SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–81891; File No. SR–BatsEDGX–2017–29]

Self-Regulatory Organizations; Bats EDGX Exchange, Inc.; Notice of Filing of Amendment No. 1 and Order Granting Accelerated Approval of a Proposed Rule Change, as Modified by Amendment No. 1, To Adopt New Rules Governing the Trading of Complex Orders on the Exchange

October 17, 2017.

I. Introduction

On June 30, 2017, Bats EDGX Exchange, Inc. (''EDGX'' or the ''Exchange'') filed with the Securities and Exchange Commission (''Commission''), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (''Act'') [1] and Rule 19b–4 thereunder,[2] a proposed rule change to adopt rules to govern the trading of complex orders on EDGX. The proposed rule change was published for comment in the **Federal Register** on July 19, 2017.[3] The Commission received no comments regarding the proposal. On August 23, 2017, pursuant to Section 19(b)(2) of the Act,[4] the Commission extended the time for Commission action on the proposal until October 17, 2017.[5] EDGX filed Amendment No. 1 to the proposal on October 16, 2017.[6] The Commission is publishing this notice to solicit comment on Amendment No. 1 to the proposed rule change from interested persons and is approving the proposed rule change, as modified by Amendment No. 1, on an accelerated basis.

II. Description of the Proposed Rule Change, as Modified by Amendment No. 1

A. Definitions

New EDGX Rule 21.20 establishes the following defined terms that will apply to the trading of complex orders: ABBO,[7] BBO,[8] Complex Order Auction (''COA''),[9] COA-Eligible Order,[10] Complex Order,[11] Complex Order Book (''COB''),[12] Complex Strategy,[13] NBBO,[14] Regular Trading,[15] Simple Book,[16] Synthetic Best Bid or Offer (''SBBO''),[17] and Synthetic National Best Bid or Offer (''SNBBO'').[18]

B. Order Types and Times in Force

EDGX proposes to amend EDGX Rule 21.1 to add two new Times in Force that are not currently available on EDGX, Good Til Cancelled (''GTC'') [19] and At the Open (''OPG'') orders.[20] Both GTC and OPG ultimately will be available on both the Simple Book and on the COB.[21] EDGX notes that other exchanges offer GTC orders and orders that, like OPG orders, participate only in the exchange's opening process.[22] Complex orders also may be submitted with a Time in Force of GTD, IOC, or DAY.[23]

EDGX proposes to allow Members to submit limit and market complex orders,[24] COA-eligible and Do Not COA Orders,[25] and Complex Orders with Match Trade Prevention Modifiers.[26]

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

[2] 17 CFR 240.19b–4.

[3] *See* Securities Exchange Act Release No. 81137 (July 13, 2017), 82 FR 33170 (''Notice'').

[4] 15 U.S.C. 78s(b)(2).

[5] *See* Securities Exchange Act Release No. 81468 (August 23, 2017), 82 FR 41079 (August 29, 2017).

[6] Amendment No. 1 revises the proposal to: (1) Limit the availability of Complex Only orders to EDGX Market Makers: (2) Limit to 30 seconds or less the configurable time the Exchange would wait in the event the System cannot determine an equilibrium price or a permissible equilibrium price prior to opening a strategy; (3) provide additional justification and rational for giving first priority to Priority Customer Orders on the Simple Book in the allocation of interest at the conclusion of a COA; (4) expand the discussion and justification for the proposed market data feeds; (5) provide additional clarification of the provisions addressing trading halts, Legging, and the and complex order opening process; (6) provide an example relating to the operation of concurrent COAs, and make other minor structural, technical, and clarifying amendments to improve the understandability of the rules. To promote transparency of its proposed amendment, when EDGX filed Amendment No. 1 with the Commission, it also submitted Amendment No. 1 as a comment letter to the file, which the Commission posted on its Web site and placed in the public comment file for SR–BatsEDGX–2017–29. The Exchange also posted a copy of its Amendment No. 1 on its Web site (available at: *http://cdn.batstrading.com/resources/regulation/rule_filings/pending/2017/SR-BatsEDGX-2017-29-Amendment-No-1.pdf*) when it filed Amendment No. 1 with the Commission.

[7] EDGX Rule 21.20(a)(1) defines the term ABBO to mean the best bid(s) or offer(s) disseminated by other Eligible Exchanges (as defined in Rule 27.1(a)(7)) and calculated by the Exchange based on market information received by the Exchange from OPRA.

[8] EDGX Rule 21.20(a)(2) defines the term BBO to mean the best bid or offer on the Simple Book on the Exchange.

[9] EDGX Rule 21.20(a)(3) defines the Complex Order Auction (''COA'') as an auction of a complex order as set forth in EDGX Rule 21.20(d).

[10] EDGX Rule 21.20(a)(4) defines a COA-eligible order as a complex order designated to be placed into a Complex Order Auction upon receipt that meets the requirements of EDGX Rule 21.20(d)(1).

[11] EDGX Rule 21.20(a)(5) defines a complex order as any order involving the concurrent purchase and/or sale of two or more different options in the same underlying security (the ''legs'' or ''components'' of the complex order), 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 purposes of executing a particular investment strategy. Only those complex orders in the classes designated by the Exchange and communicated to Members with no more than the applicable number of legs, as determined by the Exchange on a class-by-class basis and communicated to Members, are eligible for processing. The Exchange will communicate such information to Members by making publicly available specifications and/or publishing a Regulatory Circular. *See* Notice, 82 FR at 33171.

[12] EDGX Rule 21.20(a)(6) defines the Complex Order Book (''COB'') as the Exchange's electronic book of complex orders.

[13] EDGX Rule 21.20(a)(7) defines the term complex strategy to mean a particular combination of components and their ratios to one another. New complex strategies can be created as the result of the receipt of a complex instrument creation request or complex order for a complex strategy that is not currently in the System. The Exchange may limit the number of new complex strategies that may be in the System at a particular time and will communicate any such limitation to Members via specifications and/or Regulatory Circular. EDGX notes that the two methods for creating a new complex strategy will be equally available to all EDGX Members. *See* Notice, 82 FR at 33171.

[14] EDGX Rule 21.20(a)(8) defines the term NBBO to mean the national best bid or offer as calculated by the Exchange based on market information received by the Exchange from OPRA.

[15] EDGX Rule 21.20(a)(9) defines the term regular trading to mean the trading of complex orders that occurs during a trading session other than: (i) At the opening or re-opening of the COB for trading following a halt; or (ii) during the COA process (as described in EDGX Rule 21.20(d)).

[16] EDG Rule 21.20(a)(10) defines the Simple Book as the Exchange's regular electronic book of orders.

[17] EDGX Rule 21.20(a)(11) states that the Synthetic Best Bid or Offer (''SBBO'') is calculated using the best displayed price for each component of a complex strategy from the Simple Book.

[18] EDGX Rule 21.20(a)(12) states that the Synthetic National Best Bid or Offer (''SNBBO'') is calculated using the NBBO for each component of a complex strategy to establish the best net bid and offer for a complex strategy. The NBBO is the national best bid or offer as calculated by the Exchange based on market information received by the Exchange from OPRA. *See* EDGX Rule 21.20(a)(8).

[19] *See* Notice, 82 FR at 33182. GTC means, for an order so designated, that if after entry into the System, the order is not fully executed, the order (or the unexecuted portion thereof) shall remain available for potential display and/or execution unless cancelled by the entering party, or until the option expires, whichever comes first. *See* EDGX Rule 21.1(f)(4).

[20] OPG means, for an order so designated, an order that shall only participate in the opening process on the Exchange. An OPG order not executed in the opening process will be cancelled. *See* EDGX Rule 21.1(f)(6).

[21] *See* Notice, 82 FR at 33182, and EDGX Rules 21.1(f)(4) and (f)(6), and 21.20(b).

[22] *See* Notice, 82 FR at 33184–33185 (citing C2 Rules 6.10(e)(2) and 610(c)(7) and ISE Rules 715(o) and 715(r)).

[23] *See* EDGX Rule 21.20(b).

[24] *See id.*

[25] Complex orders that are marked as IOC will, by default, not initiate a COA upon arrival, but a Member that submits an order marked IOC may elect to opt-in to initiating a COA and any quantity of the IOC order not executed will be cancelled at the end of the COA. All other Times in Force will by default initiate a COA, but a Member may elect to opt-out of initiating a COA. Orders with instructions to (or which default to) initiate a COA are referred to as COA-eligible orders, subject to the additional eligibility requirements set forth in Rule 21.20, while orders with instructions not to (or which default not to) initiate a COA are referred to as do-not-COA orders. *See* EDGX Rule 21.20(b)(2).

