SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–103290; File No. SR–IEX–2025–02)]

Self-Regulatory Organizations; Investors Exchange LLC; Notice of Filing of Amendment No. 3 to a Proposed Rule Change To Adopt Rules To Govern the Trading of Options on the Exchange for a New Facility Called IEX Options

June 18, 2025.

On January 10, 2025, the Investors Exchange LLC (''IEX'' or ''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 options on IEX Options LLC, a facility of the Exchange that will be established in a separate rule filing. The proposed rule change was published for comment in the **Federal Register** on January 21, 2025.[3] On March 6, 2025, the Commission designated a longer period within which to take action on the proposed rule change.[4] On March 12, 2025, the Exchange filed Amendment No. 1 to the proposed rule change,[5] and Amendment No. 1 was published for comment in the **Federal Register** on March 19, 2025.[6] On April 21, 2025, the Commission instituted proceedings to determine whether to approve or disapprove the proposed rule change (''OIP'').[7] On June 13, 2025, the Exchange filed Amendment No. 2 to the proposed rule change, which it withdrew to correct a nonsubstantive pagination issue and refiled as Amendment No. 3 on June 17, 2025.[8] The Commission has received comments on the proposed rule change.[9] The Commission is publishing this notice to solicit comments on the proposed rule change, as amended by Amendment No. 3, from interested persons. Items I and II below have been prepared by the Exchange.

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

On January 10, 2025, IEX, pursuant to the provisions of Section 19(b)(1) under the Act [10] and Rule 19b–4 thereunder,[11] filed with the Commission proposed rule change SR–IEX–2025–02 (the ''Initial Proposal'').[12] As described in the Initial Proposal, IEX is proposing to adopt rules to govern the trading of options on IEX Options LLC, a facility of the Exchange that will be established in a separate rule filing (referred to herein as ''IEX Options''). On March 12, 2025, the Exchange filed with the SEC Amendment No. 1, which replaced and superseded the Initial Proposal in its entirety in order to provide increased clarity and modify certain aspects of the Initial Proposal as described therein (''Amendment No. 1 Proposal''). The Exchange is filing this Amendment No. 3 to provide increased clarity and modify certain aspects of the Amendment No. 1 Proposal as described herein. Amendment No. 3 replaces and supersedes Amendment No. 1 in its entirety. The Exchange previously filed Amendment No. 2 but withdrew it to correct a nonsubstantive pagination issue.

As proposed, the Exchange will operate IEX Options as a fully automated trading system built on the core functionality of the Exchange's approved equities platform, and in a manner similar to that of other options exchanges. In addition, IEX Options will utilize a de minimis delay on incoming order and quote messages designed to enable IEX to obtain the most accurate view of the market prior to processing orders and quotes, and an optional Market Maker quote parameter designed to protect IEX Market Makers from excessive risk due to execution of quotes at stale prices (*i.e.,* before the market maker can update them in response to changed market data) that can be exploited by latency arbitrage strategies (as described below), in addition to other risk protections substantially similar to those offered by other options exchanges.

The text of the proposed rule change is available at the Exchange's website at *https://www.iexexchange.io/resources/regulation/rule-filings* and at the principal office of the Exchange.

II. Self-Regulatory Organization's Statement of the Purpose of, and the 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 these statements may be examined at the places specified in Item IV below. The self-regulatory organization 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

Overview

The Commission published the proposed rule change for comment in the **Federal Register** on January 21, 2025,[13] and on March 6, 2025, extended the review period to April 21, 2025.[14] The Commission published Amendment No. 1 for comment in the **Federal Register** on March 19, 2025.[15] On April 21, 2025 the Commission instituted proceedings to determine whether to approve or disapprove the proposed rule change, as modified by Amendment No. 1 (''OIP'').[16]

The Exchange is filing Amendment No. 3 to the Amendment No. 1 Proposal in order to provide increased clarity and modify certain aspects of Amendment No. 1, including to address the issues raised by the Commission in the OIP.

First, IEX proposes to revise the Options Risk Parameter (''ORP'') Indicator [17] formula specified in Supplementary Material .04 (Quote instability calculation) and Supplementary Material .05 (Calculation of implied volatility) to

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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. 102190 (Jan. 14, 2025), 90 FR 7205.

[4] *See* Securities Exchange Act Release No. 102536, 90 FR 11866 (Mar. 12, 2025). The Commission designated April 21, 2025 as the date by which it should approve, disapprove, or institute proceedings to determine whether to disapprove the proposed rule change. *See id.*

[5] Amendment No. 1 is publicly available on the Commission's website at: *https://www.sec.gov/comments/sr-iex-2025-02/sriex202502-580115-1667463.pdf.*

[6] *See* Securities Exchange Act Release No. 102663 (Mar. 13, 2025), 90 FR 12890.

[7] *See* Securities Exchange Act Release No. 102895, 90 FR 17474 (April 25, 2025).

[8] Amendment No. 3 is publicly available on the Commission's website at *https://www.sec.gov/comments/sr-iex-2025-02/sriex202502.htm. See infra* notes 17–19 and accompanying text for a further explanation of the proposed revisions to the proposed rule change set forth in Amendment No. 3.

[9] Comments on the proposed rule change are available at *https://www.sec.gov/comments/sr-iex-2025-02/sriex202502.htm.*

[10] 15 U.S.C. 78s(b)(1).

[11] 17 CFR 240.19b–4.

[12] *See* Securities Exchange Act Release No. 102190 (January 14, 2025), 90 FR 7205 (January 21, 2025) (''Initial Filing''), available at *https://www.iexexchange.io/resources/regulation/rule-filings.*

[13] *Id.*

[14] *See* Securities Exchange Act Release No. 102536 (March 6, 2025), 90 FR 11866 (March 12, 2025).

[15] *See* Securities Exchange Act Release No. 102663 (March 13, 2025), 90 FR 12890 (March 19, 2025).

[16] *See* Securities Exchange Act Release No. 102895 (April 21, 2025); 90 FR 17474 (April 25, 2025).

[17] *See* proposed Rule 23.150(h)(1).

proposed Rule 23.150 to more narrowly tailor the parameters of the calculation and provide greater clarity with respect to the variable values included therein. Specifically, IEX proposes to revise proposed Supplementary Material .04(1)(q) and (2)(e), and Supplementary Material .05 to codify the initial value for each of three variables used in the application of the ORP: (1) Delta Bound Band; (2) Quote Instability Threshold; and (3) the frequency of the calculation of implied volatility, respectively, and provide that, if the Exchange determines to change any of the codified values within the specified ranges or values, as applicable, it will do so by submitting a rule filing pursuant to Rule 19b–4(f)(1) under the Exchange Act or other appropriate rule filing type.

Second, the Exchange provides data analysis estimating that the ORP would only have a de minimis impact on market maker quotes on IEX thus evidencing that its benefit is designed to be narrowly tailored to protect against latency arbitrage strategies. As described herein, IEX expects that for significantly more than 99% of the trading day the ORP would not impact a quote on IEX.

Third, IEX provides clarifications and additional support for certain aspects of its proposed rule change as described herein.

Fourth, IEX proposes to revise proposed Rule 19.160 concerning when accounts should be aggregated when determining position limits, substantially similar to provisions in CBOE's rules.[18]

Finally, IEX makes several non-substantive terminology revisions to enhance clarity.[19]

The Exchange proposes to adopt a series of rules in connection with IEX Options, which will be a facility of the Exchange.[20] As proposed, the Exchange will operate IEX Options as a fully automated trading system built on the core functionality of the Exchange's approved equities platform, and in a manner similar to that of other options exchanges.[21]

As proposed, IEX Options will operate an electronic trading system to list and trade options issued by the Options Clearing Corporation (''Clearing Corporation'' or ''OCC''). Specifically, IEX proposes to operate a fully automated, pro-rata priority options market in a manner similar to that of other options exchanges. In addition, IEX Options will utilize a de minimis delay on incoming order and quote messages designed to enable IEX to obtain the most accurate view of the market prior to processing orders and quotes, and an optional Market Maker quote parameter designed to protect Market Makers from excessive risk due to execution of quotes at stale prices, in addition to other risk protections substantially similar to those offered by other options exchanges.

The Exchange proposes to adopt rules applicable to IEX Options that are substantially similar to the approved rules of the MEMX, CBOE, MIAX, and NYSE Amex and Arca options exchanges, with the material proposed differences described herein.[22]

As provided in proposed Rule 17.110 (Applicability), existing Exchange Rules[23] applicable to the IEX equities market contained in Chapters 1 through 16 of the Exchange Rules will apply to Options Members unless a specific Exchange Rule applicable to the IEX Options market (in proposed Chapters 17 through 29 of the Exchange Rules) governs or unless the context otherwise requires.

The IEX Options System[24] will provide for the electronic display and execution of orders on a pro-rata basis. All Exchange Members will be eligible to participate in IEX Options by qualifying as Options Members[25] and obtaining one or more trading permits for their activity on IEX Options, in accordance with applicable IEX Options rules. The IEX Options System will provide an optional routing service for orders when trading interest is not present on IEX Options and will comply with all applicable securities laws and regulations and the obligations of the Options Order Protection and Locked/Crossed Market Plan.

Background

IEX began operation as a national securities exchange in 2016, introducing an innovative market design that includes a 350-microsecond speed bump and an indicator.[26] These features were designed to protect resting liquidity generally, as well as to increase displayed liquidity, which enhances price discovery and the quality of markets overall. These innovations have been successful in counteracting the ability of market participants to exploit speed-based advantages when the market is in transition.

Latency arbitrage is a high-speed trading strategy that exploits microsecond resolution differences in market data dissemination and trade reaction times. In essence, it involves detecting price changes (or inconsistencies) in one market and racing to trade on another market before those prices fully update. Typical latency arbitrageurs trade with their own capital and invest heavily in highly sophisticated technology and connectivity to facilitate said strategies. They leverage these technological and speed advantages to execute rapidly against passive resting orders and quotes at outdated ''stale'' prices, microseconds before a liquidity provider has had a fair opportunity to modify or cancel (or is in the process of modifying or cancelling) its orders to reflect updated market conditions. Given the exponential growth in options tradeable instruments (over 1.5 million individual series) and the quote-driven nature of options markets, market makers are uniquely susceptible to such strategies. This essentially represents a risk-free profit for the taker whose true cost flows to all participants as market makers price such activity into their quoted spreads. This results in artificially wide markets that reduce trading opportunities to the detriment of all market participants.[27]

[18] Specifically, IEX proposes to adopt language from CBOE Rule 8.30 Interpretation and Policy .03(c)(4) in new subsection (f)(2)(D) to proposed Rule 19.160 and from CBOE Rule 8.30 Interpretation and Policy .09 in new Supplementary Material .03 to proposed Rule 19.160.

[19] Specifically, in this Amendment No. 3 references to Cboe Exchange, Inc. are to CBOE rather than C1, and the Options trading system is referred to as the ''System'' rather than the ''Trading System.''

[20] IEX will file a separate proposed rule change with the Commission pursuant to Section 19 of the Act to provide that IEX Options will be operated by IEX Options LLC, a Delaware limited liability company wholly owned by the Exchange, as a facility of the Exchange as that term is defined in Section 3(a)(2) of the Act.

[21] The IEX Options proposed rules are largely based on the rules of other options exchanges, as described herein. When a particular proposed rule is described as ''substantively identical'' to a rule(s) of another exchanges that means that the substance of the proposed IEX Options rule is identical to the referenced rule of the other exchange, with differences only to reflect terminology and numbering. When a particular proposed rule is described as ''substantially similar'' to a rule(s) of another exchange this rule filing describes the relevant differences.

[22] *See* rulebooks of MEMX LLC (''MEMX''), Cboe Exchange, Inc. (''CBOE''), Miami International Securities Exchange, LLC (''MIAX''), NYSE Arca, Inc. (''NYSE Arca Options''), and NYSE American LLC (''NYSE Amex Options''). However, IEX is not proposing to trade index options at this time and therefore is not proposing rules for the listing and trading of index options.

[23] *See* IEX Rule 1.160(jj).

[24] *See* proposed Rule 22.100(a).

[25] *See* proposed Rule 17.100.

[26] *See infra* notes 206 and 208 and accompanying text.

[27] As the Commission has explained, latency arbitrage occurs in the securities markets ''[i]n those rare moments when market prices are in transition, a race condition exists between liquidity providers who want to reprice their on-exchange displayed liquidity to reflect the changing market prices and

Since Commission approval as an exchange, and more recently of its D-Limit order type, IEX has grown in quote presence and market share as market participants increasingly choose to trade on its exchange, drawn by its innovative technology designed to protect all participants, including liquidity providers, from latency arbitrage. Comparing the third quarter of 2020 to the second quarter of 2025, IEX has experienced a dramatic increase in the time and size in which quotes entered on IEX are displayed on both sides of the NBBO (time increased from 1.1% to 27.9% while size increased from 0.6% to 11.6%), as well as a significant increase in traded volume and market share. IEX believes that these increases evidence that market participants value its protective innovations. Further, markouts for resting D-Limit orders on IEX, which measure the magnitude and direction of price moves after a trade, are substantially better when compared to other exchanges with at least 1% market share, evidencing D-Limit's narrowly tailored protection from latency arbitrage ($0.0017 per share compared to −$0.0030 per share).[28] And fill rates for orders attempting to trade with displayed orders on IEX have remained consistent.

In today's options marketplace, liquidity is primarily derived from market maker quotes and there are vastly more securities listed and traded than on equities exchanges; more than 1.5 million options series compared to approximately 10,000 National Market System (''NMS'') securities. Because of the large number of options series, there are less likely to be investor limit orders resting displayed on an exchange in any one series at any given time, so prices are commonly set by registered market makers' quotes. Thus, the need for such protections is paramount to maintaining and increasing liquidity available in the marketplace. Options market makers, even more so than equities market makers, are left highly vulnerable, particularly given the number of securities they are quoting, to latency arbitrage which has an impact on their quoting activity in each security.

