

believes that waiving the 30-day operative delay is consistent with the protection of investors and the public interest. Accordingly, the Commission waives the 30-day operative delay and designates the proposed rule change operative upon filing.³³

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 (<http://www.sec.gov/rules/sro.shtml>); or
- Send an email to rule-comments@sec.gov. Please include File Number SR-GEMX-2019-15 on the subject line.

Paper Comments

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-GEMX-2019-15. 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 (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be

³³ For purposes only of waiving the 30-day operative delay, the Commission also has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

available for website viewing and printing in the Commission's Public Reference Room, 100 F Street NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-GEMX-2019-15 and should be submitted on or before November 25, 2019.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.³⁴

Jill M. Peterson,

Assistant Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-87414; File No. SR-MRX-2019-22]

Self-Regulatory Organizations; Nasdaq MRX, LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Amend Options 3, Section 17, the Exchange's Kill Switch Risk Protection

October 29, 2019.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ and Rule 19b-4 thereunder,² notice is hereby given that on October 15, 2019, Nasdaq MRX, LLC ("MRX" or "Exchange") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I and II below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

The Exchange proposes to amend Options 3, Section 17, which sets forth the Exchange's optional Kill Switch risk protection.

³⁴ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

The text of the proposed rule change is available on the Exchange's website at <http://nasdaqmrx.cchwallstreet.com/>, at the principal office of the Exchange, and at the Commission's Public Reference Room.

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

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it 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 expand the optional Kill Switch risk protection the Exchange offers to Members today to allow cancellation and restriction of quotes, orders, or both. This new functionality will be offered alongside the existing port Kill Switch (as defined below), which currently allows Members to cancel and restrict only their orders. The Exchange also proposes to amend its rules to add more detail on how the port Kill Switch operates today. As discussed further below, no functional changes to the existing port Kill Switch functionality are being contemplated by this rule change; rather, the Exchange is providing more detailed information on the port Kill Switch so that the rule is more aligned with the current operation of existing functionality.

Port Kill Switch

Today, Kill Switch provides Members with a risk management tool for immediate control of their order activity. Specifically as set forth in Options 3, Section 17(a), Kill Switch enables Members to initiate a message³ to the System⁴ to promptly cancel orders and restrict entry of new orders

³ Today, Members are able to send a message to the Exchange to initiate the Kill Switch. A Kill Switch message may be sent through the Exchange order entry ports FIX or OTTO (hereinafter, referred to as "port Kill Switch").

⁴ 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)(48).

until re-entry has been enabled. Members may submit a request to the System to cancel orders for that Member. The System will send an automated message to the Member when a Kill Switch request has been processed by the Exchange's System.

If orders are cancelled by the Member utilizing the Kill Switch, it will result in the removal of all orders for the Member.⁵ The Member is unable to enter additional orders until the Member has made a verbal request to the Exchange and Exchange staff has set a re-entry indicator to enable re-entry.⁶ Once enabled for re-entry, the System will send a Re-entry Notification Message to the Member. The applicable Clearing Member for that Member will also be notified of the re-entry into the System after orders are cancelled as a result of the Kill Switch, provided the Clearing Member has requested to receive such notification.

The Exchange now proposes to provide additional detail regarding the port Kill Switch described above to better align the Rule with existing system functionality. The Exchange proposes to clarify that Members may submit a Kill Switch request to the System through FIX or OTTO for the Member's requested identifier (*i.e.*, badge⁷ or mnemonic⁸) ("Identifier") on a user level (*i.e.*, by individual badge or mnemonic).⁹ As such, Members using the port Kill Switch today may elect to cancel all existing orders and restrict

⁵ Members may not cancel orders by symbol. Of note, Opening Sweeps are also cancelled. An Opening Sweep is a Market Maker order submitted for execution against eligible interest in the system during the Opening Process pursuant to Options 3, Section 8(b)(1). *See* Options 3, Section 7(u). Consistent with current auction functionality, PIM auction orders and responses are not cancelled. PIM is the Exchange's price improvement mechanism. *See* Options 3, Section 13. Other auctions orders and responses are cancelled.