[26] EDGX's System will support, when trading against other complex orders on the COB, complex orders with the following MTP Modifiers defined in

EDGX Market Makers [27] also will be able to submit Complex Only orders.[28] EDGX notes that limiting Complex Only orders to EDGX Market Makers is equivalent to approved functionality on MIAX and will encourage use by participants that are most likely to provide liquidity to EDGX on the COB.[29]

EDGX will communicate to Members via specifications and/or Regulatory Circular when the complex order types, among those listed in EDGX Rule 21.20(b), are available for use on EDGX.[30] EDGX expects to launch the COB with all of the proposed order types, except for orders with a Time in Force of GTC.[31]

C. Trading of Complex Orders

EDGX will determine and communicate to Members via specifications and/or Regulatory Circular which complex order origin codes (*i.e.,* non-broker-dealer customers, broker-dealers that are not Market Makers on an options exchange, and/or Market Makers on an options exchange) are eligible for entry onto the COB.[32] Complex orders will be subject to all other EDGX rules that pertain to orders submitted to EDGX generally, unless otherwise provided in Rule 21.20.[33]

1. Minimum Increments and Trade Prices

Under the proposed rules, bids and offers on complex orders may be expressed in $0.01 increments, and the component(s) of a complex order may be executed in $0.01 increments, regardless of the minimum increments otherwise applicable to individual components of the complex order.[34] If any component of a complex strategy would be executed at a price that is equal to a Priority Customer bid or offer on the Simple Book,[35] at least one other component of the complex strategy must trade at a price that is better than the corresponding BBO.[36] A complex order will not be executed at a net price that would cause any component of the complex strategy to be executed: (i) At a price of zero; or (ii) ahead of a Priority Customer Order on the Simple Book without improving the BBO of at least one component of the complex strategy.[37]

2. Execution of Complex Orders

a. Opening and Reopening

The Opening Process for the COB (''Opening Process'') will operate at the beginning of each trading session and upon re-opening after a halt.[38] Members may submit complex orders to EDGX as set forth in EDGX Rule 21.6(c).[39] Any complex orders designated for the Opening Process for the COB will be queued until 9:30 a.m., at which time they will be eligible to be executed in the Opening Process for the COB.[40] Any complex orders designated for a re-opening following a halt will be queued until the halt has ended, at which time they will be eligible to be executed in the Opening Process for the COB.[41] Beginning at 7:30 a.m. and updated every five seconds thereafter, EDGX will disseminate through the data feeds described in EDGX Rule 21.15 indicative prices and order imbalance information associated with the Opening Process for the COB while complex orders are queued prior to 9:30 a.m. or, in the case of a halt, prior to re-opening.[42]

Complex orders do not participate in the Opening Process for the individual option series conducted pursuant to EDGX Rule 21.7.[43] The Opening Process will commence when all legs of the complex strategy are open on the Simple Book.[44] If there are complex orders in a strategy that have been queued but none that can match, the System [45] will open that strategy without a trade and transition such orders to the COB, subject to Legging into the Simple Book, as described in EDGX Rule 21.20(c)(2)(F).[46]

If there are complex orders that can match, the System will determine the equilibrium price where the most complex orders can trade.[47] When an equilibrium price is established at or within the SNBBO,[48] EDGX will execute matching complex orders in price/time priority at the equilibrium price (*i.e.,* orders better than the equilibrium price are executed first in price/time priority and thereafter orders at the equilibrium price are executed in time priority).[49] Any remaining complex order or the remaining portion thereof will be entered into the COB, subject to the Member's instructions.[50] If, after a configurable time period established by EDGX that may not exceed thirty seconds, the System cannot match orders because it cannot determine an equilibrium price (*i.e.,* all queued orders are Market Orders) or a permissible equilibrium price (*i.e.,* within the SNBBO that also satisfies proposed EDGX Rule 21.20(c)(1)(C)), the System will open the strategy without a trade and transition such orders to the COB.[51]

Rule 21.1(g): MTP Cancel Newest, MTP Cancel Oldest and MTP Cancel Both. When Legging into the Simple Book, a complex order with any MTP Modifier will be cancelled if it would execute against any leg on the Simple Book that includes an order with an MTP Modifier and the same Unique Identifier as the complex order. *See* EDGX Rule 21.20(b)(3).

[27] A Market Maker is an Options Member that is registered with the Exchange for the purpose of making markets in options contracts traded on the Exchange and that is vested with the rights and responsibilities specified in Chapter XXII of EDGX's Rules. *See* EDGX Rule 16.1(a)(37).

[28] *See* Amendment No. 1. Complex Only Orders allow an EDGX Market Maker to designate a complex order with a time in force of DAY or IOC to only check against the COB. Unless designated as Complex Only, and for all other Times in Force and complex order origin codes, a complex order will check against both the COB and the Simple Book. *See* EDGX Rule 21.20(b)(1) and Amendment No. 1.

[29] *See* Amendment No. 1. EDGX believes that Market Makers may use Complex Only orders as part of their strategy to maintain additional control over their executions, in connection with their attempt to provide and not remove liquidity, or in connection with applicable fees for executions. *See id.*

[30] *See* Amendment No. 1 and EDGX Rule 21.20(b).

[31] *See* Amendment No. 1.

[32] *See* EDGX Rule 21.20(c).

[33] *See id.*

[34] *See* EDGX Rule 21.20(c)(l).

[35] The Simple Book is EDGX's regular electronic book of orders. *See* EDGX Rule 21.20(a)(10).

[36] *See* EDGX Rule 21.20(c)(l)(B). The BBO is the best bid or offer on the Simple Book on EDGX. *See* EDGX Rule 21.20(a)(2).

[37] *See* EDGX Rule 21.20(c)(1)(C).

[38] *See* EDGX Rule 21.20(c)(2)(A).

[39] *See id.* and Amendment No. 1.

[40] *See* EDGX Rule 21.20(c)(2)(A).

[41] *See id.*

[42] *See id.* and Amendment No. 1.

[43] *See* EDGX Rule 21.20(c)(2)(A).

[44] *See id.*

[45] The ''System'' is the electronic communications and trading facility designated by EDGX's Board of Directors through which securities orders of Users are consolidated for ranking, execution and, when applicable, routing away. *See* EDGX Rule 1.5(cc).

[46] *See* EDGX Rule 21.20(c)(2)(B) and Amendment No. 1.

[47] *See* EDGX Rule 21.20(c)(2)(C). EDGX Rule 21.20(c)(2)(C) further provides that if there are multiple price levels that would result in the same number of strategies executed, the System will choose the price that would result in the smallest remaining imbalance. If there are multiple price levels that would result in the same number of strategies executed and would leave the same ''smallest'' imbalance, the System will choose the price that is closest to the Volume Based Tie Breaker (''VBTB'') as the opening price. For purposes of Rule 21.20(c)(2)(C), the VBTB is the midpoint of the SNBBO. If there is no valid VBTB available, the System will use the midpoint of the highest and lowest potential opening prices as the opening price. If the midpoint price would result in an invalid increment, the System will round up to the nearest permissible increment and use that as the opening price. If executing at the equilibrium price would require printing at the same price as a Priority Customer on any leg in the Simple Book, the System will adjust the equilibrium price to a price that is better than the corresponding bid or offer in the marketplace by at least a $0.01 increment. *See id.*

[48] *See* footnote 18, *supra.*

[49] *See* EDGX Rule 21.20(c)(2)(D) and Amendment No. 1.

[50] *See* EDGX Rule 21.20(c)(2)(D).

[51] *See* EDGX Rule 21.20(c)(2)(D) and Amendment No. 1. EDGX believes that the proposed configurable time period is important because the

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All complex orders received by EDGX prior to EDGX opening the strategy, including complex orders received during any delay that EDGX applies pursuant to EDGX Rule 21.20(c)(2)(D), will be eligible to be matched in the Opening Process.[52]

b. Pricing

Incoming complex orders will not be executed at prices inferior to the SBBO or at a price that is equal to the SBBO when there is a Priority Customer Order[53] at the best SBBO price.[54] Complex orders will never be executed at a price that is outside of the individual component prices on the Simple Book, and the net price of a complex order executed against another complex order on the COB will never be inferior to the price that would be available if the complex order legged into the Simple Book.[55]

Incoming complex orders that cannot be executed because the executions would be priced (i) outside of the SBBO, or (ii) equal to the SBBO due to a Priority Customer Order at the best SBBO price, will be cancelled if such complex orders are not eligible to be placed on the COB.[56] Complex orders will be executed without consideration of any prices for the complex strategy that might be available on other exchanges trading the same complex strategy provided, however, that such complex order price may be subject to the Drill-Through Price Protection set forth in Interpretation and Policy .04(f) of EDGX Rule 21.20.[57]

3. Priority

A complex order may be executed at a net credit or debit price against another complex order without giving priority to bids or offers established in the marketplace that are no better than the bids or offers comprising such net credit or debit; provided, however, that if any of the bids or offers established in the marketplace consist of a Priority Customer Order, at least one component of the complex strategy must trade at a price that is better than the corresponding BBO by at least a $0.01 increment.[58]

Complex orders will be automatically executed against bids and offers on the COB in price priority, and bids and offers at the same price on the COB will be executed in time priority.[59] Complex orders that leg into the Simple Book will be executed in accordance with EDGX Rule 21.8.[60] EDGX notes that a complex order on EDGX would execute first against orders on the Simple Book (except in the limited circumstances described in EDGX Rule 21.20(c)(2)(F)) if any of the bids or offers established in the simple marketplace consist of a Priority Customer Order.[61]

4. Managed Interest Process

EDGX Rule 21.20(c)(4) sets forth the managed interest process that describes how the System handles a complex order that is not immediately executed upon receipt, including how such an order is priced and re-priced on the COB.[62] The managed interest process, which is initiated when a complex order that is eligible to be placed on the COB cannot be executed against either the COB or the Simple Book at the complex order's net price, is intended to ensure that a complex order to be managed does not result in a locked or crossed market on the Exchange.[63] Once initiated, the managed interest process for complex orders will be based upon the SBBO.[64]