IEX believes that implementing the proposed protective measures would enhance the fairness and orderliness of the market, support the integrity of the public price discovery process, and mitigate competitive imbalances consistent with Exchange Act goals.[29] The measures are designed to improve the execution quality experience of market participants that are affected by adverse selection and this improved execution quality could encourage more displayed liquidity and contribute to tighter spreads.[30] IEX further believes that the innovations, that have been proven to increase displayed liquidity in the equity markets, would be equally, if not more beneficial to the options market given the market structure described above.

Various tools provided by all options exchanges are designed to enable market makers to manage risks, including those presented by latency arbitrage, and to enhance quote accuracy on their markets (as described below). In IEX's continuing efforts to find innovative solutions to assist liquidity providers in managing risk, IEX seeks to extend its proven, innovative technology to further assist options market makers in managing such risks and thereby promote fairer markets and mitigate speed-based advantages on its platform. This business choice in exchange offerings supports the fostering of technological innovation and dynamic competition in the options markets, as envisioned by the Exchange Act.

IEX Options Members

Pursuant to the proposed rules in Chapter 18 (Participation on IEX Options), the Exchange will authorize any Exchange Member that meets certain enumerated qualification requirements (any such Member, an ''Options Member'') and any Options Member's Sponsored Participants to obtain access to, and transact business on, IEX Options.[31]

There will be three types of Options Members—Options Order Entry Firms (''OEFs''), Options Market Makers, and Options Clearing Members. Options Members may act in one, two, or all such capacities. OEFs will be those Options Members representing Customer Orders as agent on IEX Options or trading as principal on IEX Options. Options Market Makers, in turn, will be eligible to participate as Registered Market Makers or Specialists, as set forth in Rule 23.100. Additionally, all Options Market Makers may participate as Directed Marker Makers.[32] Clearing Members will be those Options Members that have been admitted to membership in the Clearing Corporation pursuant to the provisions of the Rules of the Clearing Corporation and are self-clearing or that clear IEX Options Transactions for other Options Members.

IEX proposes to issue different types of Trading Permits to Options Members that allow the Trading Permit Holders to: (i) trade one or more products authorized for trading on the Exchange; (ii) act in one or more trading functions authorized by the Rules of IEX Options; and/or (iii) act as a Clearing Member.[33] Trading Permits shall be for the types and terms as shall be determined by the Exchange from time to time, and subject to effectiveness of one or more rule filings pursuant to Section 19(b) of the Act. The proposed rule governing IEX's Trading Permits, Rule 18.140, is based on CBOE Rule 3.1.[34]

The rules governing Registered Market Makers and Specialists are substantially based on MIAX and CBOE rules.[35] To become an Options Market

the liquidity takers who want to take before those updates can occur.'' *See* Securities Exchange Act Release No. 89686 (August 26, 2020), 85 FR 54438, at 54442 (September 1, 2020) (SR–IEX–2019–15) (''2020 SEC Approval Order''). Those liquidity providers who cannot react as fast to changing market conditions are subject to adverse selection of executions at stale prices. *See id.; see also Citadel Securities LLC* v. *Securities and Exchange Commission,* 45 F.4th 27, 31 (D.C. Cir. 2022) (explaining that exchanges experience latency whereby certain high-frequency traders can take securities at old-stale prices just before updated prices reach the exchange).

[28] Markouts are measured by comparing the trade price to the midpoint of the NBBO one second after the trade, expressed in mils/share, excluding any fees/rebates. (Source: NYSE Trade and Quote data and IEX market data.)

[29] *See infra* note 163 discussing structural challenges facing market makers.

[30] *See, e.g.,* Citadel Securities, *Market Lens,* July 2020 (''Market Lens'') (explaining that ''a wide array of market participants seek to lower their risk of inopportune executions by constantly updating their orders to reflect changing market conditions'' and this can lead to higher quote cancellation rates and frequent quote updates to reflect accurate prices), available at *https://www.citadel.com/securities/wp-content/uploads/sites/2/2020/07/Market-Lens-Order-Cancellation-White-Paper_FINAL.pdf*).

[31] *See* proposed Rules 18.100, 18.110, 18.120, and 18.130.

[32] Directed Market Makers would be subject to enhanced quoting obligations (as compared to Registered Market Markers) as set forth in proposed Rule 23.150(e)(3), which is substantively identical to NYSE Amex Options Rule 964.1NYP.

[33] *See* proposed Rule 18.140.

[34] On CBOE, part of the process of applying to be a Trading Permit Holder is for a broker-dealer to qualify as a participant or member of the exchange. IEX's proposed rule therefore differs from CBOE Rule 3.1 because it does not include the membership qualification-related provisions that are addressed elsewhere in IEX's proposed Chapter 18. In particular, IEX is not proposing to incorporate CBOE Rule 3.1(a)(3)'s language regarding jurisdiction over Trading Permit Holders because it is covered by Rule 2.120 (requiring all IEX Members to consent to the Exchange's jurisdiction) and proposed Rule 18.140(e) (applying the Exchange's jurisdictional authority to all Options Members). In addition, CBOE's rule includes limitations on the number of trading permits the exchange may issue. IEX is not proposing such limitations.

[35] *See* MIAX Rules 600–609 (regarding market maker qualifications and obligations) and MIAX Rules 514(d), (e), and (g) (regarding market maker quoting and priority). The primary differences between these MIAX rules and IEX's proposed

Continued

Maker, an Options Member will be required to register by filing a written application and obtain any required trading permits.[36] The Exchange will not place any limit on the number of entities that may become Options Market Makers, the number of appointments an Options Market Maker may have, or the number of Options Market Makers that may have appointments in a class unless the Exchange determines to impose any such limit based on system constraints, capacity restrictions, or other factors relevant to protecting the integrity of the System. The Exchange will not impose any such limitations until it has submitted objective standards for imposing the limits to the Commission for its review and approval.[37]

As proposed, the Exchange shall appoint Registered Market Makers to one or more classes of options contracts traded on the Exchange. In making such appointments the Exchange shall consider the financial resources available to the Registered Market Maker, the Registered Market Maker's experience and expertise in market making or options trading, the preferences of the Registered Market Maker to receive appointments in specific options classes, and the maintenance and enhancement of competition among Registered Market Makers in each class of options contracts to which they are appointed.[38]

While there may be several Registered Market Makers appointed to a particular class of options contracts, the Exchange may appoint only one Specialist to each options class traded on the Exchange.[39] To be appointed as a Specialist, an Options Member must first satisfy the criteria for appointment as a Registered Market Maker set forth in Rule 23.120(a)(1) and then must participate in the Specialist Qualification Process conducted by the Exchange and detailed in proposed Rule 23.130(b).[40] Factors to be considered for selection as a Specialist include, but are not limited to, representations regarding capital operations, personnel or technical resources.[41] After designating certain Market Makers as Specialists, the Exchange will conduct a process to determine which options classes to allocate to which Specialist, based upon which candidate appears best able to perform the functions of a Specialist in the designated options classes. Factors to be considered in the allocation of options classes to Specialists by the Exchange include, but are not limited to the following: experience with trading the options issue; adequacy of capital; willingness to promote the Exchange as a marketplace; operational capacity; support personnel; history of adherence to Exchange rules and securities laws; and evaluations made pursuant to proposed Rule 23.130(f).[42] The Exchange will also consider the number and quality of issues that have been allocated, reallocated or transferred to a Specialist and the Specialist's willingness to promote the Exchange as a marketplace.[43]

The Exchange will also evaluate the performance of Specialists, and upon a finding that a Specialist failed to meet minimum performance standards, may take adverse action against the Specialist; Specialists shall have the right to appeal any adverse actions against them pursuant to IEX Rule Series 9.500, which governs adverse actions.[44]

Quotations may only be entered by a Market Maker and only in classes of options contracts to which the Market Maker is appointed.[45] Market Makers may also submit orders in classes of options contracts to which the Market Maker is appointed, which shall constitute a quote, and thus would help to satisfy the Market Maker's quoting obligation.[46] In addition, an Options Market Maker with an OEF trading permit may submit orders in classes of options in which the Market Maker has no appointment, provided that the total number of such orders executed by the Market Maker do not exceed 25% of all contracts the Market Maker executes on the Exchange in any calendar quarter.[47]

Options Market Makers will be required to electronically engage in a course of dealing reasonably calculated to contribute to the maintenance of fair and orderly markets.[48] IEX does not propose to incorporate MIAX's requirement that Market Makers refrain from purchasing an option at a price more than $0.25 below parity,[49] because IEX does not believe the restriction is necessary to the maintenance of fair and orderly markets requirement, and notes that other exchanges do not include this restriction.[50] Market Makers will be required to maintain a two-sided market on a continuous basis [51] in at least 60% of the non-adjusted options series to which they are appointed as Registered Market Makers and at least 90% of the non-adjusted options series to which they are appointed as Specialists, provided the options classes have a time to expiration of less than nine months.[52] And, as noted above, Directed Market Makers are subject to enhanced quoting obligations compared to Registered Market Makers.[53] Market Makers and Specialists may use quotes and orders to meet the applicable quoting requirements. These obligations will not apply to an intra-day add-on series on the day during which such series was added for trading. Market Maker quotes must be firm quotes that comply with enumerated price and size rules.[54] These obligations also will not apply when an Options series is halted because the underlying security has entered a Limit or Straddle state.[55]

Market Maker rules are: (1) MIAX has three tiers of market makers, while IEX proposes to have two tiers; (2) MIAX puts Market Makers at a priority level above other non-Priority Customer interest, while IEX will not (IEX's proposed rules are substantively identical to the priority rules in CBOE Rule 5.32 as it pertains to CBOE's Preferred Market Makers); (3) IEX proposes to allocate participation entitlements for Specialists with a priority quote based on the amount of non-Priority customer interest (which is how CBOE Rule 5.32(a)(2)(B) allocates priority overlays), while MIAX only looks at the amount of other market marker interest; and (4) MIAX offers a Market Turner priority overlay which IEX is not proposing to adopt.

[36] *See* proposed Rules 23.100 and 18.140.

[37] This provision is substantively identical to MEMX Rule 22.2(c) and MIAX Rule 600(d).

[38] *See* proposed Rule 23.120(a)(1).

[39] *See* proposed Rule 23.130(g)(1)(A), which is substantively identical to NYSE Amex Options Rule 923NY(b). The language providing that the Exchange ''may'' appoint only one Specialist to each options class is based upon and substantively identical to NYSE Amex Options Rule 923NY(b).

[40] IEX based the proposed Specialist rule (23.130) on NYSE Amex Options Rules 927NY, 927.1NY, and 927.2NY because these rules provide clear instructions to prospective Specialist candidates about the manner in which the Exchange selects and evaluates Specialists, and detailed rules about Specialist rights and obligations.

[41] *See* proposed Rule 23.130(b)(1). This rule is substantively identical to NYSE Amex Options Rule 927NY, with the exception that IEX is not proposing to obligate Specialists to make FLEX quotes, because those are not offered by the Exchange.

[42] *See* proposed Rule 23.130(g). This rule is substantively identical to NYSE Amex Options Rule 927.2NY.

[43] *Id.*

[44] *See* proposed Rule 23.130(b)(2), and (f). These rules are substantively identical to NYSE Amex Options Rules 927NY(b)(2) and 927.1NY, respectively.

[45] *See* proposed Rule 23.150(a).

[46] *See* proposed Rule 17.100 (defining ''Quote'' to include orders entered by a Market Maker in the option series to which such Market Maker is registered).

[47] *See* proposed Rule 23.150(g).

[48] *See* proposed Rule 23.140(a).

[49] *See* MIAX rule 603(a).

[50] *See, e.g.,* NYSE Arca Options Rule 6.37–O.

[51] ''Continuous quoting'' is defined as 90% of the time. *See* proposed Rule 23.150(e).

[52] *See* proposed Rule 23.150(e)(2) and (e)(1). Proposed Rule 23.150(e)(1) is based upon and substantively identical to NYSE Amex Options Rule 925.1NYP(b) and proposed Rule 23.150(e)(2) is based upon and substantively identical to NYSE Amex Options Rule 925.1NYP(c).

[53] *See supra* note 29.

[54] *See* proposed Rule 23.150(b) and (d).

[55] *See* Supplementary Material .01 to proposed Rule 23.150(h), which is substantively identical to MIAX Rule 530(f)(1).

Registered Market Makers and Specialists also must maintain minimum net capital in accordance with Commission and Exchange rules.[56] Substantial or continued failure by an Options Market Maker to meet any of its obligations and duties will subject the Options Market Maker to disciplinary action, suspension, or revocation of the Market Maker's registration as such or its appointment in one or more of its appointed options classes.[57]

As on other exchanges, Options Market Makers receive certain benefits for carrying out their duties. For example, a lender may extend credit to a broker-dealer without regard to the restrictions in Regulation T of the Board of Governors of the Federal Reserve System if the credit is to be used to finance the broker-dealer's activities as a specialist or market maker on a national securities exchange. Thus, an Options Market Maker has a corresponding obligation to hold itself out as willing to buy and sell options for its own account on a regular or continuous basis to justify this favorable treatment.

Every Options Member shall at all times maintain membership in another registered options exchange that is not registered solely under Section 6(g) of the Exchange Act or in the Financial Industry Regulatory Association (''FINRA'').[58] OEFs and other Options Members that transact business with Public Customers must at all times be members of FINRA. Pursuant to proposed Rule 18.110(h), every Options Member will be required to have at least one registered Options Principal who satisfies the criteria of that rule, including the satisfaction of a proper qualification examination. An OEF may only transact business with Public Customers if such Options Member also is an Options Member of another registered national securities exchange or association with which the Exchange has entered into an agreement under Rule 17d–2 under the Exchange Act[59] pursuant to which such other exchange or association shall be the designated options examining authority for the OEF.[60]

The proposed rules relating to qualification and participation on IEX Options as an Options Member (including as an OEF, Options Market Maker, or Clearing Member) are substantively identical to the relevant rules of MEMX Options.[61]

As provided in proposed Rule 17.110, existing Exchange Rules applicable to the IEX equities market contained in Chapters 1 through 16 of the Exchange Rules will apply to Options Members unless a specific Exchange Rule applicable to the IEX Options market (proposed Chapters 17 through 29 of the Exchange Rules) governs or unless the context otherwise requires. Options Members can therefore provide sponsored access to the IEX Options Exchange to a non-Member (*i.e.,* a Sponsored Participant) pursuant to Rule 11.130 of the Exchange Rules.