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

⁷ A "badge" shall mean an account number, which may contain letters and/or numbers, assigned to Market Makers. A Market Maker account may be associated with multiple badges. *See* Options 1, Section 1(a)(4).

⁸ A "mnemonic" shall mean an acronym comprised of letters and/or numbers assigned to Electronic Access Members. An Electronic Access Member account may be associated with multiple mnemonics. *See* Options 1, Section 1(a)(22).

⁹ Using the port Kill Switch, Members are only able to cancel and restrict their order activity at the user level (*i.e.*, by individual Identifier). As discussed below, the new Kill Switch enhancement will offer Members the additional option of submitting requests at the user level or group level—in other words, by individual Identifier or for a group of Identifiers. *See, e.g.*, Nasdaq Options Market ("NOM") Chapter VI, Sec. 6(d), which sets forth NOM's Kill Switch rule, for similar terminology related to Identifier.

entry of additional orders by individual badge/mnemonic (*i.e.*, Identifier).¹⁰

While the current rule text does not specifically provide for the ability to cancel and restrict orders by individual Identifier(s), the existing port Kill Switch functionality operates in this manner today. Accordingly, the Exchange proposes to replace the existing language in section (a)(1) with the following to make clear how the System operates today: "A Member may submit a request to the System through FIX or OTTO to cancel all existing orders and restrict entry of additional orders for the requested Identifier(s) on a user level on the Exchange."

As noted above, the Exchange is not proposing any functional modifications to the existing port Kill Switch; rather, all of the changes proposed above are to provide additional specificity as to how the port Kill Switch operates today for greater consistency between the rule text and the operation of the System. Lastly, the Exchange proposes to delete the last sentence of (a)(1), which is redundant with the re-entry provisions already set forth in the Rule.¹¹

GUI Kill Switch

The Exchange also proposes to add new functionality that would enhance the current Kill Switch risk protection for orders to apply to both orders and quotes.¹² The Exchange will provide this enhancement through a separate graphical user interface (hereinafter, "GUI Kill Switch") as an alternative way for Members to manage their trading activity.¹³ As discussed below, the new GUI Kill Switch will be functionally similar to the existing port Kill Switch, with the most notable difference being the added ability to cancel all existing quotes and block the entry of additional quotes. For instance, similar to the port Kill Switch today, Members will be able to use the GUI Kill Switch for requested Identifier(s) on the Exchange. Accordingly, Options 3, Section 17 will be amended to reflect that the Exchange will offer the

¹⁰ Thus, for example, an Electronic Access Member that is configured to trade on the Exchange in mnemonics ABCD1, ABCD2, and ABCD3 would submit a separate request for each mnemonic using the port Kill Switch, which would result in the cancellation of all existing orders and the restriction of additional orders associated with mnemonics ABCD1, ABCD2, and ABCD3 on the Exchange.

¹¹ *See* Options 3, Section 17(a)(2). As discussed below, this section will be renumbered as section (a)(3) under this proposal.

¹² As discussed more fully later in the filing, the proposed Kill Switch enhancement will also have additional features to allow Members to kill quotes and/or orders for requested Identifier(s) on either a user or group level.

¹³ The GUI Kill Switch will be available to all Members through a web-based interface.

proposed GUI Kill Switch alongside the existing port Kill Switch. In particular, paragraph (a) will provide that Kill Switch would enable Members to initiate a message to the System to promptly cancel and restrict their quote and order activity on the Exchange, as further described in the Rule. The Exchange also proposes to specify that Members may submit a Kill Switch request to the System for certain Identifier(s) on either a user or group level. Permissible groups must reside within a single Member firm.¹⁴

As discussed above, while the proposed language in section (a) on applying Kill Switch for requested Identifier(s) on the Exchange is new, these features exist today with respect to the port Kill Switch. Accordingly, the proposed changes in (a) with respect to order cancellation and restriction clarify the current manner in which the port Kill Switch operates today, and also extends the rule to encompass the proposed GUI Kill Switch.