Under the managed interest process, a complex order that is resting on the COB and is either a complex market order, as described in EDGX Rule 21.20(c)(6), or a complex order with a limit price that locks or crosses the current opposite side SBBO when the SBBO is the best price, may be subject to the managed interest process for complex orders.[65] If the order is not a COA-eligible order, as defined in EDGX Rule 21.20(a)(4), the System will first determine if the inbound complex order can be matched against other complex orders resting on the COB at a price that is at or inside the SBBO (provided there are no Priority Customer Orders on the Simple Book at that price).[66] Second, the System will determine if the inbound complex order can be executed by Legging against individual orders resting on the Simple Book at the SBBO. A complex order subject to the managed interest process will never be executed at a price that is through the individual component prices on the Simple Book.[67] The net price of a complex order subject to the managed interest process that is executed against another complex order on the COB will never be inferior to the price that would be available if the complex order legged into the Simple Book.[68] When the opposite side SBBO includes a Priority Customer Order, the System will book and display the booked complex order on the COB at a price (the ''book and display price'') that is $0.01 away from the current opposite side SBBO.[69]

When the opposite side SBBO does not include a Priority Customer Order and is not available for execution in the ratio of the complex order, or cannot be executed through Legging with the Simple Book, as described in EDGX Rule 21.20(c)(2)(F), the System will place the complex order on the COB and display the booked complex order at a book and display price that will lock the current opposite side SBBO (*i.e.,* because it is a price at which another complex order can trade).[70]

If the SBBO changes, the complex order's book and display price will continuously re-price to the new SBBO until: (i) The complex order has been

opening price protections are relatively restrictive (*i.e.,* based on the SNBBO) and EDGX wants to have the ability to periodically adjust the process to improve its operation. EDGX states that it will adjust the process to include the amount of delay that the Exchange believes will allow sufficient opportunity to have Opening Process executions while also transitioning to regular trading as quickly as possible. The Exchange believes that limiting this time period to thirty seconds or less will ensure that the COB opens promptly and efficiently but that the Exchange also allows enough time for the individual leg markets across all options exchanges, including the Exchange, to open and stabilize. EDGX notes that, although not configurable, in an analogous opening process for its equities market (set forth in EDGX Rule 11.7(d)), when a security cannot be opened through such process based on orders received and market conditions, the Exchange waits fifteen minutes before transitioning such orders to its order book. *See* Amendment No. 1.

[52] *See* EDGX Rule 21.20(c)(2)(D) and Amendment No. 1.

[53] A ''Priority Customer'' is any person or entity that is not: (A) A broker or dealer in securities; or (B) a Professional, and a ''Priority Customer Order'' is an order for the account of a Priority Customer. *See* EDGX Rule 16.1(a)(45). A ''Professional'' is any person or entity that: (A) Is not a broker or dealer in securities; and (B) places more than 390 orders in listed options per day on average during a calendar month for its own beneficial account(s). *See* EDGX Rule 16.1(a)(46).

[54] *See* EDGX Rule 21.20(c)(2)(E).

[55] *See id.*

[56] *See id.*

[57] *See* Section II.G, *infra,* for a discussion of the Drill-Through Price Protection feature.

[58] *See* EDGX Rule 21.20(c)(3)(A). EDGX notes that other options exchanges have adopted similar rules. *See* Notice, 82 FR at 33175, n.34.

[59] *See* EDGX Rule 21.20(c)(3)(B).

[60] *See id.*

[61] *See* Notice, 82 FR at 33184.

[62] Complex orders will not be routed outside of EDGX regardless of the prices displayed by away markets. *See* EDGX Rule 21.20(c)(4).

[63] *See* Notice, 82 FR at 33175.

[64] *See* EDGX Rule 21.20(c)(4). A complex order for which the Drill-Through Price Protection is engaged will be managed to the Drill-Through Price, as described in EDGX Rule 21.20, Interpretations and Policy .04(f). *See* Notice, 82 FR at 33175, n.36.

[65] *See* EDGX Rule 21.20(c)(4)(A).

[66] *See id.*

[67] *See id.*

[68] *See id.*

[69] *See id.* For an example of the complex order managed interest process when the SBBO includes Priority Customer Interest, see Notice, 82 FR at 33176.

[70] *See* EDGX Rule 21.20(c)(4)(A) and Notice, 82 FR at 33176. For an example of the complex order managed interest process when the ratio to allow Legging does not exist and there is no Priority Customer Interest at the SBBO, see Notice, 82 FR at 33176.

executed in its entirety; (ii) if not executed, the complex order's book and display price has reached its limit price or, in the case of a complex market order, the new SBBO, subject to any applicable price protections; (iii) the complex order has been partially executed and the remainder of the order's book and display price has reached its limit price or, in the case of a complex market order, the new SBBO, subject to any applicable price protections; or (iv) the complex order or any remaining portion of the complex order is cancelled.[71] If EDGX receives a new complex order for the complex strategy on the opposite side of the market from the managed complex order that can be executed, the System will immediately execute the remaining contracts from the managed complex order to the extent possible at the complex order's current book and display price.[72] If unexecuted contracts remain from the complex order on the COB, the complex order's size will be revised and disseminated to reflect the complex order's remaining contracts at its current managed book and display price.[73]

5. Evaluation Process

EDGX Rule 21.20(c)(5) describes how and when the System determines to execute or otherwise handle complex orders in the System.[74] EDGX notes that the System will evaluate complex orders initially once all components of the complex strategy are open, upon receipt as set forth in EDGX Rule 21.20(c)(5)(A), and continually, as set forth in EDGX Rule 21.20(c)(5)(B).[75] EDGX Rule 21.20(c)(5)(C) states that if the System determines that a complex order is COA-eligible, the order will be submitted into the COA process described in EDGX Rule 21.20(d).[76] EDGX states that the purpose of the evaluation process for complex orders is to determine (i) their eligibility to initiate, or to participate in, a COA; (ii) their eligibility to participate in the managed interest process; (iii) their eligibility for full or partial execution against a complex order resting on the COB or through the Legging into the Simple Book; (iv) whether the complex order should be cancelled; and (v) whether the complex order or any remaining portion thereof should be placed or remain on the COB.[77] EDGX states that the continual and event-triggered evaluation process ensures that the System is monitoring and assessing the COB for incoming complex orders, and changes in market conditions or events that cause complex orders to re-price and/or execute, and conditions or events that result in the cancellation of complex orders on the COB.[78]

6. Complex Market Orders

EDGX Rule 21.20(c)6) describes the handling of complex market orders. Complex orders may be submitted as market orders and may be designated as COA-eligible.[79] Complex market orders designated as COA-eligible may initiate a COA upon arrival.[80] Complex market orders not designated as COA-eligible will trade with any contra-side complex orders, or against the individual legs, up to and including the SBBO, and if not fully executed due to applicable price protection may be posted to the COB, subject to the managed interest process and the evaluation process.[81]

D. Legging

EDGX Rule 21.20(c)(2)(F) describes the Legging process through which complex orders, under certain circumstances, are executed against the individual components of a complex strategy on the Simple Book.[82] EDGX Rule 21.20(c)(2)(F) provides that complex orders up to a maximum number of legs (determined by the Exchange on a class-by-class basis as either two, three, or four legs and communicated to Members via specifications and/or Regulatory Circular) may be automatically executed against bids and offers on the Simple Book for the individual legs of the complex order (''Legging''), provided the complex order can be executed in full or in a permissible ratio by such bids and offers.[83] 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 may only trade against other complex orders on the COB and will not be permitted to leg into the Simple Book.[84] Notwithstanding the foregoing, all two leg COA-eligible Customer complex orders will be allowed to leg into the Simple Book without restriction.[85] Complex orders with three or four option legs where all legs are buying or all legs are selling may only trade against other complex orders on the COB and will not leg into the Simple Book, regardless of whether the option leg is a call or a put.[86]

E. COA Process

EDGX Rule 21.20(d) describes the COA process. All option classes will be eligible to participate in a COA.[87] Upon evaluation, as set forth in EDGX Rule 21.20(c)(5), EDGX may determine to automatically submit a COA-eligible order into a COA.[88]

1. Eligibility and Initiation

A ''COA-eligible order'' is a complex order that, as determined by the Exchange, is eligible to initiate a COA based upon the Member's instructions, the order's marketability (*i.e.,* if the price of such order is equal to or better than the current SBBO, subject to

[71] *See* EDGX Rule 21.20(c)(4)(B).

[72] *See id.*

[73] *See id.*

[74] *See* Notice, 82 FR at 33176.

[75] *See id.* EDGX Rule 21.20(c)(5)(A) states that new complex orders are evaluated upon receipt to determine if they are COA eligible or (i) eligible for full or partial execution against another complex order resting on the COB; (ii) eligible for full or partial execution through Legging with the Simple Book; (iii) whether all or any remaining portion of such an order should be placed on the COB; (iv) the eligibility of such orders for the managed interest process; (v) whether such orders should be cancelled. EDGX Rule 21.20(c)(5)(B) states that the System will continue to evaluate complex orders on the COB and also will continue to evaluate (i) whether such complex orders are eligible for full or partial execution against a complex order resting on the COB; (ii) whether such complex orders are eligible for full or partial execution through Legging with the Simple Book; (iii) whether any remaining portion of a complex order should be placed on the COB; (iv) whether all or the remaining portion of a complex should be placed on the COB; and (v) whether such complex orders should be cancelled. EDGX Rule 21.20(c)(5)(B) also states that the System will continue to evaluate whether there is a trading halt affecting any component of a complex strategy and, if so, the System will handle complex orders as set forth in EDGX Rule 21.20, Interpretation and Policy .05.