Definitions

The Exchange proposes to define a series of terms under proposed Rule 17.100 (Definitions), which are to be used in proposed Chapters 17 to 29 relating to the trading of options contracts on the Exchange. Unless otherwise indicated, all of the terms defined in proposed Rule 17.100 are either identical or substantially similar to definitions included in MEMX Rule 16.1. Any modifications to the MEMX definitions, or definitions based upon the rules of other exchanges are specifically indicated below.

The definitions under proposed Rule 17.100 are as follows:

- ABBO. The term ''ABBO'' or ''Away Best Bid or Offer'' means the best bid(s) or offer(s) disseminated by other Eligible Exchanges (as defined in Rule 28.100) and calculated by the Exchange based on market information the Exchange receives from OPRA.[62]
- Aggregate Exercise Price. The term ''Aggregate Exercise Price'' means the exercise price of an options contract multiplied by the number of units of the underlying security covered by the options contract.
- American-Style Option. The term ''American-Style'' option means an options contract that, subject to the provisions of Rule 24.100 (relating to the cutoff time for exercise instructions) and to the Rules of the Clearing Corporation, may be exercised at any time from its commencement time until its expiration.
- Associated Person and Person Associated with an Options Member. The terms ''associated person'' and ''person associated with an Options Member'' mean any partner, officer, director, or branch manager of an Options Member (or any person occupying a similar status or performing similar functions), any person directly or indirectly controlling, controlled by, or under common control with an Options Member or any employee of an Options Member, except that any person associated with an Options Member whose functions are solely clerical or ministerial shall not be included in the meaning of such term for purposes of these Rules.
- Bid. The term ''bid'' means a Limit order to buy one or more options contracts.
- Board. The term ''Board'' means the Board of Directors of Investors' Exchange LLC.
- Call. The term ''call'' means an options contract under which the holder of the option has the right, in accordance with the terms of the option, to purchase from the Clearing Corporation the number of shares of the underlying security covered by the options contract.
- Capacity. The term ''capacity'' means the capacity in which a User submits an order, which the User specifies by applying the corresponding code to the order. The capacity codes available on IEX Options will be listed in publicly available specifications and published in a Regulatory Circular.
- Class of Options. The terms ''class'' or ''class of options'' mean all options contracts with the same unit of trading covering the same underlying security.
- Clearing Corporation and OCC. The terms ''Clearing Corporation'' and ''OCC'' mean The Options Clearing Corporation.
- Clearing Member. The term ''Clearing Member'' means an Options Member that is self-clearing or an Options Member that clears IEX Options Transactions for other Options Members.
- Closing Purchase Transaction. The term ''closing purchase transaction'' means an IEX Options Transaction that reduces or eliminates a short position in an options contract.
- Closing Writing Transaction. The term ''closing writing transaction'' means an IEX Options Transaction that reduces or eliminates a long position in an options contract.
- Control. The term ''control'' means the power to exercise a controlling influence over the management or

[56] *See* proposed Rule 23.180 ($200,000 net capital requirement for Registered Market Makers), which is substantively identical to MEMX Rule 22.9 and proposed Rule 23.130(c)(1)(H) ($1,000,000 net capital requirement for Specialists), which is substantively identical to Amex Options Rule 927NY(c)(10).

[57] *See* proposed Rule 23.120(f). NYSE Amex Options Rule 927.1NY(1)(B) specifies that NYSE Amex Options provides its specialists information related to their market share in allocated issues on a monthly basis as part of the evaluation process. IEX is not proposing to include this provision because it understands that Specialist firms are well-equipped to monitor their market share and performance on IEX and other markets.

[58] *See* proposed Rule 18.110(g).

[59] 17 CFR 240.17d–2.

[60] *See* proposed Rule 27.100.

[61] *See* MEMX Rulebook Chapters 17 and 22.

[62] IEX notes that this definition differs from the MEMX definition of ABBO by spelling out the phrase ''Away Best Bid or Offer'' that ABBO refers to for added clarity.

policies of a person, unless such power is solely the result of an official position with such person. Any person who owns beneficially, directly or indirectly, more than 20% of the voting power in the election of directors of a corporation, or more than 25% of the voting power in the election of directors of any other corporation which directly or through one or more affiliates owns beneficially more than 25% of the voting power in the election of directors of such corporation, shall be presumed to control such corporation.[63]

- Covered Short Position. The term ''covered short position'' means (i) an options position where the obligation of the writer of a call option is secured by a ''specific deposit'' or an ''escrow deposit'' meeting the conditions of Rules 610(f) or 610(g), respectively, of the Rules of the Clearing Corporation, or the writer holds in the same account as the short position, on a share-for-share basis, a long position either in the underlying security or in an options contract of the same class of options where the exercise price of the options contract in such long position is equal to or less than the exercise price of the options contract in such short position; and (ii) an options position where the writer of a put option holds in the same account as the short position, on a share-for-share basis, a long position in an options contract of the same class of options where the exercise price of the options contract in such long position is equal to or greater than the exercise price of the options contract in such short position.
- Customer. The term ''Customer'' means a Public Customer or a broker-dealer.
- Customer Order. The term ''Customer order'' means an agency order for the account of a Customer.
- Directed Order. The term ''Directed Order'' is an order entered into the System by an Options Member with a designation for a Market Maker in that class (referred to as a ''Directed Market Maker'' or ''DMM''). To qualify as a Directed Order, an order must be entered on behalf of a Priority Customer.[64]
- Discretion. The term ''discretion'' means the authority of a broker or dealer to determine for a Customer the type of option, the class or series of options, the number of contracts, or whether options are to be bought or sold.
- European-Style Option. The term ''European-style option'' means an options contract that, subject to the provisions of Rule 24.100 (relating to the cutoff time for exercise instructions) and to the Rules of the Clearing Corporation, can be exercised only on its expiration date.
- Exchange Act. The term ''Exchange Act'' or ''Act'' means the Securities Exchange Act of 1934, as amended, or Rules thereunder.
- Exercise Price. The term ''exercise price'' means the specified price per unit at which the underlying security may be purchased or sold upon the exercise of an options contract.
- He, Him, and His. The terms ''he,'' ''him'' and ''his'' are deemed to refer to persons of female as well as male gender, and to include organizations, as well as individuals, when the context so requires.
- IEX Exchange and Exchange. The terms ''IEX Exchange'' and ''Exchange'' mean Investors' Exchange LLC, a registered national securities exchange.
- IEX Options. The term ''IEX Options'' means IEX Options LLC, a Delaware limited liability company wholly owned by the Exchange, which operates as an options trading facility of the Exchange under Section 3(a)(2) of the Exchange Act.
- IEX Options Book. The term ''IEX Options Book'' means the electronic book of options orders maintained by the System.[65]
- IEX Options Transaction. The term ''IEX Options Transaction'' means a transaction involving an options contract that is effected on or through IEX Options or its facilities or systems.[66]
- Individual Equity Option. The term ''individual equity option'' means an options contract which is an option on an equity security.
- Long Position. The term ''long position'' means a person's interest as the holder of one or more options contracts.
- Market Makers (and Options Market Makers). The terms ''Market Makers'' or ''Options Market Makers'' refer collectively to Options Members registered, pursuant to Rule 23.100, as either a ''Registered Market Maker'' or a ''Specialist''.[67]
- MPID. The term ''MPID'' means unique market participant identifier assigned to an Options Member.
- NBB, NBO, and NBBO. The term ''NBB'' means the national best bid, the term ''NBO'' means the national best offer, and the term ''NBBO'' means the national best bid or offer as calculated by IEX Options based on market information received by IEX Options from OPRA.
- Offer. The term ''offer'' means a Limit order to sell one or more options contracts.
- OPRA. The term ''OPRA'' means the Options Price Reporting Authority.
- Opening Purchase Transaction. The term ''opening purchase transaction'' means a IEX Options Transaction that creates or increases a long position in an options contract.
- Opening Writing Transaction. The term ''opening writing transaction'' means a IEX Options Transaction that creates or increases a short position in an options contract.
- Options Contracts. The term ''options contract'' means a put or a call issued, or subject to issuance by the Clearing Corporation pursuant to the Rules of the Clearing Corporation.
- Options Market Close and Market Close. The terms ''options market close'' and ''market close'' mean the time the Exchange specifies for the end of a trading session on the Exchange on that trading day.
- Options Market Open and Market Open. The terms ''options market open'' and ''market open'' mean the time the Exchange specifies for the beginning of a trading session on the Exchange on that trading day.
- Options Member. The term ''Options Member'' means a firm, or organization that is registered with the Exchange pursuant to Chapter 18 of these Rules for purposes of participating in options trading on IEX Options as an ''Options Order Entry Firm'', ''Options Market Maker'', or ''Clearing Member.''

[63] This definition is substantively identical to the definition in CBOE Rule 1.1. IEX proposes to incorporate this definition, because the term is not specifically defined in the MEMX rulebook and IEX believes that term would provide helpful context to Options Members with respect to other rules that use the term, *e.g.,* proposed IEX Rule 19.200.

[64] This definition is based upon the definition in MIAX Options Exchange (''MIAX'') Rule 100, with the distinction that IEX proposes to make any Market Maker eligible to receive a Directed Order, while MIAX only allows their Lead Market Makers (akin to IEX's proposed ''Specialists'') and Primary Lead Market Makers eligible; this aspect of IEX's proposed rule change is based upon and substantially similar to CBOE Rule 5.32. Additionally, IEX proposes to include language in the last sentence of this definition based on NYSE Amex Rule 900.3NYP(i)(4) to clarify that an order submitted on behalf of a non-Priority Customer would be treated as a non-Directed Order.

[65] This definition is substantively identical to the equivalent definition in the MEMX rulebook, except that it refers to IEX, not MEMX.

[66] This definition is substantively identical to the equivalent definition in the MEMX rulebook, except that it refers to IEX, not MEMX.

[67] This definition is substantively identical to the definition in the MIAX rulebook, except that MIAX has three classes of Market Makers (Registered Market Makers, Lead Market Makers, and Primary Lead Market Makers) while IEX proposes to have two classes of Market Makers: Registered Market Makers (equivalent to MIAX Registered Market Maker) and Specialists (which is based on MIAX's Lead Market Maker and Primary Lead Market Maker rules). IEX proposes to incorporate this definition, because the Market Maker rules proposed herein are substantially based upon the rules of MIAX.

• Options Member Agreement. The term ''Options Member Agreement'' means the agreement to be executed by Options Members to qualify to participate on IEX Options.

• Options Order Entry Firm, Order Entry Firm, and OEF. The terms ''Options Order Entry Firm'' and ''Order Entry Firm'' or ''OEF'' mean those Options Members representing as agent Customer Orders on IEX Options and those non-Market Maker Members conducting proprietary trading.

• Options Principal. The term ''Options Principal'' means a person engaged in the management and supervision of the Options Member's business pertaining to options contracts that has responsibility for the overall oversight of the Options Member's options related activities on the Exchange.

• Order. The term ''order'' means a firm commitment to buy or sell options contracts as defined in Rule 22.100.

• Outstanding. The term ''outstanding'' means an options contract which has been issued by the Clearing Corporation and has neither been the subject of a closing writing transaction nor has reached its expiration date.

• Primary Market. The term ''primary market'' means the primary exchange on which an underlying security is listed.[68]

• Priority Customer and Priority Customer Order. The term ''Priority Customer'' means any person or entity that is not: (A) a broker or dealer in securities; or (B) a Professional. The term ''Priority Customer Order'' means an order for the account of a Priority Customer.

• Professional. The term ''Professional'' means 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). All Professional orders shall be appropriately marked by Options Members.[69]

• Protected Quotation. The term ''Protected Quotation'' has the meaning provided in Rule 28.100.

• Public Customer and Public Customer Order. The term ''Public Customer'' means a person that is not a broker or dealer in securities. The term ''Public Customer Order'' means an order for the account of a Public Customer.

• Put. The term ''put'' means an options contract under which the holder of the option has the right, in accordance with the terms and provisions of the option and the Rules of the OCC, to sell to the Clearing Corporation the number of units of the underlying security covered by the options contract, at a price per unit equal to the exercise price, upon the timely exercise of such option.

• Quarterly Options Series. The term ''Quarterly Options Series'' means a series in an options class that is approved for listing and trading on the Exchange in which the series is opened for trading on any business day and expires at the close of business on the last business day of a calendar quarter.

• Quote or Quotation. The terms ''quote'' or ''quotation'' means a bid or offer entered by a Market Maker as a firm order that updates the Market Maker's previous bid or offer, if any. When the term order is used in these Rules and a bid or offer is entered by the Market Maker in the options series to which such Market Maker is registered, such order shall, as applicable, constitute a quote or quotation for purposes of these Rules. A quote or quotation may be canceled or repriced in accordance with Rules 22.250, 22.260, or 23.150, if so designated by the Market Maker to assist in its risk management.

• Registered Market Maker. The term ''Registered Market Maker'' means an Options Member registered with the Exchange for the purpose of making markets in securities traded on the Exchange, who is vested with the rights and responsibilities specified in Chapter 23 of these Rules with respect to Registered Market Makers.[70]

• Responsible Person. The term ''Responsible Person'' means a U.S.-based officer, director, or management-level employee of an Options Member, who is registered with the Exchange as an Options Principal, responsible for the direct supervision and control of associated persons of that Options Member.

• Rules of IEX Options. The term ''Rules of IEX Options'' mean the rules contained in Chapters 17 to 29 of the Investors Exchange Rules governing the trading of options on the Exchange.

• Rules of the Clearing Corporation and Rules of the OCC. The terms ''Rules of the Clearing Corporation'' and ''Rules of the OCC'' mean the Certificate of Incorporation, the By-Laws and the Rules of the Clearing Corporation, and all written interpretations thereof, as may be in effect from time to time.

