent with the Act. As noted above, the Exchange believes from a System processing and user acceptance standpoint, the best practice is to remove the System-generated Legging Order from the order book during the course of the auction, as that time is minimal, then the System can attempt to re-generate a Legging Order once the auction has concluded. Phlx has similar language in Options 3, Section 7(b)(10)(4).

Amending proposed ISE Options 3, Section 7(k)(4) to add a new section "(vii)" to this paragraph which states, "A Legging Order is automatically removed from the single-leg limit order book if…(vii) a Legging Order is generated by a different Complex Options Order in the same leg at a better price or the same price for a participant with a higher price priority." As noted in proposed Options 3, Section 7(k)(1), a Legging Order may be automatically generated at a price that matches or improves upon the best displayed bid or offer on the single-leg limit order book. The System removes the Legging Order because it would have been at an inferior price. Phlx Options 3, Section 7(b)(10)(4)has similar language.

Options 3, Section 16

The Exchange's proposal to amend the language in ISE Options 3, Section 16(a)

related to price limits for Complex Orders is consistent with the Act and protects

investors and the general public by ensuring that the DNTT instruction causes a Complex

Order is to be executed only at a price that is equal to or better than the NBBO on the

opposite side for the options series or any stock component. The proposed rule text

makes transparent the manner in which the System is currently handling the DNTT

instruction.

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.

Options 3, Section 7

The Exchange's proposal to amend ISE Options 3, Section 7(k), Legging Orders,

does not impose an intra-market burden on competition because all market participants

may interact with Legging Orders on the single-leg order book. The Exchange's proposal

to amend ISE Options 3, Section 7(k), Legging Orders, does not impose an inter-market

burden on competition because other options exchanges may offer Legging Orders with

similar functionality. Enhancing the description of the Legging Orders functionality will

allow ISE to compete effectively with other options exchanges that offer similar

functionality.

The Exchange's proposal to limit the number of Legging Orders and the ability to

remove existing Legging Orders does not impose an intra-market burden on competition

because the functionality will permit the Exchange to maintain a fair and orderly market

in times of extreme volatility or uncertainty. Further, the Exchange does not limit the

generation of Legging Orders on the basis of the entering Member or the Member

category of the order (i.e., Professional or Priority Customer). The Exchange's proposal

to limit the number of Legging Orders and the ability to remove existing Legging Orders

does not impose an inter-market burden on competition because this discretion is

consistent with the treatment of Legging Orders on other options exchanges.[34]

Options 3, Section 16

The Exchange's proposal to amend the language in ISE Options 3, Section 16(a)

related to price limits for Complex Orders to specify that a Complex Order must be

executed at a price that is equal to or better than the NBBO *on the opposite side* for the

options series or any stock component does not impose an intra-market burden on

competition because the System applies this price check to all Members executing

Complex Orders in the same manner. The Exchange's proposal to amend the language in

ISE Options 3, Section 16(a) does not impose an inter-market burden on competition

because any options exchange could offer similar functionality.

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

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[34]   See Phlx Options 3, Section 14(f)(iii)(C).

to Section 19(b)(3)(A)(iii) of the Act[35] and subparagraph (f)(6) of Rule 19b-4

thereunder.[36]

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 necessary or appropriate in the public interest, for the

protection of investors, or 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

  (https://www.sec.gov/rules/sro.shtml); or

- Send an email to rule-comments@sec.gov. Please include file number

  SR-ISE-2023-31 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.

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[35]   15 U.S.C. 78s(b)(3)(A)(iii).

[36]   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.

All submissions should refer to file number SR-ISE-2023-31. This file number should be included on the subject line if email is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's internet website (https://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 a.m. and 3 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. Do not include personal identifiable information in submissions; you should submit only information that you wish to make available publicly. We may redact in part or withhold entirely from publication submitted material that is obscene or subject to copyright protection. All submissions should refer to file number SR-ISE-2023-31 and should be submitted on or before [INSERT DATE 21 DAYS AFTER DATE OF PUBLICATION IN THE *FEDERAL REGISTER*].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[37]

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[37]   17 CFR 200.30-3(a)(12).

Sherry R. Haywood,

Assistant Secretary.

EXHIBIT 5

New text is underlined; deleted text is in brackets.

Nasdaq ISE, LLC Rules

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Options 3 Options Trading Rules

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Section 7. Types of Orders and Order and Quote Protocols

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(k) *Legging Orders*. A [l]Legging [o]Order is a [l]Limit [o]Order on the [regular]single-leg limit order book in an individual series that represents one [side]leg of a two-legged Complex Options Order that is to buy or sell an equal quantity of two options series resting on the Exchange's Complex Order Book. Legging [o]Orders are firm orders that are included in the Exchange's displayed best bid or offer. Legging Orders are not routable and have a TIF of Day.