[76] *See* EDGX Rule 21.20(c)(5)(C). If the System determines that a complex order is not COA-eligible, the complex order may be (i) immediately matched and executed against a complex order resting on the COB; (ii) executed against the individual components of the complex order on the Simple Book through Legging; (iii) placed on the COB and managed pursuant to the managed interest process; or (iv) cancelled by the System if the time-in-force of the complex order does not allow it to rest on the COB. *See* EDGX Rule 21.20(c)(5)(D).

[77] *See* Notice, 82 FR at 33175.

[78] *See id.*

[79] *See* EDGX Rule 21.20(c)(6).

[80] *See* EDGX Rule 21.20(c)(6)(A).

[81] *See* EDGX Rule 21.20(c)(6)(B). See Sections II.C.4 and II.C.5, *supra,* respectively, for a discussion of the managed interest process and the evaluation process.

[82] *See* Notice, 82 FR at 33174.

[83] *See* EDGX Rule 21.20(c)(2)(F).

[84] *See id.*

[85] *See id.* EDGX notes that Legging against the individual components of a complex order on the Simple Book allows complex orders to access the full liquidity of the Exchange's Simple Book, thus enhancing the possibility of executions at the best available prices on the Exchange. EDGX believes this is particularly true for Customer complex orders and, thus, does not propose to limit the ability of such orders to leg into the Simple Book (when such orders are two-legged orders). *See* Amendment No. 1.

[86] *See* EDGX Rule 21.20(c)(2)(F). EDGX notes that its restrictions on Legging are substantially similar to those in ISE Rules 722(b)(3)(ii)(A) and (B). *See* Amendment No. 1.

[87] *See* EDGX Rule 21.20(d).

[88] *See id.*

applicable restrictions when a Priority Customer Order comprises a portion of the SBBO) as determined by the Exchange, number of components, and complex order origin codes (*i.e.,* non-broker-dealer customers, broker-dealers that are not market makers on an options exchange, and/or market makers on an options exchange as determined by the Exchange).[89] Determinations by the EDGX with respect to COA eligibility will be communicated to Members via specifications and/or Regulatory Circular.[90]

To initiate a COA, a COA-eligible order must be designated as such (either affirmatively or by default)[91] and must meet the criteria described in proposed EDGX Rule 21.20, Interpretation and Policy .02.[92] Dissemination of information related to COA-eligible orders by the submitting Member to third parties will be deemed conduct inconsistent with just and equitable principles of trade, as described in EDGX Rule 3.1.[93]

2. Commencement of a COA

Upon receipt of a COA-eligible order, EDGX will send a COA auction message to all subscribers to EDGX's data feeds that deliver COA Auction messages.[94] The COA auction message will identify the COA auction ID, instrument ID (*i.e.,* the complex strategy), origin code, quantity, and side of the market of the COA-eligible order.[95] EDGX may also determine to include the price in COA auction messages, and if it does so it will announce that determination in published specifications and/or Regulatory Circular to Members.[96]

3. COA Responses

A Member with any origin code, including a Priority Customer, may submit a response to the COA auction message (a ''COA Response'') during the Response Time Interval.[97] COA Responses may be submitted in $0.01 increments and must specify the price, size, side of the market (*i.e.,* a response to a buy COA as a sell or a response to a sell COA as a buy) and COA auction ID for the COA to which the response is targeted.[98] Multiple COA Responses from the same Member may be submitted during the Response Time Interval.[99] COA Responses represent non-firm interest that can be modified or withdrawn at any time prior to the end of the Response Time Interval, though any modification to a COA Response other than a decrease of size will result in a new timestamp and a loss of priority.[100] COA Responses will not be displayed by the Exchange.[101] At the end of the Response Time Interval, COA Responses are firm (*i.e.,* guaranteed at their price and size).[102] Any COA Responses not executed in full will expire at the end of the COA.[103] Any COA Responses not executable based on the price of the COA will be cancelled immediately.[104]

4. Processing of COA-Eligible Orders

At the end of the Response Time Interval, COA-eligible orders may be executed in whole or in part against the best priced contra side interest.[105] Any unexecuted portion of a COA-eligible order remaining at the end of the Response Time Interval will be placed on the COB and ranked pursuant to EDGX Rule 21.20(c)(3) or cancelled, if IOC.[106]

The COA will terminate: (i) Upon receipt of a new non-COA-eligible order on the same side as the COA but with a better price, in which case the COA will be processed and the new order will be posted to the COB; (ii) if an order is received that would improve the SBBO on the same side as the COA in progress to a price better than the auction price, in which case the COA will be processed, the new order will be posted to the Simple Book and the SBBO will be updated; or (iii) if a Priority Customer Order is received that would join or improve the SBBO on the same side as the COA in progress to a price equal to or better than the auction price, in which case the COA will be processed, the new order will be posted to the Simple Book and the SBBO will be updated.[107] In addition, a COA will terminate immediately without trading if any individual component or underlying security of a complex strategy in the COA process is subject to a halt as described in EDGX Rule 21.20, Interpretation and Policy .05.[108]

5. COA Pricing and Allocations at the Conclusion of a COA

A complex strategy will not be executed at a net price that would cause any component of the complex strategy to be executed: (A) At a price of zero; or (B) ahead of a Priority Customer Order on the Simple Book without improving the BBO on at least one component of the complex strategy by at least $.01.[109] Orders executed in a COA will be allocated first in price priority based on their original limit price as follows: (A) Priority Customer Orders resting on the Simple Book; (B) COA Responses and unrelated orders on the COB in time priority; and (C) remaining individual orders in the Simple Book (*i.e.,* non-Priority Customer), which will be allocated pursuant to EDGX Rule 21.8.[110] EDGX believes the priority model to provide highest priority to Priority Customer Orders resting on the

[89] *See* EDGX Rule 21.20(d)(1). EDGX notes that other options exchanges have limited auction eligibility for complex orders based on order origin code (citing MIAX Rule 518(d)(1), CBOE Rule 6.53C(d)(i), and NYSE American Rule 980NY(e)(1)). *See* Notice, 82 FR at 33177.

[90] *See* EDGX Rule 21.20(d)(1).

[91] Complex orders that are marked as IOC will, by default, not initiate a COA upon arrival, but a Member that submits an order marked IOC may elect to opt-in to initiating a COA and any quantity of the IOC order not executed will be cancelled at the end of the COA. All other Times in Force will by default initiate a COA, but a Member may elect to opt-out of initiating a COA. *See* EDGX Rule 21.20(b)(2). As noted above, market orders may be designated as COA-eligible. *See* EDGX Rule 21.20(c)(6). *See also* Notice, 82 FR at 33172.

[92] EDGX Rule 21.20, Interpretation and Policy .02 provides that if a COA-eligible order is priced equal to, or improves, the SBBO and is also priced to improve other complex orders resting at the top of the COB, the complex order will be eligible to initiate a COA, provided that if any of the bids or offers on the Simple Book that comprise the SBBO consists of a Priority Customer Order, the COA will only be initiated if it will trade at a price that is better than the corresponding bid or offer by at least a $0.01 increment. EDGX believes that if a complex order is not priced equal to, or better than, the SBBO or is not priced to improve other complex orders resting at the top of the COB, it would not be reasonable to anticipate that the complex order would generate a meaningful number of COA Responses such that there would be price improvement of the complex order's limit price. Thus, EDGX believes that these criteria ensure that a COA will be conducted only when there is a reasonable and realistic chance for price improvement through the COA. *See* Notice, 82 FR at 33185.

[93] *See* EDGX Rule 21.20, Interpretation and Policy .03.

[94] *See* EDGX Rule 21.20(d)(2). EDGX notes that any Member may subscribe to EDGX's data feeds that include auction notifications. *See* Notice, 82 FR at 33814.

[95] *See* EDGX Rule 21.20(d)(2).

[96] *See id.* The price included in the COA auction message will be the limit order price, unless the COA is initiated by a complex market order, in which case such price will be the SBBO, subject to any applicable price protections. *See id.*

[97] *See* EDGX Rule 21.20(d)(4). The Response Time Interval is the period of time during which responses to the COA may be entered. The Exchange will determine the duration of the Response Time Interval, which shall not exceed 500 milliseconds, and will communicate it to Members via specifications and/or Regulatory Circular. *See* EDGX Rule 21.20(d)(3). EDGX notes that the Response Time Interval is based on MIAX Rule 518(d)(3). *See* Notice, 82 FR at 33177, n.45.

[98] *See* EDGX Rule 21.20(d)(4).

[99] *See id.*

[100] *See id.*

[101] *See id.*

[102] *See id.*

[103] *See id.*

[104] *See id.*

[105] *See* EDGX Rule 21.20(d)(5)(A).

[106] *See* EDGX Rule 21.20(d)(5)(B).

[107] *See* EDGX Rule 21.20(d)(5)(C).

[108] *See* EDGX Rule 21.20, Interpretation and Policy .05(b).

[109] *See* EDGX Rule 21.20(d)(6). For an example of pricing in a COA, see Notice, 82 FR at 33178.

[110] *See* EDGX Rule 21.20(d)(7). For examples of allocations at the conclusion of a COA, see Notice, 82 FR at 33178–79 and Amendment No. 1.