• SEC or Commission. The terms ''SEC'' or ''Commission'' mean the United States Securities and Exchange Commission.

• Series of Options. The terms ''series'' or ''series of options'' mean all options contracts of the same class that are the same type of options and have the same exercise price and expiration date.

• Short Position. The term ''short position'' means a person's interest as the writer of one or more options contracts.

• Short Term Options Series. The term ''Short Term Options Series'' means a series in an options class that is approved for listing and trading on the Exchange in which the series is opened for trading on any Monday, Tuesday, Wednesday, Thursday or Friday that is a business day and that expires on the Monday, Tuesday, Wednesday, Thursday or Friday of the next business week, or, in the case of a series that is listed on a Friday and expires on a Monday, is listed one business week and one business day prior to that expiration. If a Tuesday, Wednesday, Thursday or Friday is not a business day, the series may be opened (or shall expire) on the first business day immediately prior to that Tuesday, Wednesday, Thursday or Friday, respectively. For a series listed pursuant to this section for Monday expiration, if a Monday is not a business day, the series shall expire on the first business day immediately following that Monday.

• Specialist. The term ''Specialist'' means a Market Maker appointed by the Exchange to act as the primary lead Market Maker for the purpose of making markets in securities traded on the Exchange. The Specialist is vested with the rights and responsibilities specified in Chapter 23 of these Rules with respect to Specialists.[71]

• SRO. The term ''SRO'' means a self-regulatory organization as defined in Section 3(a)(26) of the Exchange Act.

• System. The term ''System'' means the automated trading system used by IEX Options for the trading of options contracts.

[68] This definition is based on the definition in CBOE Rule 1.1, because IEX believed the definition was more streamlined than the equivalent definition in the MEMX rulebook.

[69] *See* Supplementary Material .01 to proposed Rule 17.100, which sets forth the methodology for calculation of Professional orders.

[70] This definition is substantively identical to the definition in MIAX Rule 100. IEX proposes to incorporate this definition, because the Market Maker rules proposed herein are substantially based upon the rules of MIAX.

[71] This definition is substantively identical to the definition of Lead Market Makers and Primary Lead Market Makers in MIAX Rule 100. As discussed above, IEX proposes to incorporate the MIAX definitions for both Lead Market Makers and Primary Lead Market Makers into its definition for Specialists, because the Market Maker rules proposed herein are substantially based upon the rules of MIAX.

• Timestamp. The term ''timestamp'' means the effective time sequence assigned to an order for purposes of determining its priority ranking.

• Trading Permit. The term ''Trading Permit'' means a license issued by the Exchange to an Options Member that grants the Trading Permit Holder (''TPH'') the right to access one or more of the facilities of the Exchange for the purpose of effecting transactions in options traded on the Exchange without the services of another person acting as broker, and otherwise to access the facilities of the Exchange for purposes of trading or reporting transactions or transmitting orders or quotations in options traded on the Exchange, or to engage in other activities that, under the Rules of IEX Options, may only be engaged in by the TPH that satisfies any applicable qualification requirements to exercise those rights. A Trading Permit conveys no ownership interest in the Exchange, is only available through the Exchange, and is subject to the terms and conditions set forth in Rule 18.140.[72]

• Trading Permit Holder. The term ''Trading Permit Holder'' or ''TPH'' means the holder of a Trading Permit, as described in IEX Rule 18.140.[73]

• Type of Option. The term ''type of option'' means the classification of an options contract as either a put or a call.

• Uncovered. The term ''uncovered'' means a short position in an options contract that is not covered.

• Underlying Security. The term ''underlying security'' means the security that the Clearing Corporation shall be obligated to sell (in the case of a call option) or purchase (in the case of a put option) upon the valid exercise of an options contract.

• User. The term ''User'' means any Options Member or Sponsored Participant who is authorized to obtain access to the System pursuant to Rule 11.130 (Access).

Execution System

IEX Options will utilize a pro-rata allocation model with execution priority dependent on the size and capacity of an order; specifically, Priority Customer or non-Priority Customer, as well as status as a Registered Market Maker or Specialist, as applicable. The proposed pro-rata allocation model is similar to the MIAX and NYSE Amex options exchanges.[74]

The Exchange will become an exchange member of the OCC. The System will be linked to OCC for the Exchange to transmit locked-in trades for clearance and settlement.[75]

IEX Options will include a de minimis delay on incoming order and quote messages designed to enable IEX to obtain the most accurate view of the market prior to processing orders and quotes, and an optional Market Maker quote parameter designed to protect Market Makers from excessive risk due to execution of quotes at stale prices, in addition to other risk protections substantially similar to those offered by other options exchanges.

Anonymity. As set forth in proposed Rule 22.190, aggregated and individual transaction reports produced by the System will indicate the details of a User's transactions, including the contra party's unique market participant identifier (''MPID''), capacity, and clearing firm account number.[76]

Latency Mechanism.[77] IEX's proposal includes a de minimis hardware based latency mechanism (or speedbump) of 350 microseconds added to each incoming order and quote message[78] designed to enable IEX to obtain the most accurate view of the market prior to processing orders and quotes as well as to perform the Options Quote Indicator (''Indicator'') calculation, and effectuate any action, with current market data.[79] If the Exchange determines to change the duration of the delay, it will do so only pursuant to an effective rule filing submitted to the Commission pursuant to Section 19 of the Exchange Act.[80]

Hours of Operation. As provided in proposed Rule 22.110(a), the IEX Options System will begin accepting orders and quotes beginning at 8:00 a.m.[81] pursuant to the market opening procedures described in proposed Rule 22.160. Orders and bids and offers shall be open and available until 4:00 p.m. except for options contracts on Fund Shares, as defined in proposed Rule 20.120(i), which may close as of 4:15 p.m. The Proposed Hours of Operation rule is based on MEMX Rule 21.2, except that MEMX does not allow for submission of quotes before the market opens for trading; IEX notes that other exchanges begin accepting orders and quotes before the market opens, for example CBOE begins accepting quotes at 7:30 a.m.[82] Except as set forth above, IEX Options shall operate during the normal business days and hours set forth in the rules of the primary market trading the securities underlying options traded on IEX Options, absent unusual conditions as may be determined by the Exchange.[83] IEX Options will not be open for business on any holiday observed by the Exchange.[84]

Units of Trading. As stated in proposed Rule 22.120, the unit of trading in each series of options traded on IEX Options will be the unit of trading established for that series by the OCC pursuant to the rules of the OCC and the agreements of the Exchange with the OCC. The proposed determination of the unit of trading for a series of options traded on IEX Options is the same as on MEMX Options pursuant to MEMX Rule 21.3.

Minimum Quotation and Trading Increments. As stated in proposed Rule 22.140(a), the Exchange is proposing to apply the following quotation increments: (1) if the options series is trading at less than $3.00, five (5) cents; (2) if the options series is trading at $3.00 or higher, ten (10) cents; and (3) if the options series is trading pursuant

[72] This definition is substantively identical to the definition in CBOE Rule 1.1. IEX proposes to incorporate this definition, because its proposed Trading Permit rule (Rule 18.140), is substantively similar to the equivalent CBOE Rule (CBOE Rule 3.1).

[73] This definition is substantively identical to the definition in CBOE Rule 1.1. IEX proposes to incorporate this definition, because its proposed Trading Permit rule (Rule 18.140), is substantively similar to the equivalent CBOE Rule (CBOE Rule 3.1).

[74] *See infra* note 96.

[75] Proposed Rule 22.220(a) notes that all Options transactions shall be submitted for clearance to the Clearing Corporation, and the Exchange shall assume no responsibility with respect to any unmatched trade or for any delays or errors in the reporting to it of trade information. This provision is based upon and substantively identical to MIAX Rule 524.

[76] The Exchange shall also reveal a User's identity: (i) when a registered clearing agency ceases to act for a participant, or the User's clearing firm, and the registered clearing agency determines not to guarantee the settlement of the User's trades; and (ii) for regulatory purposes or to comply with an order of an arbitrator or court. *See* proposed Rule 22.190. The Exchange notes that proposed Rule 22.190 is identical to MEMX Rule 21.10.

[77] *See* proposed Rule 22.100(n).

[78] As it does for equities trading (which also applies an inbound latency of 350 microseconds), IEX will subject incoming order and quote messages to a *de minimis* delay using coiled optical fiber. *See* Rule 11.510(a). Due to force majeure events and acts of third parties, the Exchange does not guarantee that the delay will always be consistent. The Exchange will periodically monitor such latency and will make adjustments to the latency as reasonably necessary to achieve consistency with the latency targets as soon as commercially practicable.

[79] *See infra* for more information about the Indicator.

[80] The latency mechanism will not apply to outbound communications from the Exchange to a User, inbound and outbound communications between the Exchange and an Away Market regarding a routed order, inbound communications from data feeds, order processing and order execution on the IEX Options Order Book, outbound communications to the Exchange's proprietary data feeds or OPRA.

[81] All times in this filing refer to the Eastern time zone.

[82] *See* CBOE Rule 5.7.

[83] *See* proposed IEX Rule 22.110(b).

[84] *See* proposed IEX Rule 22.110(c).

to the Penny Interval Program one (1) cent if the options series is trading at less than $3.00, five (5) cents if the options series is trading at $3.00 or higher, except for QQQ, SPY, or IWM where the minimum quoting increment will be one (1) cent for all series. In addition, as stated in proposed Rule 22.140(b), the Exchange is proposing that the minimum trading increment for options contracts traded on IEX Options will be one (1) cent for all series. Such proposed minimum quotation and trading increments are the same as on MEMX Options pursuant to MEMX Rules 21.5(a) and (b).

Penny Interval Program. As set forth in proposed Rule 22.140(c), the Exchange is proposing to adopt a Penny Interval Program that is substantially similar to the penny programs of other exchanges, including MEMX Options pursuant to MEMX Rule 21.5(d), which includes minimum quoting requirements for options classes listed under the Penny Interval Program. However, eligibility for inclusion in the Penny Interval Program will be limited to those classes already operating under penny programs of other options exchanges at the time IEX Options is launched. The list of options classes included in the Penny Interval Program will be announced by the Exchange via circular distributed to Options Members and published by the Exchange on its website.

Order Types and Handling Instructions. The System will make available to Users two Order Types (as defined in proposed Rule 22.100(d))—Limit orders and Market orders—as well as various order instructions and modifiers that can be appended to such orders. The characteristics and functionality of each Order Type is substantially similar to what is currently approved for use in the Exchange's equities trading facility or on other options exchanges, including MEMX Options, except where described below.

IEX Options will support bulk messages for Options Market Makers as specified in the description of each Order Type or other instruction. Proposed Rule 22.100(d) includes the following details with respect to Limit orders and Market orders:

• Limit order. Limit orders are orders (including bulk messages) to buy or sell an option at a specified price or better. A Limit order is marketable when, for a Limit order to buy, at the time it is entered into the System, the order is priced at the current inside offer or higher, or for a Limit order to sell, at the time it is entered into the System, the order is priced at the current inside bid or lower.

• Market order. Market orders are orders to buy or sell at the best price available at the time of execution. Market orders to buy or sell an option traded on IEX Options will be rejected if they are received when the underlying security is subject to a ''Limit State'' or ''Straddle State'' as defined in the Plan to Address Extraordinary Market Volatility Pursuant to Rule 608 of Regulation NMS under the Act (the ''Limit Up-Limit Down Plan''). Bulk messages may not be Market orders.

Pursuant to Rule 22.100(d)(3), Users have the option to designate an order as ''attributable'' to that User's MPID. Attributable orders are Market or Limit orders which display the User's MPID for purposes of trading on the Exchange. Use of attributable orders is voluntary. Attributable orders may not be available for all Exchange processes. The Exchange will distribute a circular to Options Members specifying the processes for which the attributable order-type shall be available.[85]

The System will also make available to Users several additional instructions that can be designated on an order (''Handling Instructions''). A Handling Instruction applied to a bulk message applies to each bid and offer within that bulk message. The Handling Instructions available on IEX Options are described in proposed Rule 22.100(e) and will include the following:

• Book Only. Book Only is an instruction that an order is to be ranked and executed on the Exchange pursuant to proposed Rule 22.170 (Order Display and Book Processing) or to be repriced or cancelled, as appropriate, without routing away to another options exchange.

• Post Only. Post Only is an instruction that an order is to be ranked and executed on the Exchange pursuant to proposed Rule 22.170 (Order Display and Book Processing) or cancelled, as appropriate, without routing away to another options exchange except that the order will not remove liquidity from the IEX Options Book. The System reprices, cancels or rejects a bid (offer) designated as Post Only with a price that locks or crosses the Exchange's best offer (bid). A Market order cannot be designated as Post Only.

• Intermarket Sweep Order (''ISO''). ISOs are orders that shall have the meaning provided in proposed Rule 28.100, which relates to intermarket trading. Such orders may be executed at one or multiple price levels in the System without regard to Protected Quotations at other options exchanges (*i.e.,* may trade through such quotations). The Exchange relies on the marking of an order as an ISO order when handling such order, and thus, it is the entering Options Member's responsibility, not the Exchange's responsibility, to comply with the requirements relating to ISOs. ISOs are not eligible for routing pursuant to proposed Rule 22.180. A Market order cannot be designated as an Intermarket Sweep Order. Users may not designate bulk messages as ISOs.

The Exchange notes that each of the proposed Order Types and Handling Instructions available on IEX Options are based upon and substantially similar to those of MEMX, with the exception of the Attributable Orders not offered by MEMX.