The Exchange further proposes to describe the new GUI Kill Switch functionality in new section (a)(2).¹⁵ Specifically, the Exchange proposes to add the following: "Alternatively, a Member may submit a request to the System through a graphical user interface to cancel all existing, and restrict entry of additional, quotes and/or orders for the requested Identifier(s) on either a user or group level on the Exchange."¹⁶

The Exchange believes that the proposed enhancement to the Kill Switch will offer Members an alternative means to control their exposure, through a separate interface which is not dependent on the integrity of the member's own systems, should the member experience a failure. Because the proposed enhancement will be provided through a separate user interface instead of one of the Exchange's order entry ports, the Exchange believes it would promote transparency in its Rules to separately define these alternative methods in (a)(1) and (a)(2). As noted above, the

¹⁴ For example, a permissible group could include all badges associated with a Market Maker. Member would be able to set up these groups beforehand to include all or some of the Identifiers associated with the Member firm so that a GUI Kill Switch request could apply to this pre-defined group.

¹⁵ In light of adopting this new section, current (a)(2) will be renumbered as (a)(3).

¹⁶ Members may not cancel orders and quotes by symbol using the GUI Kill Switch, similar to how orders may not be cancelled by symbol through the port Kill Switch today. Also similar to the port Kill Switch, Opening Sweeps will be cancelled upon initiating the GUI Kill Switch. Lastly, all auction orders and responses other than PIM orders/responses will similarly be cancelled. *See supra* note 5.

proposed enhancement is similar to the existing port Kill Switch that allows Members to control their order activity but has additional optionality, most significantly the ability to cancel and restrict quotes, orders, or both. Furthermore, Members can set up the GUI Kill Switch so they are able to control their quote and/or order activity for an individual Identifier or a group of Identifiers,¹⁷ as compared to the port Kill Switch which is limited to individual Identifiers only.¹⁸

The re-entry provisions in section (a)(3) will also be amended throughout to reflect that the re-entry process after initiating the GUI Kill Switch will be identical to the current process for the port Kill Switch. Specifically, once a Member initiates either the port or GUI Kill Switch, the Member will be unable to enter additional orders, and/or quotes if pursuant to the GUI Kill Switch, for the affected Identifier(s) until the Member has made a verbal request to the Exchange and Exchange staff has set a re-entry indicator to enable re-entry.¹⁹ Lastly, the Exchange proposes to make a related change in the last sentence of section (a)(3) to delete the reference to order cancellation, and also provide that the “applicable Clearing Member will be notified of *such* re-entry . . .” for better readability.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act²⁰ in general, and furthers the objectives of Section 6(b)(5) of the Act²¹ in particular, in that it is designed to promote just and equitable principles of

¹⁷ As noted above, NOM Chapter VI, Sec. 6(d) has similar terminology in its Kill Switch rule. *See supra* note 9. Furthermore, the proposed GUI Kill Switch is functionally similar to NOM’s Kill Switch in that both are offered through a separate graphical user interface and have similar features, including the ability for members to apply Kill Switch for certain identifiers on a user or group level.

¹⁸ As an example of the GUI Kill Switch, assume a Market Maker is configured to trade on the Exchange in badges 123A, 123B, and 123C, with pre-defined settings that include all three badges as one group to which the GUI Kill Switch will apply. The Market Maker could then submit a GUI Kill Switch request to restrict their quote activity for the pre-defined group, resulting in the cancellation of all existing quotes and restriction of additional quotes associated with badges 123A, 123B, and 123C on the Exchange. The same Market Maker could instead opt to submit a GUI Kill Switch request for only badge 123A to cancel all existing quotes and restrict entry of additional quotes for that individual badge. The proposed functionality therefore allows the Member to have more optionality as compared to the existing mechanism.

