

ISEGemini–2017–11, and should be submitted on or before April 6, 2017.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>17</sup>

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–80200; File No. SR–ISEGemini–2017–12]

### Self-Regulatory Organizations; ISE Gemini, LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to the Decommission of the Tick-Worse Functionality

March 10, 2017.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),<sup>1</sup> and Rule 19b–4 thereunder,<sup>2</sup> notice is hereby given that on February 28, 2017, ISE Gemini, LLC (“ISE Gemini” or “Exchange”) filed with the Securities and Exchange Commission (“SEC” or “Commission”) the proposed rule change as described in Items I, II, and III, below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The Exchange proposes (i) to describe the decommission of its “Tick-Worse” functionality and (ii) to amend Rule 713 (Priority of Quotes and Orders) relating to the priority of split price transactions.

The Exchange requests that the proposed rule change become operative on February 28, 2017.

The text of the proposed rule change is available on the Exchange’s Web site at [www.ise.com](http://www.ise.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 purpose of the proposed rule change is (i) to describe the decommission of the “Tick-Worse” functionality and (ii) to amend Rule 713 (Priority of Quotes and Orders) as it relates to the priority of split price transactions. The proposed changes are discussed below.

##### “Tick-Worse” Functionality

The Exchange currently provides market makers<sup>3</sup> with Tick-Worse functionality, which allows market makers to pre-define the prices and sizes at which the system will automatically move their quotation following an execution that exhausts the size of their existing quotation.<sup>4</sup> As such, when a market maker’s quote is traded out, it can be automatically reinstated into the Exchange’s order book at the next best price.<sup>5</sup> This optional feature is intended to help market makers meet their continuous quoting obligations under the Exchange’s rules<sup>6</sup> when their displayed

<sup>3</sup> The term “market makers” refers to “Competitive Market Makers” and “Primary Market Makers” collectively. See Rule 100(a)(25).

<sup>4</sup> Tick-Worse functionality is not currently memorialized in the Exchange’s rulebook. In addition, the Exchange will not offer Tick-Worse on the new Nasdaq INET system going forward. On September 30, 2004, International Securities Exchange, LLC (“ISE”) filed with the Commission a proposal to codify this functionality in its rulebook, but inadvertently deleted the rule as obsolete rule text in a subsequent proposal filed on December 21, 2012. See Securities Exchange Act Release No. 51050 (January 18, 2005), 70 FR 3758 (January 26, 2005) (SR–ISE–2004–31); Securities Exchange Act Release No. 68570 (January 3, 2013), 78 FR 1901 (January 9, 2013) (SR–ISE–2012–82). The Exchange imported Rule 713 from ISE’s rulebook when the Commission granted the Exchange’s application for registration as a national securities exchange, which was after the Tick-Worse functionality rule was inadvertently removed from ISE’s rules. See Securities Exchange Act Release No. 70050 (July 26, 2013), 78 FR 46622 (August 1, 2013) (Order Granting Registration as a National Securities Exchange).

<sup>5</sup> Market makers may choose to set Tick-Worse parameters by specifying how many price ticks back, and for what size, the quote is to be reinstated.

<sup>6</sup> Specifically, Primary Market Makers (“PMMs”) are required under Rule 804(e)(1) to enter quotations in all of the series listed on the Exchange of the options classes to which they are appointed on a daily basis. Supplementary Material .01 to

quotations are exhausted. When a market maker’s quote is traded out and automatically reinstated into the Exchange’s order book using the Tick-Worse functionality, the reinstated quote will be given priority pursuant to the Exchange’s split price priority rule as discussed below.

Due to the lack of demand for the Tick-Worse feature, the Exchange decommissioned the use of this functionality on February 21, 2017 by asking its members to stop using Tick-Worse by February 21st.<sup>7</sup> The Exchange plans to turn off this functionality in the system when the last symbol migrates onto the new Nasdaq INET system on or around April 3, 2017<sup>8</sup> as part of its system migration to Nasdaq INET technology.<sup>9</sup> As discussed above, the Exchange offers the Tick-Worse feature as a voluntary tool for market makers to assist them in meeting their continuous quoting obligations under the Exchange’s rules. As such, market makers are not required to use the Exchange-provided functionality and can program their own systems to perform the same functions if they prefer. Here, the Exchange has found that almost all market makers use their own systems rather than the Exchange’s Tick-Worse feature to send refreshed quotations when their displayed quotations are exhausted, and therefore discontinued this functionality. Because the Tick-Worse functionality is currently not memorialized in the Exchange’s rules as noted above, there is no text of the proposed rule change. The Exchange provided advance notice to its members on January 31, 2017 through an informational circular that it would decommission the use of the Tick-Worse functionality on February 21, 2017. The Exchange believes that this gave market makers the opportunity to make any necessary changes to their

Rule 804 further requires PMMs to quote 90% of the time their assigned options class is open for trading on the Exchange. As provided in Rule 804(e)(2), Competitive Market Makers (“CMMs”) are not required to enter quotations in the options class to which they are appointed, but in the event a CMM does initiate quoting, such CMM is generally required to quote 60% of the time its assigned options class is open for trading on the Exchange.