Time-in-Force (''TIF'') Designations. Users entering orders into the System may designate such orders to remain in force and available for display and/or potential execution for varying periods of time. Unless cancelled earlier, once these time periods expire, the order (or the unexecuted portion thereof) is returned to the entering party. A TIF applied to a bulk message applies to each bid and offer within that bulk message. Unless otherwise specified in the Exchange Rules or the context indicates otherwise, the Exchange determines which of the following TIFs are available on a class or system basis. The TIF designations available on IEX Options are described in proposed Rule 22.100(g) and will include the following:

• Immediate Or Cancel (''IOC''). IOC means, for an order so designated, an order that is to be executed in whole or in part as soon as such order is received. The portion not so executed immediately on the Exchange or another options exchange is cancelled and is not posted to the IEX Options Book. IOC orders that are not designated as Book Only and that cannot be executed in accordance with proposed Rule 22.170 on the System when reaching the Exchange will be eligible for routing away pursuant to proposed Rule 22.180.

• Day. Day means, for an order so designated, an order to buy or sell which, if not executed expires at market close. Market Makers may designate bulk messages as Day.

The Exchange notes that each of the proposed TIF designations available on IEX Options is identical to the same TIF designations available on MEMX Options, except that they are applied differently in one respect. Specifically, MEMX Options allows bulk messages to

[85] The proposed definition is substantively identical to the definition in MIAX Rule 516(e). IEX proposes to incorporate this definition and functionality, because MEMX Options does not have Attributable Orders.

have a TIF of IOC. IEX is proposing to only allow bulk messages to have a TIF of DAY so that Market Makers do not take liquidity with quotes submitted via bulk messages, and which are meant for liquidity provision by Market Makers, which by definition the Exchange believes constitutes orders resting on the Order Book.

Anti-Internalization Qualifier (''AIQ'') Modifiers. As with its equities market, the Exchange will allow Users to use certain AIQ modifiers, which are described in proposed Rule 22.100(h). Any incoming order designated with an AIQ modifier will be prevented from executing against a resting opposite side order also designated with an AIQ modifier and originating from the same MPID, Options Member identifier, trading group identifier, or Sponsored Participant identifier. The Exchange will offer the following AIQ modifiers: AIQ Cancel Newest, described in proposed Rule 22.100(h)(1); AIQ Cancel Oldest, described in proposed Rule 22.100(h)(2); AIQ Cancel Both, described in proposed Rule 22.100(h)(3); and AIQ Cancel Smallest, described in proposed Rule 22.100(h)(4). The Exchange notes that each of the proposed AIQ modifiers available on IEX Options is substantially similar to the same modifiers available on MEMX Options,[86] with the distinction that on MEMX a market maker may include the AIQ modifier on bulk messages, while IEX is proposing to not allow AIQ modifiers to be included on bulk messages because it would be meaningless on IEX where bulk messages will only be for liquidity adding quotes, and the AIQ modifier that dictates the AIQ interaction is determined by the liquidity removing order.[87]

Re-Pricing Mechanism. Like other options exchanges, the Exchange proposes to offer a re-pricing mechanism to Users to comply with the order protection and trade through restrictions of the Options Order Protection and Locked/Crossed Market Plan.[88] This re-pricing mechanism, described in proposed Rule 22.100(i), is referred to by the Exchange as Price Adjust and is substantially similar to the Price Adjust mechanism offered by MEMX Options pursuant to MEMX Rule 21.1(i), with the exception that IEX will only allow the ranked price and displayed price of an order that has been repriced to be adjusted to a more aggressive price one additional time (unlike MEMX, which allows multiple adjustments).[89]

MPIDs. As proposed in Rule 22.100(j), the term ''MPID'' means the unique market participant identifier assigned to a User and shall refer to what the System uses to identify the User and the clearing number for the execution of orders and quotes submitted to the System with that MPID. Each MPID corresponds to a single User and a single clearing number of a Clearing Member with the Clearing Corporation. A User may obtain multiple MPIDs, which may be for the same or different clearing numbers. A User is able (in a form and manner determined by the Exchange) to designate which of its MPIDs may be used for each of its ports. If a User submits an order or quote through a port with an MPID not enabled for that port, the System cancels or rejects the order or quote. The Exchange notes that its proposed Rule 22.100(j) is identical to MEMX Rule 21.1(j) except that MEMX uses the term EFID rather than MPID.

Ports and Bulk Messages. Proposed Rule 22.100(k) defines two types of ports: (1) a ''physical port,'' which provides a physical connection to the System and may provide access to multiple logical ports; and (2) a ''logical port'' or ''application session,'' which provides Users with the ability within the System to accomplish a specific function through a connection, such as order entry, data receipt, or access to information. The Exchange notes that each of the proposed types of ports available on IEX Options is identical to the same types of ports on MEMX Options.

The term ''bulk message'' is proposed to mean a single electronic message a User submits with a Market Maker Capacity to the Exchange in which the User may enter, modify, or cancel up to an Exchange-specified number of bids and offers (which number the Exchange will announce via Exchange notice and publicly available technical specifications). The System handles a bulk message in the same manner as it handles an order or quote, unless the Exchange Rules specify otherwise.

Only Market Makers may submit bulk messages through a logical port in a class in which the Market Maker has an appointment. In addition, bulk messages have a default TIF of Day and a default designation of Post Only. As proposed, the System will cancel, reject, or reprice a Post Only bulk message bid (offer) with a price that locks or crosses the Exchange best offer (bid) or ABO[90] (ABB[91]).[92] These provisions are similar to the manner in which market maker bulk messages are handled by MEMX, which allows bulk messages to also have a TIF of IOC, a designation as book only, and post only bulk messages in unassigned classes.[93]

Cancel Back. The term ''Cancel Back'' is proposed to mean an instruction a User designates on an order (including bulk messages) to not be subject to the Price Adjust process pursuant to proposed Rule 22.100(i). The System cancels or rejects an order with a Cancel Back instruction (immediately at the time the System receives the order or upon return to the System after being routed away) if displaying the order on the Book would create a violation of proposed Rule 28.120, or if the order cannot otherwise be executed or displayed in the Book at its limit price. The System executes a Book Only—Cancel Back order against resting orders. The proposed definition of Cancel Back in proposed Rule 22.100(m) is substantively identical to a Cancel Back Order defined in MEMX Rule 21.1(m).

Market Opening Procedures. As proposed, the System will accept quotes, Limit orders with a TIF of DAY and Market orders for inclusion in the opening process (''Opening Process'') beginning at 8:00 a.m. or immediately upon trading being halted in an options series due to the primary listing market for the applicable underlying security declaring a regulatory trading halt, suspension, or pause with respect to such security (a ''Regulatory Halt''), and will continue to accept Market and Limit orders and quotes until such time as the Opening Process is initiated in

[86] MEMX does not offer an AIQ Cancel Smallest modifier, but it is offered by other exchanges such as CBOE. *See* CBOE Rule 5.6 (Match Trade Prevention Modifier—MTP Cancel Smallest).

[87] MEMX calls them ''Match Trade Prevention'' modifiers. *See* MEMX Rule 21.1(h).

[88] *See* Securities Exchange Act Release No. 60405 (July 30, 2009), 74 FR 39362 (Aug. 6, 2009) (File No. 4–546).

[89] The Exchange notes that this behavior is substantially similar to the ''single price adjust'' behavior in CBOE Rule 5.32(b)(2)(A).

[90] The term ''ABO'' means the best offer(s) disseminated by other Eligible Exchanges (as defined in proposed Rule 28.100) and calculated by the Exchange based on market information the Exchange receives from OPRA.

[91] The term ''ABB'' means the best bid(s) disseminated by other Eligible Exchanges (as defined in proposed Rule 28.100) and calculated by the Exchange based on market information the Exchange receives from OPRA.

[92] *See* proposed Rule 22.100.

[93] *See* MEMX Rule 21.1(l). IEX notes that the ability of the System to cancel or reject a post only order submitted on a bulk port with a price that locks or crosses the Exchange best offer (bid) or ABO (ABB) is substantively identical to MEMX Rule 21.1(l)(3); IEX will also allow the System to reprice a post only order submitted on a bulk port with a price that locks or crosses the Exchange best offer (bid) or ABO (ABB), which is substantively identical to the functionality in CBOE Rule 5.32(b)(1)(B).

that options series (the ''Pre-open state'').[94]

After the first transaction on the primary listing market after 9:30 a.m. in the securities underlying the options as reported on the first print disseminated pursuant to an effective national market system plan or the Regulatory Halt has been lifted, the related options series will be opened automatically as described below. The Exchange will conduct its ''Core Open Auction'' for each series of options contracts upon receipt of an ''Auction Trigger'', *i.e.,* the moment that the Primary Market for the underlying security first disseminates both a two-sided quote and a trade of any size that is at or within the quote (in the case of reopening after a Regulatory Halt, the Auction Trigger also includes notification that the underlying stock is no longer halted).[95] The Exchange will disseminate a message to market participants indicating the initiation of the opening process, conduct the opening auction, and then transition to continuous trading for each series of options contracts.[96] The proposed market opening procedures are substantially similar to the market opening procedures specified in NYSE Arca Options Rule 6.64P–O, subject to several differences, most notably that any imbalance would be allocated on a pro rata basis.[97]

Order Display/Matching System. The System will be based upon functionality currently approved for use in the Exchange's equities trading system. Specifically, the System will allow Users to enter Market orders and priced Limit orders to buy (bids) and sell (offers). All bids or offers made and accepted on IEX Options in accordance with the Exchange Rules shall constitute binding contracts, subject to applicable requirements of the Exchange Rules and the Rules of the Clearing Corporation. Such orders are executable against marketable contra-side orders in the System.[98] Resting quotes and orders on the IEX Options Book will be prioritized according to price. If there are two or more quotes or orders at the best price, then the options contracts will be allocated proportionally according to size (in a pro-rata fashion), rounded down to the nearest contract. If there are residual options contracts to be filled, the quote or order with the largest remaining size (based on the pro rata calculation) will receive the first contract, and each successive contract (if any) will be allocated to each subsequent quote or order based on size (largest to smallest). If there are two or more quotes or orders with the same remaining size, then the quote or order with the first time priority will be allocated the next options contract. Each successive options contract (if any) will be allocated in the same manner.[99]

Routing. IEX Options will offer a simple optional routing functionality to facilitate compliance with applicable regulations and will not offer other complex routing strategies. Options Members can designate orders that have not been executed in full by the System pursuant to proposed Rule 22.170 above as either available for routing or not available for routing.[100] IEX Options will support orders that are designated to be routed to the NBBO as well as orders that will execute only within IEX Options. Orders that are designated to execute at the NBBO will be routed to other options markets to be executed when the Exchange is not at the NBBO[101] consistent with the Options Order Protection and Locked/Crossed Market Plan.[102]

Subject to the exceptions contained in proposed Rule 28.110(b), the System will ensure that an order will not be executed at a price that trades through another options exchange. An order that is designated by an Options Member as routable will be routed in compliance with applicable trade-through restrictions. Any order entered with a price that would lock or cross a Protected Quotation that is not eligible for either routing or the price adjust process as defined in proposed Rule 22.100(i) will be cancelled. Bulk messages are not eligible for routing.

IEX Options will route orders in options via IEX Services LLC (''IEX Services''), which serves as the Outbound Router of the Exchange, as defined in Rule 2.220 (IEX Services LLC as Outbound Router).[103] The function of the Outbound Router will be to route orders in options listed and open for trading on IEX Options by transmitting such orders to one or more routing brokers that are not affiliated with the Exchange to other options exchanges (''Routing Services'') pursuant to the Exchange Rules on behalf of IEX Options.[104] The Outbound Router is subject to regulation as a facility of the Exchange, including the requirement to file proposed rule changes under Section 19 of the Exchange Act.[105] Parties that do not desire to use the Routing Services provided by the Exchange must designate orders as not available for routing.[106] The Exchange notes that the proposed rules relating to the routing of orders on IEX Options to away options markets are substantively identical to the MEMX Back-Up Order Routing Services described in MEMX Rule 21.9(e).[107]

Priority of Routed Orders. Orders that have been routed by the System to other options exchanges are not ranked and maintained in the IEX Options Book pursuant to proposed Rule 22.170, and therefore are not available to execute against incoming orders. Once routed by the System, an order becomes subject to the rules and procedures of the destination options exchange including, but not limited to, order cancellation. If a routed order is subsequently returned, in whole or in part, that order, or its remainder, shall receive a new time stamp reflecting the time of its return to the System.[108]

Market Access. In connection with the proposed rules regarding routing to away options exchanges, proposed Rule 22.180(e) provides that IEX Services has, pursuant to Rule 15c3–5 under the Act,[109] implemented certain tests designed to mitigate the financial and regulatory risks associated with providing the Exchange's Users with access to such away options exchanges. Pursuant to the policies and procedures developed by IEX Services to comply

[94] *See* proposed Rule 22.160(a)(13).

[95] *See* proposed Rule 22.160(a)(5) and (7).

[96] *See* proposed Rule 22.160. IEX notes that pursuant to proposed Rule 22.160(b)(3), the priority overlays specified in proposed Rule 22.170(f)(2) and (3) will not be available during an Auction, but will resume once the Exchange has transitioned to continuous trading.

[97] *See* proposed Rule 22.160(b). Other differences include: IEX will begin accepting orders for the opening auction at 8:00 a.m., while NYSE Arca begins accepting orders for their opening auction at 6:00 a.m. *See* proposed Rule 22.160(a)(13)(A) versus NYSE Arca Options Rule 6.64P–O(a)(12)(A). Additionally, IEX will begin disseminating Auction Imbalance Information at 8:30 a.m., while NYSE Arca begins disseminating imbalance information at 8:00 a.m. *See* proposed Rule 22.160(c)(1) versus NYSE Arca Options Rule 6.64P–O(c)(1). Further, IEX does not define Far Clearing Price, because IEX does not propose to have Auction Only orders, to which the Far Clearing Price relates.

[98] *See* proposed Rule 22.170.

[99] *See* proposed Rule 22.170(b). This pro-rata allocation methodology is based upon the substantially similar methodology in MIAX Rule 514(c)(2) and NYSE Amex Rule 964NYP(i)(2).

[100] *See* proposed Rule 22.180(a).

[101] As described *infra,* if the order is eligible for the Step-Up Mechanism (set forth in proposed Rule 22.270), the System will attempt to fill the order before routing it to an away market.

[102] *See supra* note 85.