Simple Book is consistent with the long-standing policies of customer protection found throughout the Act and the rules of options exchanges, and maintains the Exchange's current practice by affording such priority.[111] EDGX notes that the current priority model for the Exchange provides first priority to Priority Customers prior to execution of any orders of other participants (''non-Customers'') pursuant to the Customer Overlay set forth in EDGX Rule 21.8(d)(1).[112] Thus, orders of non-Customers on the Simple Book are already afforded last priority as compared to Priority Customers.[113] EDGX states that because all listed options are traded on options exchanges, there is significant retail customer participation directly on exchanges.[114] In turn, because of such direct retail customer participation, EDGX states that the exchanges have taken steps to afford those retail customers—generally Priority Customers—more favorable treatment in some circumstances.[115] EDGX believes this treatment is appropriate to encourage retail participation in the market generally, and in light of the fact that Priority Customers are not necessarily immersed in the day-to-day trading of the markets and may have less understanding of how complex order books operate and interact with leg markets.[116]

6. Overlapping COAs

EDGX Rule 21.20, Interpretation and Policy .02 provides that a COA will be allowed to commence even when a COA for the same strategy is already underway.[117] EDGX represents that it has systems capacity to process multiple overlapping COAs consistent with the proposal, including systems necessary to conduct surveillance of activity occurring in such auctions.[118] EDGX states that if it does not permit overlapping COAs, a Member who wishes to submit a COA-eligible order but has its order rejected because another COA is already underway in the complex strategy must either wait for that COA to conclude and re-submit the order to the Exchange (possibly constantly resubmitting the complex order to ensure it is received by the Exchange before another COA commences) or must send the order to another options exchange that accepts complex orders.[119]

F. Market-Maker Complex Quotes

EDGX has not proposed different standards for participation by Market Makers on the COB (*i.e.,* no specific benefits or obligations).[120] Market Makers are not required to quote on the COB.[121] Complex strategies are not subject to any requirements that are applicable to Market Makers in the simple market for individual options series or classes.[122] Volume executed in complex strategies is not taken into consideration when determining whether Market Makers are meeting quoting obligations applicable to Market Makers in the simple market for individual options.[123]

G. Price and Other Protections

The proposal establishes several price and other protections for complex orders. Exchange believes that the complex order price protections will provide market participants with valuable price and order size protections to enable them to better manage their risk exposure when trading complex orders.[124] In particular, EDGX believes the price protection mechanisms will mitigate potential risks associated with market participants entering orders at clearly unintended prices and orders trading at prices that are extreme and potentially erroneous, which may likely have resulted from human or operational error.[125]

EDGX Rule 21.20, Interpretation and Policy .04 provides several price protection standards that are designed to ensure that certain types of complex strategies will not be executed outside of a preset standard minimum and/or maximum price limit.[126]

Under the Credit-to-Debit parameter in EDGX Rule 21.20, Interpretation and Policy .04(b), market orders that would be executed at a net debit price after receiving a partial execution at a net credit price will be cancelled.[127] The Debit/Credit Price Reasonability Check provisions in EDGX Rule 21.20, Interpretation and Policy .04(c) state that, to the extent a price check parameter is applicable, EDGX will not accept a complex order that is a limit order for a debit strategy with a net credit price that exceeds a pre-set buffer, a limit order for a credit strategy with a net debit price that exceeds a pre-set buffer, or a market order for a credit strategy that would be executed at a net debit price that exceeds a pre-set buffer.[128] EDGX will determine these pre-set buffer amounts and communicate them to Members via specifications and/or Regulatory Circular.[129] The System will reject or cancel back to the Member any limit order or any market order (or any remaining size after partial execution of the order) that does not satisfy the Debit/Credit Price Reasonability check.[130] The Debit/Credit Price Reasonability Check applies to auction responses in the same manner as it does to orders.[131]

The System defines a complex order as a debit or credit as follows: (A) A call butterfly spread [132] for which the

[111] *See* EDGX Rule 21.8 and Amendment No. 1.

[112] *See* Amendment No. 1. EDGX states that the Exchange currently applies the Customer Overlay to all options traded on the Exchange. *See id.*

[113] *See id.*

[114] *See id.*

[115] *See id.*

[116] *See id.*

[117] EDGX Rule 21.20, Interpretation and Policy .02 states that to the extent there is more than one COA for a specific complex strategy underway at a time, each COA will conclude sequentially based on the exact time each COA commenced, unless terminated early pursuant to EDGX Rule 21.20(d)(5)(C). At the time each COA concludes, the COA will be allocated pursuant to this Rule and will take into account all COA Responses and unrelated complex orders on the COB at the exact time of conclusion. In the event there are multiple COAs underway that are each terminated early pursuant to EDGX Rule 21.20(d)(5)(C) of this Rule, the COAs will be processed sequentially based on the order in which they commenced. Because a COA Response must specifically identify the COA for which it is targeted, and if not fully executed will be cancelled back at the conclusion of the COA, COA Responses will only be considered in the specified COA. For examples of the processing of overlapping auctions, see Notice, 82 FR at 33178–79 and Amendment No. 1.

[118] *See* Notice, 82 FR at 33177.

[119] *See id.,* 82 FR at 33186.

[120] *See id.,* 82 FR at 33179.

[121] *See* EDGX Rule 21.20, Interpretation and Policy .01.

[122] *See id.*

[123] *See id.*

[124] *See* Notice, 82 FR at 33186.

[125] *See id.*

[126] *See* Notice, 82 FR at 33180.

[127] *See* EDGX Rule 21.20, Interpretation and Policy .04(b). This functionality is similar to the price protections that are currently operative on other exchanges. *See, e.g.,* CBOE Rule 6.53C, Interpretation and Policy .08(b).

[128] The System would not apply this check to an order for when the System cannot define whether the order is a debit or credit. *See* EDGX Rule 21.20, Interpretation and Policy .04(c)(2). EDGX states that this would primarily occur prior to the opening of trading as orders are being queued because prices may not be available to make such determination. *See* Notice, 82 FR at 33181, n.54.

[129] *See* EDGX Rule 21.20, Interpretation and Policy .04(c)(1). EDGX notes that ISE Rule 722, Supplementary Material .07(c) also includes variable pre-set values in connection with the analogous price protections included in that rule. *See* Notice, 82 FR at 33181, n.55.

[130] *See* EDGX Rule 21.20, Interpretation and Policy .04(c)(3).

[131] *See* EDGX Rule 21.20, Interpretation and Policy .04(c)(4).

[132] A ''butterfly'' spread is a three-legged complex order with two legs to buy (sell) the same number of calls (puts) and one leg to sell (buy) twice as many calls (puts), all with the same expiration date but different exercise prices, and the exercise price of the middle leg is between the exercise prices of the other legs. If the exercise price of the middle leg is halfway between the exercise prices of the other legs, it is a ''true'' butterfly; otherwise, it is

Continued

middle leg is to sell (buy) and twice the exercise price of that leg is greater than or equal to the sum of the exercise prices of the buy (sell) legs is a debit (credit); (B) a put butterfly spread for which the middle leg is to sell (buy) and twice the exercise price of that leg is less than or equal to the sum of the exercise prices of the buy (sell) legs is a debit (credit); and (C) an order for which all pairs and loners are debits (credits) is a debit (credit).[133]

The Buy Strategy Parameters in EDGX Rule 21.20, Interpretation and Policy .04(d) provide that the System will reject a limit order where all the components of the strategy are to buy and the order is priced at zero, any net credit price that exceeds a pre-set buffer, or a net debit price that is less than the number of individual option series legs in the strategy (or applicable ratio) multiplied by the applicable minimum net price increment for the complex order.

The Maximum Value Acceptable Price Range parameter in EDGX Rule 21.20, Interpretation and Policy .04(e) provides that the System will reject an order if the order is a vertical, true butterfly or box spread, or a limit order or market order if it would execute at a price that is outside of an acceptable price range.[134] The acceptable price range is set by the minimum and maximum possible value of the spread, subject to an additional buffer amount determined by EDGX and communicated to Members via specifications and/or a Regulatory Circular.[135] The maximum possible value of a vertical, true butterfly and box spread is the difference between the exercise prices of (A) the two legs; (B) the middle leg and the legs on either side; and (C) each pair of legs, respectively.[136] The minimum possible value of the spread is zero.[137]

EDGX Rule 21.20, Interpretation and Policy .04(f) establishes EDGX's Drill-Through Price Protection feature, a price protection mechanism applicable to all complex orders under which a buy (sell) order will not be executed at a price that is higher (lower) than the SNBBO or the SNBBO at the time of order entry plus (minus) a buffer amount (the ''Drill-Through Price'').[138] EDGX will adopt a default buffer amount for the Drill-Through Price Protection and will publish this amount in publicly available specifications and/or a Regulatory Circular.[139] A Member may modify the buffer amount applicable to Drill-Through Price Protections to either a larger or smaller amount than the Exchange default.[140] If a buy (sell) order would execute or post to the COB at a price higher (lower) than the Drill-Through Price, the System will instead post the order to the COB at the Drill-Through Price, unless the terms of the order instruct otherwise. Any order (or unexecuted portion thereof) will rest in the COB (based on the time at which it enters the book for priority purposes) for a time period in milliseconds that may not exceed three seconds (which the Exchange will determine and communicate to Members via specifications and/or Regulatory Circular) with a price equal to the Drill-Through Price.[141] If the order (or unexecuted portion thereof) does not execute during that time period, the System will cancel it.[142]