The System will evaluate whether Legging Orders may be generated (1) when a Complex Options Order enters the Complex Order Book, and (2) after a time interval (to be determined by the Exchange, not to exceed 1 second) when the NBBO or Exchange best bid or offer in any component of a Complex Options Order changes. The Exchange may determine to limit the number of Legging Orders generated on an objective basis and may determine to remove existing Legging Orders in order to maintain a fair and orderly market in times of extreme volatility or uncertainty. Legging Orders are treated as having no Priority Customer capacity on the single-leg order book, regardless of being generated from Priority Customer Complex Options Orders.

> (1) *Generation of Legging Orders*. A [l]Legging [o]Order may be automatically generated for one or both leg(s) of a Complex Options Order resting on top of the Complex Order Book at a price: (i) that matches or improves upon the best displayed bid or offer on the [regular]single-leg limit order book; and (ii) at which the net price can be achieved when the other leg is executed against the best displayed bid or offer on the [regular]single-leg limit order book, excluding Legging Orders. Legging Orders will be generated and executed in the minimum increment for that options series.[A legging order will not be created at a price that locks or crosses the best bid or offer of another exchange or during a Posting Period in progress on the same side in the series, pursuant to Options 3, Section 15 regarding Acceptable Trade Range.]

> (2) *When Legging Orders Will Not Be Generated.* A Legging Order will not be generated: (i) at a price that locks or crosses the best bid or offer of another exchange, (ii) if there is a complex auction on either side in the Complex Options

Strategy, or a single-leg auction on either side in any component of the Complex Options Strategy, or a Posting Period in progress on the same side in the series, pursuant to Options 3, Section 15 regarding Acceptable Trade Range; (iii) if the price of the leg(s) of a Complex Options Order is outside of the price limits described in Options 3, Section 16(a); (iv) if there is already a Legging Order in that options series on the same side of the market at the same price; or (v) for Complex Orders with 2 option legs, where both legs are buying or both legs are selling and both legs are calls or both legs are puts, as described in Options 3, Section 14(d)(3)(A); or (vi) if the Exchange has not opened; or a particular option series has not opened or such options series is halted.

([2]3) *Execution of Legging Orders.* A [l]Legging [o]Order is executed only after all other executable orders (including any non-displayed size) and quotes at the same price are executed in full. When a Legging Order is executed, the other [portion]leg of the Complex Options Order will be automatically executed against the displayed best bid or offer on the Exchange and any other Legging Order not executed as part of the Complex Options Order will be removed. Two Legging Orders related to the same Complex Options Order can be generated, and both can execute as part of the execution of a particular Complex Options Order.

([3]4) *Removal of Generated Legging Orders.* A [l]Legging [o]Order is automatically removed from the [regular]single-leg limit order book if: (i) the price of the [l]Legging [o]Order is no longer at the displayed best bid or offer on the [regular]single-leg limit order book or is at a price that locks or crosses the best bid or offer of another exchange, (ii) execution of the [l]Legging [o]Order would no longer achieve the net price of the Complex Options Order when the other leg is executed against the best displayed bid or offer on the [regular]single-leg limit order book, excluding Legging Orders, (iii) the Complex Options Order is executed in full or in part on the Complex Order Book, [or] (iv) the Complex Options Order is cancelled or modified, (v) the price of the leg(s) of a Complex Options Order is outside of the price limits described in Options 3, Section 16(a), (vi) the System initiates a complex auction on either side in the Complex Options Strategy, or the System initiates a single-leg auction on either side in any component of the Complex Options Strategy, or (vii) a Legging Order is generated by a different Complex Order in the same leg at a better price or the same price for a participant with a higher price priority.

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Section 16. Complex Order Risk Protections

The following are Complex Order risk protections on ISE:

(a) **Price limits for Complex Orders**. As provided in Options 3, Section 14(d)(2), the legs of a complex strategy may be executed at prices that are inferior to the prices available on other exchanges trading the same options series. Notwithstanding, the

System will not permit any leg of a complex strategy to trade through the NBBO for the series or any stock component by a configurable amount calculated as the lesser of (i) an absolute amount not to exceed $0.10, and (ii) a percentage of the NBBO not to exceed 500%, as determined by the Exchange on a class, series or underlying basis. A Member can also include an instruction on a Complex Order that each leg of the Complex Order is to be executed only at a price that is equal to or better than the NBBO on the opposite side for the options series or any stock component, as applicable ("Do-Not-Trade-Through" or "DNTT").

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