[103] *See* proposed Rule 22.180(d).

[104] *Id.*

[105] *Id.*

[106] *Id.*

[107] MEMX also offers the option of using its outbound router, MEMX Execution Services, to route directly to other exchanges. *See* MEMX Rule 21.9(d). IEX is not proposing to adopt this functionality because it will only provide for routing through IEX Services to third party broker dealers.

[108] *See* proposed Rule 22.180(b).

[109] 17 CFR 240.15c3–5.

with Rule 15c3–5, if an order or series of orders are deemed to be erroneous or duplicative, would cause the entering User's credit exposure to exceed a preset credit threshold, or are non-compliant with applicable pre-trade regulatory requirements (as defined in Rule 15c3–5), IEX Services will reject such orders prior to routing and/or seek to cancel any orders that have been routed. This is consistent with the routing implementation of other options exchanges, and the Exchange notes that proposed Rule 22.180(e) is substantively identical to MEMX Rule 21.9(f).

Order Priority. After the opening, trades on the Exchange will occur when a buy order/quote and a sell order/quote match on the Exchange's order book. The System shall execute trading interest within the System in price priority, meaning it will execute all trading interest at the best price level within the System before executing trading interest at the next best price. Pursuant to proposed Rule 22.170, after considering price priority, all options contracts are allocated proportionally according to size (in a pro-rata fashion). If the executed quantity cannot be evenly allocated, the remaining options contracts will be distributed one at a time based upon price-size-time priority.

In addition, the Exchange supports multiple priority overlays that apply ahead of the default pro-rata allocation at a given price level. Pursuant to proposed Rule 22.170(f),[110] these priority overlays are made available at the Exchange's discretion on a class-by-class basis: (1) the Priority Customer overlay,[111] which provides resting interest from Priority Customers with priority over all non-Priority Customer interest at the same price, will always take priority over all other priority overlays; (2) the Specialist Participation Entitlement overlay,[112] which provides the Specialist with priority over interest from other non-Priority Customers for a certain percentage of contracts allocated at the same price (entitling the Specialist to 60% of the allocation if there is another non-Priority Customer at the NBBO or 40% if there are two or more other non-Priority Customers at the NBBO[113]) when quoting at the NBBO, inclusive of the case in which the order is directed to the Specialist; (3) the Directed Market Maker Participation Entitlement overlay,[114] which provides a Directed Market Maker with priority over interest from other non-Priority Customers for a certain percentage of contracts allocated at the same price (entitling the DMM to 60% of the allocation if there is another non-Priority Customer at the NBBO or 40% if there are two or more other non-Priority Customers at the NBBO[115]) when quoting at the NBBO and always applies in place of the Specialist Participation Entitlement overlay when both are in effect and the order is directed to a Directed Market Maker other than the Specialist;[116] and (4) the Small-Size Order Entitlement overlay,[117] which provides a Specialist quoting at the NBBO the priority to execute against the entire size of an order or quote of five or fewer contracts that does not first execute against any Priority Customer orders at that price, provided that if an order subject to the Small-Size Order Entitlement is directed to a Directed Market Maker who is not the Specialist quoting at the NBBO, and the Directed Market Maker priority overlay is enabled in the series, then the Directed Market Maker Participation Entitlement priority overlay will apply instead of the Small-Size Order Entitlement priority overlay,[118] and in the case that an order subject to the Small-Size Order Entitlement is directed to the Specialist, the Small-Size Order Entitlement priority overlay will apply while the Specialist Participation Entitlement and Directed Market Maker Entitlement overlays will not.[119]

After executions resulting from the Priority Overlays described above, orders and quotes within the System for the accounts of non-Priority Customers, including Professional Customers, have next priority. If there is more than one highest bid or more than one lowest offer on the Options Order Book for the account of a non-Priority Customer, then such bids or offers will be afforded priority on a size pro-rata basis, as described above.

Step Up Mechanism. IEX proposes to offer Options Members an optional Step Up Mechanism (''SUM''), which is a feature within the System that provides automated order handling in designated classes trading for qualifying orders that are not automatically executed by the System.[120] The Exchange will determine eligibility of an order for the SUM (including order size, type, capacity, handling instructions, as well as which classes of options contracts). The Exchange will not initiate the SUM process if the NBBO is crossed.[121] SUM automatically processes upon receipt of an eligible order that is marketable against the BBO that is not the NBBO; or an eligible order that would improve the Exchange's BBO and that is marketable against the ABBO. This proposed functionality is substantively identical to the Step-Up Mechanism offered by CBOE, with the exception that IEX is not proposing to offer All or None orders.[122] IEX notes that the optional SUM mechanism is designed to benefit a routable order that is not immediately eligible for execution on the Exchange, but if routed to an away exchange might miss a potential execution on that exchange. And, because SUM is optional, a Member can choose not to have its order subject to the SUM mechanism if it determines that the functionality is not consistent with its objectives. Given the multitude of tradeable listed options securities (compared to listed equities) not all available liquidity is always reflected in an exchange's order book, and the SUM mechanism provides an opportunity to source such additional liquidity to the benefit of the order in question. Moreover, IEX notes as well that other options exchanges offer similar mechanisms, and order flow might be directed to such exchanges if IEX did not offer such a mechanism.

Upon receipt of a SUM eligible order, the System will expose the order at the NBBO upon receipt for a period of time

[110] Proposed Rule 22.170(f) is based upon and substantially similar to CBOE Rule 5.32(a)(2), except is different in one respect. Unlike CBOE, in the event that a Small-Size order is directed to a Specialist, the IEX Options trading system will apply the Small-Size Order Entitlement to the order and not the Directed Order guarantee, meaning the Specialist will have priority to execute against the entire size of the order that does not execute against any Priority Customer orders at that price.

[111] *See* proposed Rule 22.170(f)(1).

[112] *See* proposed Rule 22.170(f)(2). This overlay may only be in effect if the Priority Customer overlay is also in effect. *See* proposed Rule 22.170(f).

[113] These allocation entitlements are based on MIAX Rule 514(h)(1), after accounting for the additional priorities afforded market makers on MIAX, as set forth in MIAX Rule 514(e). *See supra* note 96 and accompanying text.

[114] *See* proposed Rule 22.170(f)(2). This overlay may only be in effect if the Priority Customer overlay is also in effect. *See* proposed Rule 22.170(f).

[115] These allocation entitlements are based on MIAX Rule 514(h)(1), after accounting for the additional priorities afforded market makers on MIAX, as set forth in MIAX Rule 514(e). *See supra* note 96 and accompanying text.

[116] Prioritizing the DMM entitlement over the Specialist entitlement in these circumstances is the same functionality offered by several other exchanges. *See, e.g.,* NYSE Amex Options Rule 964NYP(h)(1).

[117] *See* proposed Rule 22.170(f)(3).

[118] *See* proposed Rule 22.170(f)(3)(A).

[119] *See* proposed Rule 22.170(f)(3)(B). This is functionally identical to how NYSE Amex Options allocates small-size Directed Orders that are directed to a Specialist. *See* NYSE Amex Options Rule 965NYP(h)(2)(B).

[120] *See* proposed Rule 22.270. IEX's proposed Step-Up Mechanism is substantively identical to CBOE Rule 5.35.

[121] *See* proposed Rule 22.270(a).

[122] *See* CBOE Rule 5.35.

determined by the Exchange on a class-by-class basis, which period of time may not exceed one second. All Users may submit responses to the exposure message, which must be limited to the size of the order being exposed, may be modified, cancelled or replaced any time during the exposure period, and are cancelled back at the end of the exposure period if unexecuted. Responses priced at the prevailing NBBO or better will immediately trade against the order in time priority. If during the exposure period the Exchange receives an unrelated order (or quote) on the opposite side of the market from the exposed order that could trade against the exposed order at the prevailing NBBO price or better, then the orders will trade at the prevailing NBBO price. The exposure period will not terminate if a quantity remains on the exposed order after such trade.

Responses that are not immediately executable based on the prevailing NBBO may become executable during the exposure period based on changes to the NBBO. In the event of a change to the NBBO and at the conclusion of the exposure period, the Exchange will evaluate remaining responses as well as the ABBO and execute any remaining portion of the exposed order to the fullest extent possible at the best price(s) by executing against responses and unrelated orders.

Following the exposure period, the Exchange will route the remaining portion of the exposed order to other exchanges, unless otherwise instructed by the User. Any portion of a routed order that returns unfilled shall trade against the Exchange's best bid/offer unless another exchange is quoting at a better price in which case new orders shall be generated and routed to trade against such better prices.

Data Dissemination. The Exchange will disseminate to OPRA the highest bid and the lowest offer, and the aggregate quotation size associated therewith that is available, in accordance with the requirements of Rule 602 of Regulation NMS under the Act.[123] The Exchange will also offer three data products: (1) IEX Options DEEP: an uncompressed data feed that offers depth of book quotations and execution information based on options orders entered into the System; (2) IEX Options TOPS: an uncompressed data feed that offers top of book quotations and execution information based on options orders entered into the System; and (3) DROP: an uncompressed data feed that offers information regarding the options trading activity of a specific User.[124] DROP is only available to the User to whom the specific data relates and those recipients expressly authorized by the User.[125]

Risk Controls. The Exchange also proposes to offer to all Users of IEX Options the ability to establish certain risk control parameters and limits that are intended to assist Users in managing their market risk. All options exchanges recognize the essential role of risk controls in managing market maker exposure and IEX intends to offer comparable controls to allow for these risk management protections. The proposed risk controls are based, in part, on those of the NYSE Arca and CBOE options exchanges, with certain additions and differences described below. The proposed risk controls are designed to offer Users protection from entering orders outside of certain size and price parameters, as well as certain standard or Exchange-established parameters based on order type and market conditions.

The proposed risk controls include: (i) pre-trade risk controls; (ii) activity-based risk controls; and (iii) global risk controls, as set forth in proposed Rule 22.250.[126] Pre-trade, activity-based, and global risk controls may be set before the beginning of a trading day.[127] Pre-trade, activity-based, and global risk controls can be set at the MPID or MPID Group level,[128] or both, depending on the risk control.[129] Additionally, pre-trade risk controls to restrict the options class(es) transacted must be set per options class.[130] The following describes each category of risk protection mechanism:

Pre-Trade Risk Controls.[131] The pre-trade risk controls mechanism is a set of optional limits, each of which an Options Member may utilize with respect to its trading activity on the Exchange. These controls include controls related to the maximum dollar amount for a single order to be applied one time and the maximum number of contracts that may be included in a single order before it can be traded. Additionally, there are optional controls related to the price of an order or quote (including percentage-based and dollar-based controls), controls related to the order types or modifiers that can be utilized, controls to restrict the options classes transacted, and controls to prohibit duplicative orders.

Activity-Based Risk Controls.[132] The Exchange also proposes to offer activity-based risk limits that may be applied to orders and quotes in an options class (when acting as a Market Maker, an Options Member is required to select at least one of the following controls[133]) based on specified thresholds measured over the course of a configurable time period (''Interval''). The Exchange will offer the following activity-based risk controls: (i) transaction-based risk limits, which are pre-established limits on the number of an Options Member's orders and quotes executed in a specified class of options per Interval; (ii) volume-based risk limits, which are pre-established limits on the number of contracts of an Options Member's orders and quotes that can be executed in a specified class of options per Interval; and (iii) percentage-based risk limits, which are pre-established limits on the percentage of contracts executed in a specified class of options as measured against the full size of an Options Member's orders and quotes executed per Interval. To determine whether an Options Member has breached the specified percentage limit, the Exchange calculates the percent of each order or quote in a specified class of options that is executed during an Interval (each, a ''percentage''), and sums up those percentages. This risk limit will be breached if the sum of the percentages exceeds the pre-established limit.

Global Risk Control.[134] The Exchange also proposes to offer a global risk control, which is a pre-established limit on the number of times an Options Member may breach its activity-based risk controls per Interval.

Automated Breach Actions.[135] Proposed Rule 22.250(c) details the

[123] *See* proposed Rule 22.240(a).

[124] *See* proposed Rule 22.240(b).

[125] Data products will be subject to fees as specified in an effective Commission rule filing.

[126] Proposed Rule 22.250 is based upon and substantially similar to NYSE Arca Rule 6.40P–O.

[127] *See* proposed Rule 22.250(b)(1).

[128] MPID Groups, defined in proposed Rule 22.250(a)(5), are based upon CBOE Rule 5.34(c)(4)(A), which allows for the setting of risk control limits for EFID Groups, which are equivalent to MPID Groups. IEX notes that it proposes to retain the right to limit the number of MPID Groups an Options Member can configure based upon potential technical limitations.

[129] *See* proposed Rule 22.250(b)(2). IEX notes that while it allows these risk controls to be set at MPID or MPID Group levels, NYSE Arca allows the equivalent controls to be set at either the MPID or the MPID Sub-ID level (a more granular level than the MPID).

[130] *See* proposed Rule 22.250(b)(2).

[131] *See* proposed Rule 22.250(a)(1), which is substantively identical to NYSE Arca Rule 6.40P–O(a)(2).

[132] *See* proposed Rule 22.250(a)(2), which is substantively identical to NYSE Arca Rule 6.40P–O(a)(3).

[133] *See* proposed Rule 22.250(c)(2)(A).

[134] *See* proposed Rule 22.250(a)(3), which is substantively identical to NYSE Arca Options Rule 6.40P–O(a)(4).

[135] *See* proposed Rule 22.250(c), which is substantively identical to NYSE Arca Options Rule 6.40P–O(c).

''automated breach actions'' the Exchange will take if any of the three above-described risk controls are breached. Based on User preference, these actions can include blocking new orders and quotes, canceling orders and quotes on the Order Book, or notifying the Options Member of the breach. With respect to the activity-based and global risk controls (as well as Kill Switch Actions described below), in order to remain consistent with the firm quote obligations of a broker-dealer pursuant to Rule 602 of Regulation NMS, any marketable interest that is executable against an order or quote that is received [136] prior to the time the applicable threshold is triggered and processed by the System will be automatically executed up to the size of the resting order or quote, regardless of whether the execution would cause the Options Member to exceed their pre-set risk threshold(s).[137]

Kill Switch Actions.[138] Additionally, Options Members may direct the Exchange to operate a ''kill switch'' to either cancel all unexecuted orders and quotes on the Order Book, block the entry of any new order and quote messages, or both.