¹⁹ Identical to re-entry for the port Kill Switch, Members must directly and verbally contact the Exchange to request the re-set if they initiate the GUI Kill Switch. *See supra* note 6 with accompanying text.

²⁰ 15 U.S.C. 78f(b).

²¹ 15 U.S.C. 78f(b)(5).

trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general to protect investors and the public interest, by enhancing the risk protections available to Members. The proposal promotes policy goals of the Commission which has highlighted the need for execution venues, exchange and non-exchange alike, to enhance risk protection tools and other mechanisms to decrease risk and increase stability.²²

The proposed GUI Kill Switch, similar to the existing port Kill Switch, is designed to protect Members in the event the Member encounters a situation, like a systems issue, for which they would need to withdraw temporarily from the market. The individual Member firm benefits of enhanced risk protections, including Kill Switch mechanisms, flow downstream to counter-parties both at the Exchange and at other options exchanges, thereby increasing systemic protections as well. Additionally, because the Exchange will continue offer this optional risk tool to all Members, the Exchange believes that it will encourage liquidity generally and remove impediments to and perfect the mechanism of a free and open market and a national market system, and protect investors and the public interest. To the extent the Exchange’s proposal provides Members with greater control over their quotes and orders, and allows them to remove quotes and cancel orders in an appropriate manner, then the proposal may encourage Members to provide liquidity on MRX and thus contribute to fair and orderly markets in a manner that protects the public interest and protects investors.

As noted above, this optional risk tool will continue to be offered to all Members. The Exchange further represents that its proposal will continue to operate consistently with the firm quote obligations of a broker-dealer pursuant to Rule 602 of Regulation NMS and that the functionality is not mandatory. Specifically, any interest that is executable against a Member’s orders or quotes that are received²³ by the Exchange, prior to the time the Kill

²² *See, e.g.*, Securities Exchange Act Release Nos. 69077 (March 8, 2013), 78 FR 18083 (March 25, 2013) (Proposing Release) at 18090–91; and 73639 (November 19, 2014), 79 FR 72251 (December 5, 2014) (Adopting Release) at 72253 (highlighting that quality standards, testing and improved error response mechanisms are among the issues needing very thoughtful and focused attention in today’s securities markets).

²³ The time of receipt for an order or quote is the time such message is processed by the Exchange’s order book.

Switch is processed by the System, will automatically execute at the price up to the Member’s size. The Kill Switch message will be accepted by the System in the order of receipt in the queue and will be processed in that order so that interest that is already accepted into the System will be processed prior to the Kill Switch message. Messages sent to the System by the Kill Switch are processed in the order they are received by the matching engine, through the same queuing mechanism that a quote or order message is processed. The Exchange also notes that the latency profile of the GUI Kill Switch is comparable to the latency profile of killing interest through a message based Kill Switch from a Member’s order entry port.

A Market Maker’s obligation to provide two-sided quotes on a daily basis is not diminished by the removal of such quotes and/or orders by utilizing the Kill Switch. Market Makers that utilize Kill Switch will not be relieved of the obligation to provide intra-day quotes pursuant to Options 2, Section 5(e), nor will it prohibit the Exchange from taking disciplinary action against a Market Maker for failing to meet its quoting obligations each trading day.

The proposed changes will also permit Clearing Members that clear transactions on a Member’s behalf pursuant to a Letter of Guarantee²⁴ to receive information regarding the Member’s re-entry into the System after the Member initiates the GUI Kill Switch, and makes the verbal request to the Exchange for re-entry pursuant to Options 3, Section 17(a). As is the case today with the port Kill Switch, because such Clearing Members guarantee all transactions on behalf of that Member and therefore bear the risk associated with those transactions, the Exchange believes that it is appropriate for the Clearing Member to receive information regarding re-entry into the System after quotes and/or orders are cancelled as a result of the GUI Kill Switch, should the Clearing Member request such notification. This information may help provide Clearing Members with greater control and flexibility in managing the risk associated with the Member’s activity.