H. Risk Monitor Mechanism

EDGX proposes to add Interpretation and Policy .01 to EDGX Rule 21.16 to provide that complex orders will participate in EDGX's existing the Risk Monitor Mechanism. The Risk Monitor Mechanism functions by counting a member's executions, contract volume, and notional value both within a specified time period established by the member and on an absolute basis for the trading day.[143] The Risk Monitor Mechanism rejects or cancels orders that exceed member-designated volume, notional, count, or percentage triggers.[144] EDGX Rule 21.16, Interpretation and Policy .01 states that, for purposes of counting within a specified time period and for purposes of calculating absolute limits, EDGX will count individual trades executed as part of a complex order when determining whether a volume, notional, or count trigger has been reached. For purposes of counting within a specified time period and for purposes of calculating absolute limits, EDGX will count the percentage executed of a complex order when determining whether the percentage trigger has been reached.[145]

I. Additional Risk Protection for Complex Orders

In addition to the protections described above, EDGX proposes to establish the Fat Finger Price Protection and a complex order size protection.[146] These protections will be available for complex orders as determined by the Exchange and communicated to Members via specifications and/or Regulatory Circular.[147]

Under the Fat Finger Price Protection, EDGX will define a price range outside of which the System will not accept a complex limit order.[148] The price range will be a number defined by EDGX and communicated to Members via specifications and/or Regulatory Circular, and a Member may establish a more aggressive or restrictive value than the Exchange default.[149] The default

a ''skewed'' butterfly. *See* EDGX Rule 21.20, Interpretation and Policy .04(a)(2).

[133] *See* EDGX Rule 21.20, Interpretation and Policy .04(c)(2). For purposes of the debit/credit price reasonability checks, a ''pair'' is a pair of legs in an order for which both legs are calls or both legs are puts, one leg is a buy and one leg is a sell, and both legs have the same expiration date but different exercise prices or, for all options except European-style index options, the same exercise price but different expiration dates. A ''loner'' is any leg in an order that the System cannot pair with another leg in the order (including legs in orders for European-style index options that have the same exercise price but different expiration dates). The System first pairs legs to the extent possible within each expiration date, pairing one leg with the leg that has the next highest exercise price; the System then, for all options except European-style index options, pairs legs to the extent possible with the same exercise prices across expiration dates, pairing one leg with the leg that has the next nearest expiration date. *See* EDGX Rule 21.20, Interpretation and Policy .04(c)(2)(C). The rule further provides that a pair of calls is a credit (debit) if the exercise price of the buy (sell) leg is higher than the exercise price of the sell (buy) leg (if the pair has the same expiration date) or if the expiration date of the sell (buy) leg is farther than the expiration date of the buy (sell) leg (if the pair has the same exercise price). A pair of puts is a credit (debit) if the exercise price of the sell (buy) leg is higher than the exercise price of the buy (sell) leg (if the pair has the same expiration date) or if the expiration date of the sell (buy) leg is farther than the expiration date of the buy (sell) leg (if the pair has the same exercise price). A loner to buy is a debit, and a loner to sell is a credit. *See id.*

[134] A ''vertical'' spread is a two-legged complex order with one leg to buy a number of calls (puts) and one leg to sell the same number of calls (puts) with the same expiration date but different exercise prices. *See* EDGX Rule 21.20, Interpretation and Policy .04(a). A ''box'' spread is a four-legged complex order with one leg to buy calls and one leg to sell puts with one strike price, and one leg to sell calls and one leg to buy puts with another strike price, all of which have the same expiration date and are for the same number of contracts. *See id.* See note 132, *supra,* for the definition of butterfly spread.

[135] *See* EDGX Rule 21.20, Interpretation and Policy .04(e).

[136] *See* EDGX Rule 21.20, Interpretation and Policy .04(e)(1).

[137] *See* EDGX Rule 21.20, Interpretation and Policy .04(e)(2).

[138] For an example of the application of the Drill-Through Price Protection, see Notice, 82 FR at 33181–82.

[139] *See* EDGX Rule 21.20, Interpretation and Policy .04(f).

[140] *See id.*

[141] *See id.*

[142] *See id.*

[143] *See* EDGX Rule 21.16(a).

[144] *See* Notice, 82 FR at 33183.

[145] *See* EDGX Rule 21.16, Interpretation and Policy .01.

[146] *See* EDGX Rule 21.20, Interpretation and Policy .06(a) and (b).

[147] *See* EDGX Rule 21.20, Interpretation and Policy .06(c).

[148] *See* EDGX Rule 21.20, Interpretation and Policy .06(a).

[149] *See id.* EDGX notes that ISE Rule 722, Supplementary Material .07(d) also provides for

price range for Fat Finger Price Protection will be greater than or equal to a price through the SNBBO for the complex strategy to be determined by the Exchange and communicated to Members via specifications and/or Regulatory Circular.[150] A complex limit order to sell will not be accepted at a price that is lower than the SNBBO bid, and a complex limit order to buy will not be accepted at a price that is higher than the SNBBO offer, by more than the Exchange defined or Member established price range.[151] A complex limit order that is priced through this range will be rejected.[152]

Under the complex order size protection, the System will prevent certain complex orders from executing or being placed on the COB if the size of the complex order exceeds the complex order size protection designated by the Member.[153] If the maximum size of complex orders is not designated by the Member, the Exchange will set a maximum size of complex orders on behalf of the Member by default.[154] Members may designate the complex order size protection on a firm wide basis.[155] The default maximum size for complex orders will be determined by the Exchange and communicated to Members via specifications and/or Regulatory Circular.[156]

J. Trading Halts

EDGX Rule 21.20, Interpretation and Policy .05, describes the Exchange's handling of complex orders in the context of a trading halt. Under EDGX Rule 21.20, Interpretation and Policy .05(a), if a trading halt exists for the underlying security or a component of a complex strategy, trading in the complex strategy will be suspended and a Member's complex orders will be cancelled unless the Member has instructed the Exchange not to cancel its orders.[157] The COB will remain available for Members to enter and manage complex orders.[158] Incoming complex orders that could otherwise execute or initiate a COA in the absence of a halt will be placed on the COB.[159] Incoming complex orders with a time in force of IOC will be cancelled.[160]

EDGX Rule 21.20, Interpretation and Policy .05(b) states that if, during a COA, any component(s) and/or the underlying security of a COA-eligible order is halted, the COA will end early without trading and all COA Responses will be cancelled. Remaining complex orders will be placed on the COB if eligible, or cancelled.[161] When trading in the halted component(s) and/or underlying security of the complex order resumes, the System will evaluate and re-open the COB pursuant to EDGX Rule 21.20(c)(2)(B)-(D).[162]

K. Market Data

EDGX proposes to amend EDGX Rule 21.15(b) to specify the data feeds that EDGX proposes to adopt in connection with the proposal. EDGX currently offers a Multicast PITCH data feed and an Auction Feed.[163] EDGX proposed to adopt a similar, but separate, Multicast PITCH data feed and Auction Feed for the COB.[164] Second, EDGX proposes to adopt a new separate Multicast TOP data feed for its Simple Order Book and for the COB.[165] Third, EDGX proposes to adopt a separate Auction Feed for the COB, in addition to its existing Auction Feed for the Simple Book.[166] Fourth, EDGX the Exchange proposes to identify Priority Customer Orders and trades as such on messages disseminated by the Exchange through its Multicast TOP data feed, in addition to disseminating that information through it Multicast PITCH and Auction data feeds.[167]

III. Discussion and Commission Findings

After careful review, the Commission finds that the proposed rule change, as modified by Amendment No. 1, is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange.[168] In particular, for the reasons discussed below, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act,[169] which requires, among other things, that the rules of a national securities exchange be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest. This order approves the proposed rule change in its entirety, although only certain more significant aspects of the proposed rules are discussed below.

A. Definitions and Order Types

The proposal adopts several defined terms related to the trading of complex orders. The Commission notes that EDGX's definition of complex order[170] is consistent with the definition of complex order adopted by other options exchanges.[171] The Commission believes that adding EDGX Rule 21.20(b) to allow complex orders to be entered as limit orders, market orders, GTD orders, IOC orders, DAY orders, GTC orders, OPG orders, Complex Only orders, COA-eligible orders, do-not-COA orders, and complex orders with Match Trade

configurable values in connection with an analogous size protection that ISE offers for its complex order book. *See* Notice, 82 FR at 33812, n.64.

[150] *See* EDGX Rule 21.20, Interpretation and Policy .06(a).

[151] *See id.*

[152] *See id.*

[153] *See* EDGX Rule 21.20, Interpretation and Policy .06(b). EDGX notes that ISE Rule 722, Supplementary Material .07(e) also applies configurable values in connection with an analogous size protection for its complex order book. *See* Notice, 82 FR at 33812, n.66.

[154] *See* EDGX Rule 21.20, Interpretation and Policy .06(b).

[155] *See id.*

[156] *See id.*

[157] *See* Amendment No. 1. In Amendment No. 1, EDGX notes that this provision is based on and similar to EDGX Rule 20.3(b), which states that orders are cancelled in the event of a trading halt in the underlying unless the Exchange has been instructed not to cancel such orders. EDGX further notes that its rule is similar to functionality that is currently operative on other exchanges. In particular, EDGX notes that MIAX follows a similar process for trading halts, except that while MIAX reopens through potential complex auctions, EDGX will reopen through its standard Opening Process. *See* MIAX Rule 518, Interpretation and Policy .05(e)(3). See also PHLX Rule 1098(c)(ii)(C), which states that complex orders will not trade on the PHLX system during a trading halt for any options component of the Complex Order.