Limit Order Price Protection.[139] The Exchange also proposes to offer price protection mechanisms, as set forth in proposed Rule 22.260.[140] These protections include Limit Order Price Protection, in which the System will reject an order or quote upon entry, or cancel at the conclusion of an auction, if its price exceeds a pre-established, Exchange-defined ''specified threshold'' amount above or below the reference price. The Reference Price for calculating Limit Order Price Protection for an order or quote to buy (sell) will be the NBO (NBB), provided that, immediately following an auction, the reference price will be the price at which the auction match occurred, or, if none, the upper (lower) auction collar price, or, if none, the NBO (NBB).

Market Orders in No-Bid (Offer) Series.[141] If the System receives a sell Market order in a series after it is open for trading with an NBB of zero and an NBO less than or equal to $0.50, then the System converts the Market order to a Limit order with a limit price equal to the minimum trading increment applicable to the series and enters the order into the IEX Options. If the System receives a sell Market order in a series after it is open for trading with an NBB of zero and an NBO greater than $0.50, then the System cancels or rejects the Market order, except if the sell Market order would be subject to the drill-through protection (as discussed below), in which case the order joins the ongoing drill-through process. If the System receives a buy Market order in a series after it is open for trading with an NBO of zero, the System cancels or rejects the Market order.

Market Order NBBO Width Protection.[142] If a User submits a Market order to the System when the NBBO width is greater than x% of the midpoint of the NBBO, subject to a minimum and maximum dollar value (the Exchange determines ''x'' and the minimum and maximum dollar values on a class-by-class basis), the System cancels or rejects the Market order.

Price Reasonability Checks.[143] Additionally, the Exchange will apply price reasonability checks to most Limit orders and quotes during continuous trading on each trading day. One price reasonability check, the ''arbitrage check,'' will reject order or quote messages to buy put options if the price of the order is equal to or greater than the strike price of the option and will reject (or cancel, if resting) order or quote messages to buy call options if the price of the order is equal to or greater than the price of the last trade in the underlying security plus an Exchange-defined specified threshold.[144] Another price reasonability check, the ''intrinsic value check,'' will assess the intrinsic value of an option based on the last sale price of the underlying security (for calls) or the strike price of the option (for puts), and reject or cancel certain orders or quotes if the price of the order is dislocated from the intrinsic value of the option by a certain Exchange-defined specified threshold.[145]

Drill-Through Protection. Another proposed price protection mechanism is drill-through protection, which will prevent an order from executing beyond a ''buffer amount'' determined based on a drill-through price.[146] This rule is based upon and substantially similar to CBOE Rule 5.34(a)(4), with the distinction that IEX's Drill-Through Protection will have a finite, Exchange-defined number of iterations, that are communicated by a Trading Alert with at least 30 days prior notice.[147] IEX notes that other exchanges have also set a finite number of iterations for their Drill-Through Protection.[148]

Options Risk Parameter. In order to address structural challenges [149] that Market Makers face in the listed options market, and thereby incentivize deeper and tighter liquidity, IEX proposes to offer an optional quote parameter that would augment the standard risk tools that will be available to Options Market Makers referred to as the Options Risk Parameter, or ORP. Further, IEX believes that in addition to mitigating market maker risks from latency arbitrage strategies (irrespective of whether spreads tighten), the ORP can also help to reduce barriers to entry for market maker participation and thereby support competition and reduce market maker concentration risk. This is particularly important given the options markets' reliance on market maker provision of liquidity. As proposed, the ORP will be a parameter that can be applied to a quotation that rests on the Order Book at the price designated by the Market Maker that entered the quotation. When the ORP is triggered based on pre-defined criteria, the relevant quotation(s) will be adjusted or canceled in a manner specified transparently in IEX's rules, as described below.[150]

The ORP would leverage IEX's proprietary mathematical formula—the

[136] The time of receipt for an order or quote is the time such message is processed by the Exchange's order book.

[137] Pre-trade risk controls are implemented prior to an order or quote resting on the order book (or being placed on the book again following an auction) and therefore do not implicate firm quote obligations.

[138] *See* proposed Rule 22.250(e), which is substantively identical to NYSE Arca Options Rule 6.40P–O(e).

[139] *See* proposed Rule 22.260(a), which is substantively identical to NYSE Arca Options Rule 6.62P–O(a)(3).

[140] IEX notes that these proposed risk control mechanisms are based on similar rules of other options exchanges, in particular: NYSE Arca Options Rules 6.62P–O(a)(3) and 6.41P–O and CBOE Rules 5.34(a)(1), (2) and (4).

[141] *See* proposed Rule 22.260(b), which is substantively identical to CBOE Rule 5.34(a)(1).

[142] *See* proposed Rule 22.260(c), which is substantively identical to CBOE Rule 5.34(a)(2).

[143] *See* proposed Rule 22.260(d), which is substantively identical to NYSE Arca Options Rule 6.41P–O.

[144] *See* proposed Rule 22.260(d)(2), which is substantively identical to NYSE Arca Options Rule 6.41P–O(b).

[145] *See* proposed Rule 22.260(d)(3), which is substantively identical to NYSE Arca Options Rule 6.41P–O(c). IEX notes that like NYSE Arca Options, the term ''Automated Breach Action'' is used in two of its risk controls with different meanings: first with respect to the intrinsic value risk checks for market makers, *see* NYSE Arca Options Rule 6.40P–O(d) and proposed Rule 22.260(d)(3)(E); and also with respect to activity based risk controls. *See* NYSE Arca Options Rule 6.41P–O(d) and proposed Rule 22.250(c).

[146] *See* proposed Rule 22.260(e).

[147] IEX notes that other exchanges also have the ability to change any exchange-determined parameters with a trading alert. *See, e.g.,* CBOE Rule 1.5.

[148] *See, e.g.,* Securities Exchange Act Release No. 86923 (September 10, 2019), 84 FR 48664 (September 16, 2019) (SR–CBOE–2019–057) with respect to CBOE's prior functionality.

[149] *See infra* note 160.

[150] *See* proposed Rule 23.150(h).

Options Quote Indicator (the ''Indicator'')—which is based on the preeminent Black-Scholes options pricing model. This Nobel-Prize-winning approach for evaluating the price of an options contract has been studied extensively, and is widely considered as a primary starting point for both academic and industrial options pricing applications.[151]

Proposed Rule 23.150(h) sets forth the application of the Indicator and optional ORP.[152] The ORP is designed to enable Market Makers to provide tighter and deeper quotes on IEX by providing protection from execution against quotes at stale prices by identifying when the best Protected Bid or best Protected Offer of the Away Markets (as defined in Proposed Rule 22.160(a)(8)) in a particular options series is sufficiently dislocated from the price of the underlying security to indicate that the best Protected Bid or best Protected Offer of the Away Markets in the options series is likely in transition. The Exchange believes that the protection provided by the ORP will thus enable market makers to provide tighter and deeper quotes on IEX to the benefit of all market participants.

The Exchange will determine on a class-by-class basis whether to make the ORP available, which determination will be communicated by Trading Alert.[153] This flexibility will therefore allow the Exchange to focus its technology resources in an impactful manner to ensure the ORP is available for those classes where its use will achieve its intended purpose, while excluding its use where it would likely provide minimal incremental value (for example, for classes with nonstandard characteristics).[154]

As proposed, the Exchange will utilize the Indicator, which is a fixed formula specified transparently in IEX's rules, to assess the materiality of an imminent change to the current best Protected Bid[155] of the Away Markets to a lower price or of an imminent change to the current best Protected Offer[156] of the Away Markets to a higher price for a particular listed options series (*i.e.,* an imminent adverse price change).[157]

The Indicator utilizes real time relative quoting activity of protected quotations from Signal Exchanges (as defined in IEX Rule 11.190(g)) in securities underlying each listed options series and a proprietary mathematical calculation (the ''quote instability calculation''), as described in more detail below, to assess the impact of a price change in the underlying on the price of a particular options series. When the quote instability calculation identifies an imminent adverse price change to the best Protected Bid and/or best Protected Offer of the Away Markets in a particular listed options series, it will generate a quote instability determination. A quote instability determination may only be generated at least 200 microseconds after a prior quote instability determination for a particular options series on the same side of the market (*i.e.,* affecting resting bids or offers). If a quote instability determination is generated for an options series quoted by a Market Maker and the quote is above (below) the price level of the quote instability determination, the quote will be either cancelled or repriced to the price level of the quote instability determination, as instructed by the Market Maker.

As proposed, for two aspects of the formula –the Delta Bound Band[158] and the Quote Instability Threshold[159]—the Exchange will specify the possible range of values the Exchange may use for each aspect as well as the initial value for each aspect. The Exchange may determine to change such values, within the applicable specified range, based on its assessment of factors that could optimize effectiveness of the ORP. In such an event, the Exchange will submit a rule filing pursuant to Rule 19b–4(f)(1) under the Exchange Act[160] (or other appropriate rule filing type) specifying the new value, within the range of possible values specified in the applicable rule.[161] Such change to a value that falls within the range of possible values would constitute an interpretation with respect to the meaning of an existing rule, and IEX understands therefore that a filing pursuant to Rule 19b–4(f)(1) under the Exchange Act would be appropriate. When determining to modify values within the specified ranges, the Exchange will consider (as relevant) factors such as the distribution of quote instability determinations, the precision of quote instability determinations, system capacity and performance, fill rates, markout data, and client feedback. In modifying a value, the Exchange will aim to balance the interests of both liquidity takers and makers.

Similarly, as proposed, the frequency of calculation of implied volatility, which is used to calculate Delta will be calculated each half-hour of system operation.[162] If the Exchange determines to update the implied volatility computation more frequently, based on its assessment of relevant factors discussed above that would optimize application of the ORP, it will submit a rule filing pursuant to Rule 19b–4(f)(1) under the Exchange Act (or other appropriate rule filing type) specifying the new timing for implied volatility computation.

IEX believes that offering this optional risk protection for market makers is particularly important in the options markets where market makers are exposed to added risk given their continuous quoting obligations. Although equities and options exchanges share a number of similarities, a meaningful difference is that in the listed options market, liquidity is available only on-exchange and is primarily displayed and derived from market maker quotes, and options markets, when compared to equities markets, have a much higher quote to

[151] *See Revolutionary Black-Scholes Option Pricing Model is Published by Fischer Black, Later a Partner at Goldman Sachs,* available at *https://www.goldmansachs.com/our-firm/history/moments/1973-black-scholes.*

[152] The quote instability calculation is set forth in Supplementary Material .04 to proposed Rule 23.150(h); the calculation of implied volatility is set forth in Supplementary Material .05 to proposed Rule 23.150(h).

[153] *See* proposed Rule 23.150(h)(1).

[154] The Exchange notes that it is not an equities listing exchange. The Exchange does not believe that making class-by-class determinations in this context or otherwise creates a conflict of interest.

[155] *See* proposed Rule 28.100(a)(19).

[156] *Id.*

[157] *See* proposed Rule 23.150(h).

[158] *See* Supplementary Material .04(1)(q) to proposed Rule 23.150(h). Delta is a key metric in options trading that measures the sensitivity of an option's price to changes in the price of the underlying asset. As proposed, the Delta Bound Band would restrict the ORP from triggering unless the option's Delta is within the specified band. The initial value for the Delta Bound Band would be between 0—1, with the possible range of values between 0—1.

[159] *See* Supplementary Material .04(2)(e) to proposed Rule 23.150(h). As proposed, the possible Quote Instability Threshold range will be within a range of 0%–100%. If the Quote Instability Threshold is set at 100%, the expected change in the NBB/NBO of the option resulting from price movement in the underlying must be at least 100% of the current value of the NBB/NBO of the option for the ORP to trigger. If the Quote Instability Threshold is set at 0%, ORP would trigger if there is any expected change to the NBB/NBO of the option resulting from price movement in the underlying. As proposed, the initial value for the Quote Instability Threshold would be 0.1%. When triggered, ORP will only result in the repricing or cancellation of quotes if the change to the NBB/NBO of the option resulting from price movement in the underlying is to a different price level than the current NBB/NBO after rounding to the nearest minimum price variation.

[160] *See* 17 CFR 240.19b–4(f)(1). A rule filing pursuant to Rule 19b–4(f)(1) under the Exchange Act takes effect upon filing with the Commission.

[161] Should IEX determine that it needs to apply a value that falls outside of the range of values that are approved by the Commission pursuant to this rule filing and disclosed in the rule book, it would seek to change such value via a filing made pursuant to either Section 19(b)(3)(A) or Section 19(b)(2) of the Act.