<sup>7</sup> This functionality was only being used by one market maker on the Exchange.

<sup>8</sup> The detailed schedule of the symbol migration is available at: <http://www.nasdaqtrader.com/MicroNews.aspx?id=OTA2017-13>.

<sup>9</sup> See Securities Exchange Release No. 80011 (February 10, 2017), 82 FR 10927 (February 16, 2017) (SR–ISEGemini–2016–17) (Order Approving Proposed Rule Change, as Modified by Amendment Nos. 1 and 2, To Amend Various Rules in Connection With a System Migration to Nasdaq INET Technology).

<sup>17</sup> 17 CFR 200.30–3(a)(12).

<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b–4.

Tick-Worse parameters to coincide with the implementation date.

### Split Price Priority

The Exchange is proposing to delete Rule 713(f), which relates to the priority of split price transactions, because this priority rule currently only applies in the context of the Tick-Worse functionality, as described above. Rule 713(f) provides that if a Member purchases (sells) one (1) or more options contracts of a particular series at a particular price, it shall at the next lower (higher) price at which there are Professional Orders<sup>10</sup> or market maker quotes, have priority over such Professional Orders and market maker quotes in purchasing (selling) up to the equivalent number of options contracts of the same series that it purchased (sold) at the higher (lower) price, but only if the purchase (sale) so effected represents the opposite side of a transaction with the same offer (bid) as the earlier purchase (sale). Although the language of Rule 713(f) is more general, the Exchange's intent was to apply split price priority solely to the Tick-Worse functionality. *Example:*

PMM has opted into tick worse functionality and selected to tick worse and post 10 contracts at a penny worse than their original quote.

- PMM quote for 10 contracts bid at \$1.00 and 10 contracts offered at \$1.02.
- Additionally, there is a Priority Customer order to buy 5 contracts at \$0.99, and a CMM quote for 10 contracts bid at \$0.99 and 10 contracts offered at \$1.02.
- A member enters a sell order for 20 contracts at \$0.99.
- This order will trade as follows: 10 contracts trade at \$1.00 with the PMM bid quote, and PMM is ticked worse to 10 contracts bid at \$0.99, 5 contracts trade at \$0.99 with the Priority Customer order due to customer priority, 5 contracts trade at \$0.99 with the PMM's ticked worse quote due to the split price priority rule; 0 contracts trade with the CMM bid quote.

The Exchange represents that Tick-Worse has historically only ever applied in the context of the split price priority rule in Rule 713(f). Furthermore, the Exchange has historically only ever awarded priority pursuant to Rule 713(f)

for split price transactions that occur in the Tick-Worse functionality, and the existing Rule should have been clarified to more accurately reflect its current application. Nonetheless, the Exchange is now proposing to delete the rule text in its entirety in order to reflect that the Tick-Worse functionality was decommissioned on February 21, 2017.

### 2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,<sup>11</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act,<sup>12</sup> in particular, in that it is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general to protect investors and the public interest. The Exchange decommissioned the Tick-Worse functionality on February 21, 2017. As discussed above, the Exchange originally offered Tick-Worse as an optional feature to help market makers meet their continuous quoting obligations under the Exchange's rules. The Exchange has found, however, that the Tick-Worse feature is rarely used today as almost all market makers use their own systems to send refreshed quotations when their displayed quotations are exhausted. The Exchange therefore believes that this proposal describing the decommission of Tick-Worse on February 21st, together with the advance notice it provided to its members on January 31, 2017, eliminates any investor uncertainty related to the status of this functionality.

The Exchange also believes that its proposal to delete the split price priority rule in Rule 713(f) protects investors and the public interest because it removes rule text that became obsolete with the decommission of the Tick-Worse functionality. As described above, the split price priority rule only applies to the Tick-Worse functionality. Because the Rule is more general than its current, specific application, however, the Exchange believes that the continued presence of Rule 713(f) in its rules even after retiring the Tick-Worse functionality will be confusing to its members and investors. By removing obsolete rule text that only applies in the context of Tick-Worse, the Exchange is eliminating any potential for confusion about how its systems operate.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. The proposed rule change is not designed to have any competitive impact but rather to describe the decommission of a rarely-used functionality on the Exchange and relatedly, to remove the rule text that this functionality supports from the Exchange's rulebook, thereby reducing investor confusion and making the Exchange's rules easier to understand and navigate.

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

No written comments were either solicited or received.

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

Because the foregoing proposed rule change does not: (i) Significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A)(iii) of the Act<sup>13</sup> and subparagraph (f)(6) of Rule 19b-4 thereunder.<sup>14</sup>

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is: (i) Necessary or appropriate in the public interest; (ii) for the protection of investors; or (iii) otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

### IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act.

<sup>13</sup> 15 U.S.C. 78s(b)(3)(A)(iii).