[158] *See* EDGX Rule 21.20, Interpretation and Policy .05(a).

[159] *See id.*

[160] *See id.*

[161] *See* EDGX Rule 21.20, Interpretation and Policy .05(b).

[162] *See* EDGX Rule 21.20, Interpretation and Policy .05(c).

[163] *See* EDGX Rules 21.15(b)(1) and (4). The Multicast PITCH data feed is an uncompressed data feed that offers depth of book quotation and execution information based on options orders entered into EDGX's System. The Auction Feed is an uncompressed data product that provides information regarding the current status of price and size information related to auctions conducted by EDGX. *See* Notice, 82 FR at 33183.

[164] *See* Notice, 82 FR at 33183.

[165] *See* EDGX Rule 21.15(b)(2). The new Multicast TOP feeds will be uncompressed data feeds that will offer top of book quotations and execution information based on options orders entered into EDGX's System. *See id.* EDGX notes that it currently offers a top of book feed for its equities trading platform. *See* Notice, 82 FR at 33186.

[166] *See* EDGX Rule 21.15(c)(5). The Auction Feed is an uncompressed data product that provides information regarding the current status of price and size information related to auctions conducted by the Exchange. *See id.*

[167] *See* EDGX Rule 21.15(c)(2). EDGX notes that the proposal also re-numbers the provisions for EDGX's DROP and Historical Data products, but does not make any changes with respect to those products. *See* Notice, 82 FR at 33183.

[168] In approving this proposed rule change, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. *See* 15 U.S.C. 78c(f).

[169] 15 U.S.C. 78f(b)(5).

[170] *See* EDGX Rule 21.20(a)(5).

[171] *See, e.g.,* ISE Rule 722(a)(1); CBOE Rule 6.53C(a)(1); and MIAX Rule 518(a)(5).

Prevention modifiers could provide market participants with greater flexibility and control over the trading of complex orders.[172] The Commission notes that EDGX currently permits each of these orders types (other than GTC, OPG, Complex Only orders, COA-eligible orders, and do-not-COA orders) for orders on single option series.[173] The Commission further notes that Complex Only orders will be available only to EDGX Market Makers, which is consistent with similar functionality available on other options exchanges.[174]

B. Trading of Complex Orders and Quotes

EDGX states that it has designed its execution and priority rules to allow complex orders to interact with interest in the Simple Book and vice versa in an efficient and orderly manner.[175] The Commission notes that EDGX Rule 21.20(c)(3)(A) is designed to protect interest established in the leg market by providing that if any of the bids or offers established in the marketplace consist of a Priority Customer Order, at least one leg of the complex order must trade at a price that is better than the corresponding bid or offer in the marketplace by at least a $0.01 increment. The Commission further notes that other options exchanges have similar provisions requiring one leg to trade at a better price in such a circumstance.[176]

EDGX proposes that complex orders will never be executed at a price that is outside of the individual component prices on the Simple Book.[177] Furthermore, the net price of a complex order executed against another complex order on the COB will never be inferior to the price that would be available if the complex order legged into the Simple Book.[178] According to EDGX, these provisions should help prevent a component of a complex order from being executed at a price that compromises the priority already established by a Priority Customer on the Simple Book.[179] The Commission notes that another options exchange has comparable provisions.[180]

C. Legging

As described more fully above, EDGX proposes to provide for Legging of complex orders into the Simple Book. The Commission believes that Legging could benefit investors by providing additional execution opportunities for both complex orders and interest on the Simple Book. In addition, the Commission believes that Legging could facilitate interaction between the COB and the Simple Book, potentially resulting in a more competitive and efficient market, and better executions for investors.

As discussed above, EDGX is proposing to prohibit Legging for: (i) 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, other than COA-eligible two-legged Customer complex orders; and (ii) complex orders with three option legs where all legs are buying or all legs are selling regardless of whether the option leg is a call or a put.[181] The Commission notes that this prohibition is similar to the rules of other options markets, which the Commission has approved.[182] The Commission notes that directional complex orders may continue to trade against other complex orders on the Exchange's COB, and that market participants may submit the individual legs of a directional complex order separately to the regular market for execution should they so choose.

D. Complex Order Auction Process

EDGX describes the Complex Order Auction Process in EDGX Rule 21.20(d). EDGX states that the auction process is designed to ensure that complex orders are given every opportunity to be executed at the best prices against an increased level of contra-side liquidity.[183] In addition, EDGX states that the Complex Order Auction process is designed to work effectively with the COB with a simple priority of allocation that continues to respect the priority of allocations on the Simple Book (via the Exchange's pro rata allocation methodology).[184] The Commission notes that the ability for unrelated marketable orders to join and be executed in a Complex Order Auction may enhance the liquidity in the Complex Order Auction and thus increase opportunities for execution of complex orders on both sides of the market.

As noted above, EDGX will permit a COA for a strategy to begin even if another COA for that strategy is already underway.[185] The Commission notes that EDGX's rules regarding the processing of overlapping COAs for a strategy have been made transparent in the proposal and are reasonable, given that the electronic nature of EDGX makes the sequence of auction start times readily discernable.[186] In particular, the Commission notes that a COA Response will only be considered for its specified COA. Each COA Response must specifically identify the COA for which it is targeted, and if not fully executed, the COA Response will be cancelled back at the conclusion of the COA.[187]

E. Opening Process, Managed Interest Process, and Evaluation Process

As described above, EDGX Rule 21.20(c)(2)(A)–(D) sets forth EDGX's opening process for complex orders. The Commission believes that the opening process is designed to provide for the orderly opening of complex orders on EDGX. EDGX Rules 21.20(c)(4) and (5) describe, respectively, the managed interest process and the evaluation process for complex orders. The Commission believes that the managed interest process is designed to protect the priority of Priority Customer interest on the Simple Book and assure that complex orders do not trade through the prices of interest on the Simple Book for the component securities of the complex order. The Commission believes that the evaluation process is designed to facilitate the execution of complex

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[172] As noted above, EDGX also will make GTC and OPG orders available for the Simple Book, which will provide greater flexibility to participants in the markets for orders in single option series.

[173] *See* EDGX Rule 21.1.

[174] *See* MIAX Rule 518(c)(2)(iii) (providing that Legging is not available for, among other things, complex Standard quotes and complex eQuotes); and ISE Rule 722, Supplementary Material .03 (providing that Market Maker quotes will not be automatically executed against bids and offers on ISE for the individual legs of the complex order).

[175] *See* Notice, 82 FR at 33184.

[176] *See, e.g.,* ISE Rule 722(b)(2); Phlx Rule 1098(c)(iii); and MIAX Rule 518(c)(3).

[177] *See* Notice, 82 FR at 33173.

[178] *See id.*

[179] *See id.*

[180] *See* MIAX Rule 518(c)(2)(ii).

[181] *See* EDGX Rule 21.20(c)(2)(F).

[182] *See, e.g.,* ISE Rule 722(b)(3)(ii); and MIAX Rule 518(c)(2)(iii). *See also* Securities Exchange Act Release Nos. 73023 (September 9, 2014) 79 FR 55033 (September 15, 2014) (order approving SR–ISE–2014–10); 79072 (October 7, 2016) 81 FR 71131 (October 14, 2016) (order approving SR–MIAX–2016–26). As discussed above, EDGX will permit Customer two-leg COA-eligible complex orders to leg into the Simple Book without restriction. *See* EDGX Rule 21.20(c)(2)(F). EDGX notes that Legging against the individual components of a complex order on the Simple Book allows complex orders to access the full liquidity of the Exchange's Simple Book, thus enhancing the possibility of executions at the best available prices on the Exchange. EDGX believes this is particularly true for Customer complex orders and, thus, does not propose to limit the ability of such orders to leg into the Simple Book (when such orders are two-legged orders). *See* Amendment No. 1. See also notes 111–116, *supra,* and accompanying text, for additional discussion of EDGX's treatment of Customer complex orders.

[183] *See* Notice, 82 FR at 33185.

[184] *See id.,* 82 FR at 33179.

[185] *See* EDGX Rule 21.20, Interpretation and Policy .02.

[186] *See id.*

[187] *See id. See also* EDGX Rule 21.20(d)(4) (stating that, among other things, a COA Response must include the COA auction ID for the COA to which it is targeted).

orders and other interest on EDGX in accordance with EDGX's rules. The Commission notes that EDGX's managed interest and evaluation processes for complex orders are similar to processes adopted by another options exchange.[188]

F. Market Maker Complex Quotes

As described above, EDGX has not proposed different standards for participation by Market Makers on the COB. Market Makers are not required to quote on the COB and there are no continuous quoting requirements respecting complex orders.[189] In addition, complex strategies are not subject to any requirements that are applicable to Market Makers in the simple market for the individual options series or classes.[190] Finally, volume executed in complex strategies is not taken into consideration when determining whether Market Makers are meeting quoting obligations applicable to Market Makers in the simple market for individual options.[191] The Commission notes that other options exchanges have adopted similar rules.[192]

G. Price Protection and Other Features

EDGX's proposed price and order protection features are intended to provide market participants with price and order size protection to allow them to better manage their risk exposure.[193] The credit-to-debit parameters, Debit/Credit Price Reasonability Checks, Buy Strategy Parameters, Maximum Value Acceptable Price Range, Fat Finger Price Protection, and order size protection are similar to functionalities already available on other options exchanges.[194] EDGX's provisions regarding trading halts could help to protect investors by pausing trading during potentially disruptive conditions.[195] Finally, according to EDGX, adding complex orders to the Risk Protection Monitor should allow EDGX members to better manage their risk and encourage them to submit additional liquidity to the Exchange.[196] The Commission believes the proposed new price protection features are designed to promote just and equitable principles of trade to the extent they are able to mitigate potential risks associated with market participants entering orders or executing trades at what EDGX believes are extreme and potentially erroneous prices.