Lastly, the Exchange believes that the proposed changes to add greater specificity with respect to how the port Kill Switch currently operates (*i.e.*, that a Kill Switch request sent through FIX or OTTO will result in the cancellation

²⁴ A Letter of Guarantee obligates the issuing Clearing Member to accept financial responsibilities for all Exchange transactions made by the guaranteed Member. *See* Options 6, Section 4(a) and (b).

of all existing orders, and restrict entry of additional orders for the requested Identifier(s) on a user level on the Exchange) will promote greater transparency around the existing Kill Switch, and will serve to better align the Exchange's rules with current System functionality, to the benefit of investors and the public interest.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. The proposal does not impose an undue burden on intramarket competition because all Members may avail themselves of the Kill Switch. The Kill Switch risk protection is optional. The proposed rule change to expand this risk protection to encompass quote cancellation and restriction will further protect Members in the event the Member is suffering from a systems issue or from the occurrence of unusual or unexpected market activity that would require them to withdraw from the market in order to protect investors. The Exchange notes other exchanges, including the Exchange's affiliated options markets, similarly offer Kill Switch protections for both quotes and orders.²⁵

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

No written comments were either solicited or received.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Because the foregoing proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A)(iii) of the Act²⁶ and

²⁵ The proposed GUI Kill Switch protections are similar to those available on its affiliated options markets Nasdaq BX ("BX"), NOM, and Nasdaq Phlx ("Phlx"). See BX Chapter VI, Section 6(d); NOM Chapter VI, Section 6(d); and Phlx Rule 1019(b). See also CBOE Exchange Rule 5.34(c)(7) and BOX Options Exchange Rule 7280(b) for other options exchanges that offer Kill Switch protections for quotes and orders.

²⁶ 15 U.S.C. 78s(b)(3)(A)(iii).

subparagraph (f)(6) of Rule 19b-4 thereunder.²⁷

A proposed rule change filed under Rule 19b-4(f)(6)²⁸ normally does not become operative prior to 30 days after the date of the filing. However, pursuant to Rule 19b-4(f)(6)(iii),²⁹ the Commission may designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange has requested that the Commission waive the 30-day operative delay. According to the Exchange, waiver of the operative delay is consistent with the protection of investors and the public interest because it would provide Members with greater control over their quotes and orders, which may reduce disruptive trading events to the benefit of all investors and the public interest. The Exchange notes that similar kill switch protections are available on other options exchanges,³⁰ and as such, the proposed rule change does not raise any new, unique or substantive issues. The Commission believes that waiving the 30-day operative delay is consistent with the protection of investors and the public interest. Accordingly, the Commission waives the 30-day operative delay and designates the proposed rule change operative upon filing.³¹

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.

²⁷ 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6)(iii) requires a self-regulatory organization to give the Commission written notice of its intent to file the proposed rule change, along with a brief description and text of 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 requested that the Commission waive the pre-filing requirement. The Commission hereby waives that requirement.

²⁸ 17 CFR 240.19b-4(f)(6).

²⁹ 17 CFR 240.19b-4(f)(6)(iii).

³⁰ See *supra* notes 25.

³¹ For purposes only of waiving the 30-day operative delay, the Commission also has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic Comments

- Use the Commission's internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an email to rule-comments@sec.gov. Please include File Number SR-MRX-2019-22 on the subject line.

Paper Comments

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street NE, Washington, DC 20549-1090. All submissions should refer to File Number SR-MRX-2019-22. 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 (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-MRX-2019-22 and should be submitted on or before November 25, 2019.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.³²

Jill M. Peterson,

Assistant Secretary.

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³² 17 CFR 200.30-3(a)(12).