<sup>14</sup> 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6) requires a self-regulatory organization to give the Commission written notice of its intent to file the proposed rule change at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.

<sup>10</sup> The term "Professional Order" means an order that is for the account of a person or entity that is not a Priority Customer. See Rule 100(a)(37C). A "Priority Customer" is a person or entity that (i) is not a broker or dealer in securities, and (ii) does not place more than 390 orders in listed options per day on average during a calendar month for its own beneficial account(s). See Rule 100(a)(37A).

<sup>11</sup> 15 U.S.C. 78f(b).

<sup>12</sup> 15 U.S.C. 78f(b)(5).

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](mailto:rule-comments@sec.gov). Please include File Number SR-ISEGemini-2017-12 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-ISEGemini-2017-12. 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 the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-ISEGemini-2017-12 and should be submitted on or before April 6, 2017.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>15</sup>

**Eduardo A. Aleman,**

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**SECURITIES AND EXCHANGE COMMISSION**

[Release No. 34-80208; File No. SR-BatsEDGX-2017-13]

**Self-Regulatory Organizations; Bats EDGX Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change To Amend Exchange Rule 11.22 To Modify the Date of Appendix B Web Site Data Publication Pursuant to the Regulation NMS Plan To Implement a Tick Size Pilot Program**

March 10, 2017.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the "Act"),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on February 28, 2017, Bats EDGX Exchange, Inc. (the "Exchange" or "EDGX") 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 Exchange has designated this proposal as a "non-controversial" proposed rule change pursuant to Section 19(b)(3)(A) of the Act<sup>3</sup> and Rule 19b-4(f)(6)(iii) thereunder,<sup>4</sup> which renders it effective upon filing with the Commission. 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 filed a proposal to amend Rule 11.22 to modify the date of Appendix B Web site data publication pursuant to the Regulation NMS Plan to Implement a Tick Size Pilot Program ("Plan").

The text of the proposed rule change is available at the Exchange's Web site at [www.bats.com](http://www.bats.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 parts of such statements.

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

1. Purpose

Rule 11.22(b) (Compliance with Data Collection Requirements)<sup>5</sup> implements the data collection and Web site publication requirements of the Plan.<sup>6</sup> Rule 11.22(b).08 provides, among other things, that the requirement that the Exchange or Designated Examining Authority ("DEA") make certain data publicly available on their Web site pursuant to Appendix B and C to the Plan shall commence at the beginning of the Pilot Period,<sup>7</sup> and that the Exchange or DEA shall make data for the Pre-Pilot Period publicly available on their Web site pursuant to Appendix B and C to the Plan by February 28, 2017.<sup>8</sup>

The Exchange is proposing amendments to Rule 11.22(b).08 to delay the date by which Pre-Pilot and Pilot Appendix B data is to be made publicly available on the Exchange or DEA's Web site from February 28, 2017, until April 28, 2017.<sup>9</sup> Appendix C data

<sup>5</sup> See Exchange Rule 11.22(b). See also Securities Exchange Act Release Nos. 77416 (March 22, 2016), 81 FR 17225 (March 28, 2016); and 78798 (September 9, 2016), 81 FR 63532 (September 15, 2016).

<sup>6</sup> The Participants filed the Plan to comply with an order issued by the Commission on June 24, 2014. See Letter from Brendon J. Weiss, Vice President, Intercontinental Exchange, Inc., to Secretary, Commission, dated August 25, 2014 ("SRO Tick Size Plan Proposal"). See Securities Exchange Act Release No. 72460 (June 24, 2014), 79 FR 36840 (June 30, 2014); see also Securities Exchange Act Release No. 74892 (May 6, 2015), 80 FR 27513 (May 13, 2015).

<sup>7</sup> Unless otherwise defined herein, capitalized terms have the meaning ascribed to them in Rule 11.22.

<sup>8</sup> On November 30, 2016, the SEC granted exemptive relief to the Participants, and the Exchange filed proposed rule changes to, among other things, delay the publication of Web site data pursuant to Appendices B and C to the Plan until February 28, 2017, and to delay the ongoing Web site publication by ninety days such that data would be published within 120 calendar days following the end of the month. See Letter from David S. Shillman, Associate Director, Division of Trading and Markets, Commission, to Marcia E. Asquith, Senior Vice President and Corporate Secretary, FINRA dated November 30, 2016; see also Securities Exchange Act Release No. 79537 (December 13, 2016), 81 FR 91971 (December 19, 2016) (Notice of Filing and Immediate Effectiveness of File No. SR-BatsEDGX-2016-70).

<sup>9</sup> In addition, the Exchange is proposing an amendment to Rule 11.22(a)(6)(B) to clarify that no member, irrespective of whether that member operates a trading center, may execute orders in any Pilot Security in Test Group Three in price increments other than \$0.05, unless an exception applies. This proposed amendment makes the rule

<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>4</sup> 17 CFR 240.19b-4(f)(6)(iii).

<sup>15</sup> 17 CFR 200.30-3(a)(12).