H. Market Data

As described above, EDGX proposes to make available various data feeds that will provide information regarding complex orders on EDGX. EDGX states that each of the proposed data feeds is based on and similar to an existing data feed offered by EDGX Options and/or the EDGX equities trading platform.[197] EDGX notes that the proposed data feeds, which will be free of charge, would be accessed and subscribed to on a voluntary basis by market participants interested in obtaining data regarding activity in the COB.[198] If EDGX proposes to adopt fees in connection with any of its data feeds, it will file a separate proposal to include such fees in its Fee Schedule.[199] The Commission believes that the proposed data feeds, which will be available free of charge to any subscriber that chooses to receive the data, will provide investors and other market participants with information concerning transactions on EDGX.

IV. Solicitation of Comments on Amendment No. 1

Interested persons are invited to submit written data, views, and arguments concerning whether Amendment No. 1 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–BatsEDGX–2017–29 on the subject line.

Paper Comments

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

All submissions should refer to File Number SR–BatsEDGX–2017–29. 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 Web site (*http://www.sec.gov/rules/sro.shtml*). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for Web site 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 such filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR–BatsEDGX–2017–29, and should be submitted on or before November 13, 2017.

V. Accelerated Approval of Proposed Rule Change, as Modified by Amendment No. 1

The Commission finds good cause to approve the proposed rule change, as modified by Amendment No. 1, prior to the thirtieth day after the date of publication of the notice of Amendment No. 1 in the **Federal Register**. In Amendment No. 1, EDGX revises its original proposal to make the changes discussed in detail above. Notably, in Amendment No. 1, EDGX revises its proposal to make Complex Only orders available only to EDGX Market Makers, provide additional rationale for its methodology for allocating orders at the conclusion of a COA, and limit to 30 seconds the configurable time period for the System to match orders during the complex order opening process. EDGX also made changes to clarify and add detail to its proposal and the proposed rule text. The Commission believes that Amendment No. 1 does not raise any novel regulatory issues and instead better aligns EDGX's proposed rules governing the trading of complex orders with the rules of other options exchanges. Amendment No. 1 also

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[188] *See* MIAX Rules (c)(4) and (5).

[189] *See* EDGX Rule 21.20, Interpretation and Policy .01.

[190] *See id.*

[191] *See id.*

[192] *See* ISE Rule 722, Supplementary Material .03; and MIAX Rule 518, Interpretation and Policy .02(e).

[193] *See* Notice, 82 FR at 33186.

[194] *See* CBOE Rule 6.53C, Interpretation and Policy .08(b)–(d) and (g); and ISE Rule 722, Supplementary Material .07(d) and (e).

[195] *See* Notice, 82 FR at 33186.

[196] *See id.* The Commission reminds members electing to use the Risk Protection Monitor to be mindful of their obligations to, among other things, seek best execution of orders they handle on an agency basis. *See* Securities Exchange Act Release No. 74496 (March 13, 2015), 80 FR 14421, 14423 (March 19, 2015) (SR–MIAX–2015–03).

[197] *See* Notice, 82 FR at 33186.

[198] *See* Amendment No. 1 and Notice, 82 FR at 33182.

[199] *See* Notice, 82 FR at 33182.

provides additional clarity in the rule text and additional analysis of several aspects of the proposal, thus facilitating the Commission's ability to make the findings set forth above to approve the proposal. Accordingly, the Commission finds good cause for approving the proposed rule change, as modified by Amendment No. 1, on an accelerated basis.

VI. Conclusion

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,[200] that the proposed rule change (SR–BatsEDGX–2017–29), as modified by Amendment No. 1, be, and hereby is, approved on an accelerated basis.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[201]

Eduardo A. Aleman,

Assistant Secretary.

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[200] 15 U.S.C. 78s(b)(2).

[201] 17 CFR 200.30–3(a)(12).

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–81887; File No. SR–NYSEAMER–2017–21]

Self-Regulatory Organizations; NYSE American LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Amend Rule 964NY To Adopt Additional Self-Trade Prevention Modifiers

October 17, 2017.

Pursuant to Section 19(b)(1)[1] of the Securities Exchange Act of 1934 (the ''Act''),[2] and Rule 19b–4 thereunder,[3] notice is hereby given that on October 3, 2017, NYSE American LLC (the ''Exchange'' or ''NYSE American'') filed with the Securities and Exchange Commission (the ''Commission'') the proposed rule change as described in Items I and II below, which Items have been prepared by the self-regulatory organization. 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 the Substance of the Proposed Rule Change

The Exchange proposes to amend Rule 964NY (Display, Priority and Order Allocation—Trading Systems). The proposed rule change is available on the Exchange's Web site at *www.nyse.com,* at the principal office of the Exchange, and at the Commission's Public Reference Room.

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

[2] 15 U.S.C. 78a.

[3] 17 CFR 240.19b–4.

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 self-regulatory organization 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 those 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 parts of such statements.

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

1. Purpose

The purpose of the filing is to amend Commentary .02 to NYSE American Options Rule 964NY (Display, Priority and Order Allocation—Trading Systems) regarding the Exchange's Self-Trade Prevention (''STP'') functionality.[4] The Exchange currently offers a basic form of self-trade prevention[5] pursuant to which the Exchange cancels any resting Market Maker quote(s) and order(s)[6] to buy (sell) that are priced equal to or higher (lower) than an incoming Market Maker quote, order or both to sell (buy) entered under the same trading permit identification (''TPID'').[7]

[4] Self-Trade Prevention is only applicable to electronic trading on the Exchange.

[5] *See* Securities Exchange Act Release No. 66385 (February 13, 2012), 77 FR 9719 (February 17, 2012) (SR–NYSEAmex–2012–03).

[6] Self-Trade Prevention currently is applicable to the following order types used by Market Makers: ''PNP Orders'' and ''PNP–Blind Orders.'' PNP Orders and PNP–Blind Orders are defined in NYSE American Options Rule 900.3NY, and each is a type of non-routable Limit Order that is only executed on the Exchange. The Exchange notes that Market Makers primarily use these order types, as opposed to other order types offered by the Exchange, because they are similar to quotes (*i.e.,* they are non-routable Limit Orders). *See* Regulatory Information Bulletin RBO–AMEX–12–04 at *https://www.nyse.com/publicdocs/nyse/markets/american-options/rule-interpretations/2012/NYSEAmex%20RBO-12-04%20Self%20Trade.pdf.*

[7] The Exchange uses a Market Maker's TPID to monitor for self-trades. TPIDs are assigned to Market Makers, as well as other ATP Holders, to identify them in the Exchange's systems. Market Makers on the Exchange are not able to submit orders on an agency basis. Thus, a Market Maker within a firm that conducts both an agency and market making business has a unique TPID that could only be used for that Market Maker's quotes and orders.

The Exchange proposes to expand the self-trade functionality by adopting three STP modifiers. The proposed STP modifiers are designed to prevent incoming Market Maker order(s) or quote(s) designated with an STP modifier from executing against an opposite side resting Market Maker order(s) or quote(s) also designated with an STP modifier and entered from the same TPID. As proposed, the STP modifier on the incoming Market Maker order or quote would control the interaction between two orders and/or quotes marked with STP modifiers. The proposed STP modifiers are intended to prevent interaction between the same TPIDs. STP modifiers must be present on both the buy and the sell interest in order to prevent an interaction from occurring and to effect a cancel instruction.

The Exchange believes the proposed functionality will allow ATP Holders to better manage order flow and prevent undesirable or unexpected executions with themselves. Given enhancements in technology in today's trading environment, ATP Holders often have multiple connections into the Exchange. Orders, for example, routed by the same ATP Holder via different connections may, in certain circumstances, trade against each other. The proposed STP modifiers would provide ATP Holders the opportunity to prevent these potentially undesirable interactions occurring under the same TPID on both the buy and sell side of an execution.

The three new STP modifiers are discussed more thoroughly below.

STP Cancel Newest (''STPN'')

An incoming order or quote marked with the STPN modifier will not execute against opposite side resting interest marked with any STP modifier from the same TPID. The incoming order or quote marked with the STPN modifier will be cancelled back to the originating TPID. The resting order(s) or quote(s) will remain on the Consolidated Book.

STPN Example 1: Market Maker 1 is configured for one of the three proposed STP modifiers and submits a quote to sell 100 contracts @ $5.50. A Customer order to sell 5 contracts @ $5.49 is resting on the Consolidated Book. Market Maker 1 enters an order to buy 100 contracts @ $5.60 with an STPN modifier.

STPN Result 1: Market Maker 1 buys 5 contracts @ $5.49 because Market Maker 1 has no interest at $5.49. The remaining quantity of Market Maker 1's order will be cancelled due to Market Maker 1's quote at $5.50.

STPN Example 2: Market Maker 1 is configured for one of the three proposed