[162] *See* Supplementary Material .05 to proposed Rule 23.150(h).

trade ratio.[163] Exchange market makers in the listed options market play an essential role in providing liquidity. Moreover, given the sheer difference in magnitude of tradeable instruments in listed options as compared to equities (approximately 1.5 million listed options series compared to approximately 11,000 listed equity securities), the options exchanges often do not have the same sources of natural liquidity of buyers and sellers for each tradeable instrument as is generally the case for equities exchanges. Thus, options market makers are tasked with affirmative obligations to support the provision of liquidity to options exchanges through continuous two-sided quotes in large numbers of listed options series. As a result, IEX understands that options market makers can be subject to excessive risk of one or more quotes being executed at stale prices compared to equities market makers or other liquidity providers.[164] Because options market makers maintain hundreds (and sometimes thousands) of quotes on options for a given underlying security at any one time, a sudden market move in the underlying security can leave an options market maker vulnerable to being executed across multiple quotes that are stale and dislocated from the price of the underlying securities. Liquidity takers engaged in latency arbitrage can target one or more of these quotes at stale prices, with limited risk should they fail to execute (*i.e.,* lost opportunity vs. trading at a stale price), before the Market Makers are able to move their quotes (often hundreds or more for a given underlying) to reflect the price change in the underlying securities, thereby exposing those Market Makers to potentially major losses. IEX understands that incurring such losses over time reduces a market maker's willingness to provide narrow and deep quotes, which decreases liquidity and price discovery in the market. Moreover, to the extent that such losses result in market making firms being less profitable (or unprofitable), they may cease market making activity or limit the options classes in which they compete, which can, over time, decrease competition and increase market maker concentration. IEX believes that by providing incremental risk reduction, the ORP could help to counter these impacts.[165]

More specifically, as discussed above, traders using these specific strategies can leverage technological and speed advantages to identify when options prices are in transition and react in microseconds before others and rapidly execute against resting orders at outdated, stale prices, before those orders can be modified or cancelled to reflect updated market conditions, and before others have a fair opportunity to adjust them. However, these technological and speed advantages are expensive and challenging to achieve and maintain, and therefore not readily available to all market participants. The optional ORP is designed to augment these risk protections with a transparent, rules-based formula that identifies when a market maker's quote is clearly mispriced based on a price change in the underlying security and reprice or cancel the quote in a manner with effects that are predictable to both market makers and other participants, who expect the price of an option to change in response to a material change in price of the underlying security because options are derivative securities whose prices are based in part on the price of their underlying security.

Without robust liquidity protection mechanisms to protect against these risks, market makers may be forced to widen their spreads, show less liquidity, or simply exit the market. Overall market quality could deteriorate as a result, and investors would suffer when it becomes too expensive to transact, or when there is insufficient liquidity to enable transacting altogether. Accordingly, liquidity protection mechanisms for market makers, which all options exchanges offer, and IEX proposes to offer, are vital for achieving a healthy balance between market makers and liquidity takers in the listed options market. These include, but are not limited to, activity-based risk controls, price reasonability checks, and functionality (such as bulk quoting and purge ports) to facilitate timely quoting, quote updates, and quote cancellation.

For each options series, the System will maintain a real-time estimate of the sensitivity of the series to changes in the midpoint of the best Protected Bid and best Protected Offer of the Signal Exchanges for the underlying security (based on a Black-Scholes assessment). When there is a change in the best Protected Bid or best Protected Offer of the Signal Exchanges for the underlying security, the System will use the quote instability calculation formula set forth in proposed IEX Rule 23.150(h) to calculate whether to generate a quote instability determination for each options series overlying the underlying security. The System independently assesses whether to generate a quote instability determination affecting resting bids or offers for each options series. A quote instability determination is generated by the System when, pursuant to the quote instability calculation, the quote instability factor is greater than the defined Quote Instability Threshold and the delta absolute value is within the Delta Bound Band.[166] As proposed, the Delta Bound Band would be uniformly applied across all options in order to more narrowly tailor deployment of the ORP to options series at the greatest risk of adverse selection based on the Exchange's assessment of relevant factors.

If a Market Maker has opted to utilize the ORP and its quote in an options series that was the subject of a quote instability determination is at or above (below) the price level of the quote instability determination the System will either cancel the Market Maker's quote or reprice it to the price level of the quote instability determination,

[163] *See* Staff Report on Equity and Options Market Structure Conditions in Early 2021 (Oct. 14, 2021) at 4 (explaining that options market structure is broadly similar to equities market structure and noting a key difference that displayed liquidity is primarily derived from market maker quotes), available at *https://www.sec.gov/files/staff-report-equity-options-market-struction-conditions-early-2021.pdf; see also* Lehoczky, Sandor and Woods, Ellen and Russell, Matthew and Nguyen, Mina and Somers, James, *Dead Man's Switch: Making Options Markets Safer with Active Quote Protection* (May 2020) (''Dead Man's Switch''), at 2 (explaining that options markets ''depend especially on market makers—who account for 99.9% of open orders—to connect buyers and sellers, due to a combinatorial explosion of expirations and strike prices'').

[164] *See, e.g., Protecting Liquidity in Options Markets,* Market Structure, Optiver, July 12, 2023 (''Protecting Liquidity''), (concluding that ''liquidity protection improves options markets'' by safeguarding market makers against ''excessive risk'' that results from ''liquidity providers maintain[ing] hundreds of quotes on a given underlying at any one time [and] a sudden market move can leave them vulnerable to showing stale, or outdated, quotes,'' thereby ''exposing them to potentially major losses'' if unable to amend or cancel quotes before executed), available at *https://optiver.com/insights/protecting-liquidity-in-options-markets/.*

[165] IEX notes that such trends have been in place for some time. *See, e.g.,* Joint letter from CBOE, SIFMA and The STA to Brett Redfearn (Director, Division of Trading and Markets, Commission) dated June 4, 2018, available at Cboe_Joint_Letter_with_SIFMA_and_The_STA_on_Options_Market_Structure.pdf, noting that ''. . .[i]n particular over the past several years, there has been wide discussion in the options industry regarding market metrics and it has been shown that quoted liquidity has decreased and spreads have widened. Further many market makers have consolidated their businesses, reduced their participation, or stopped making options markets entirely—there are approximately half as many registered market makers actively participating in the U.S. options markets than there were five years ago. This trend obviously has impacted market quality in the U.S. options markets.''

[166] See discussion *supra* on how modifications to these values will be made.

pursuant to the Market Maker's instruction.[167] Regardless of whether it chooses to use the ORP, a Market Maker will be able to adjust the price of its quote in the same manner as other Market Makers' quotes that have not opted to use the ORP.[168]

One Second Exposure Period. Proposed Rule 23.200 would require Options Members to expose their customers' orders on the Exchange for at least one second under certain circumstances before trading against such orders. During this one second exposure period, other Options Members will be able to enter orders to trade against the exposed order. In adopting a one second order exposure period, the Exchange is proposing a requirement that is consistent with the rules of other options exchanges.[169] Thus, the exposure period will allow Options Members that are members of other options exchanges to comply with proposed Rule 23.200 without programming separate time parameters into their systems for order entry or compliance purposes. The Exchange believes that market participants are sufficiently automated that a one second exposure period allows an adequate time for market participants to electronically respond to an order. Also, it is possible that market participants might wait until the end of the exposure period, no matter how long, before responding. Thus, the Exchange believes that any longer than one second would not further the protection of investors or market participants, but rather, would potentially increase market risk to investors and other market participants by creating a longer period of time for the exposed order to be subject to market risk.

Options Order Protection and Locked/Crossed Market Plan Rules

The Exchange will participate in the Options Order Protection and Locked/Crossed Market Plan (the ''Plan''),[170] and therefore will be required to comply with the obligations of Participants under the Plan. The Exchange proposes to adopt rules relating to the Plan that are substantially similar to the rules in place on all of the options exchanges that are Participants to the Plan. The Plan essentially applies the Regulation NMS price-protection provisions to the options markets. Similar to Regulation NMS, the Plan requires the Plan Participants to adopt rules ''reasonably designed to prevent Trade-Throughs'', while exempting ISOs from that prohibition. The Plan's definition of an ISO is essentially the same as under Regulation NMS. The remaining exceptions to the trade-through prohibition, discussed more specifically below, either track those under Regulation NMS or correspond to unique aspects of the options market, or both.

The proposed rules in Chapter 28 (Options Order Protection and Locked and Crossed Markets Rules) conform to the requirements of the Plan. Proposed Rule 28.100 sets forth the defined terms for use under the Plan. Proposed Rule 28.110 prohibits trade-throughs and exempts ISOs from that prohibition. Proposed Rule 28.110 also contains additional exceptions to the trade-through prohibition that track the exceptions under Regulation NMS or correspond to unique aspects of the options market, or both.

Proposed Rule 28.120 sets forth the general prohibition against locking/crossing other eligible exchanges as well as certain enumerated exceptions that permit locked markets in limited circumstances; such exceptions have been approved by the Commission for inclusion in the rules of other options exchanges. Specifically, the exceptions to the general prohibition on locking and crossing occur when: (1) the locking or crossing quotation was displayed at a time when the Exchange was experiencing a failure, material delay, or malfunction of its systems or equipment; (2) the locking or crossing quotation was displayed at a time when there is a Crossed Market; (3) the Options Member simultaneously routed an ISO to execute against the full displayed size of any locked or crossed Protected Bid or Protected Offer; or (4) with respect to a locking quotation, the order entered on the Exchange that will lock a Protected Bid or Protected Offer, is: (i) not a Customer order, and the Exchange can determine via identification available pursuant to the OPRA Plan that such Protected Bid or Protected Offer does not represent, in whole or in part, a Customer order; or (ii) a Customer order, and the Exchange can determine via identification available pursuant to the OPRA Plan that such Protected Bid or Protected Offer does not represent, in whole or in part, a Customer order, and, on a case-by-case basis, the Customer specifically authorizes the Member to lock such Protected Bid or Protected Offer.[171]

The Exchange notes that the proposed rules in Chapter 28 (Options Order Protection and Locked and Crossed Markets Rules) are substantively identical to the rules of MEMX Options.[172]

Securities Traded on IEX Options

General Listing Standards. The Exchange proposes to adopt listing standards for options traded on IEX Options as described in Chapter 20 (Securities Traded on IEX Options), which are substantively identical to the equivalent MEMX Options rules,[173] with the exception of: (i) some language in Supplementary Material .02 to proposed Rule 20.140 concerning the $1 strike price program which is not included in the equivalent MEMX rule, and therefore borrowed from the equivalent MIAX rule;[174] and (ii) the addition of language allowing the Exchange to list for closing transactions an Options series that is listed but restricted to closing transactions on another exchange.[175] The Exchange will join the Options Listings Procedures Plan and will list and trade options already listed on other options exchanges. The Exchange will gradually phase-in its trading of options, beginning with a selection of actively traded options.

Conduct and Operational Rules for Options Members

The Exchange proposes to adopt rules in Chapter 19 for IEX Options that are substantively identical to the rules of MEMX Options regarding: exercises and deliveries as described in Chapter 24 (Exercises and Deliveries); records, reports and audits as described in Chapter 25 (Records, Reports and Audits); minor rule violations as described in Chapter 26 (Discipline and Summary Suspensions); doing business with the public as described in Chapter 27 (Doing Business With the Public); and margin as described in Chapter 29 (Margin Requirements).[176] The Exchange also proposes to adopt rules that are substantively similar to most of MEMX's Chapter 18 (Business Conduct), with the exception of proposed Rules 19.160 (Position Limits), 19.170

[167] *See* proposed Rule 23.150(h)(1)(c).

[168] The Exchange will comply with Consolidated Audit Trail reporting requirements in accordance with applicable technical specifications.

[169] *See, e.g.,* MEMX Rule 22.11; CBOE Rule 5.9; and MIAX Options Rule 520(b).

[170] *See supra* note 85.

[171] *See* proposed Rule 28.120(b).

[172] *See* MEMX Rule 27.1, 27.2, and 27.3.

[173] *See* MEMX Rules, Chapter 19. IEX notes that the MEMX Rules include Chapter 29: Index Rules. IEX is not proposing to adopt similar rules at this time, and any references to index options in MEMX Chapter 19 are not in proposed IEX Chapter 20.

[174] *See* MIAX Rule 404 Interpretation and Policy .01.

[175] *See* Supplementary Material .01 to proposed Rule 20.130, which mirrors MIAX Rule 403 Interpretation and Policy .01.

[176] *See* MEMX Rules, Chapters 23, 24, 25, 26 and 28.

(Exemptions from Position Limits), 19.180 (Exercise Limits) that are substantively similar to MIAX Rules 307, 308, and 309, respectively.[177] IEX proposed to adopt MIAX's versions of these rules because they provided specificity about the types of position limits the Exchange will apply to Options Members (as opposed to the MEMX rules, which rely on position limits set by other exchanges).

National Market System

IEX Options will operate as a full and equal participant in the national market system for options trading established under Section 11A of the Exchange Act.[178] IEX Options will become a member of the Options Price Reporting Authority (''OPRA''), the Options Order Protection and Locked/Crossed Market Plan, the Options Regulatory Surveillance Authority (''ORSA''), and the Options Listing Procedures Plan (''OLPP''). The Exchange expects to participate in those plans on the same terms currently applicable to current members of those plans. The Exchange is in the process of contacting the leadership of each options-related national market system plan to begin the membership process.

Regulation

The Exchange will leverage many of the structures it established to operate a national securities exchange trading NMS equities securities, in compliance with Section 6 of the Exchange Act.[179] As described in more detail below, there will be three elements of that regulation: (1) the Exchange will join the existing options industry agreements pursuant to Section 17(d) of the Exchange Act prior to commencing operations,[180] as it did with respect to equities; (2) the Exchange's Regulatory Services Agreement (''RSA'') with FINRA will be amended prior to commencing operations to provide that FINRA will perform regulatory surveillance, investigation, disciplinary and hearing services of options trading on IEX subject to oversight by IEX Regulation, just as it does for equities regulation; and (3) the Exchange will perform options listing regulation, as well as authorize Options Members to trade on IEX Options. Section 17(d) of the Exchange Act and the related Exchange Act rules permit SROs to allocate certain regulatory responsibilities to avoid duplicative oversight and regulation. Under Exchange Act Rule 17d–1,[181] the SEC designates one SRO to be the Designated Examining Authority, or DEA, for each broker-dealer that is a member of more than one SRO. The DEA is responsible for the financial aspects of that broker-dealer's regulatory oversight. Because IEX Options Members also must be members of at least one other SRO, the Exchange would generally not expect to be designated as the DEA for any of its members.[182]

Exchange Act Rule 17d–2 [183] permits SROs to file with the Commission plans under which the SROs allocate among each other the responsibility to receive regulatory reports from, and examine and enforce compliance with specified provisions of the Exchange Act and rules thereunder and SRO rules by, firms that are members of more than one SRO (''common members''). If such a plan is declared effective by the Commission, an SRO that is a party to the plan is relieved of regulatory responsibility as to any common member for whom responsibility is allocated under the plan to another SRO.

All of the options exchanges, FINRA, and NYSE have entered into the Options Sales Practices Agreement, a Rule 17d–2 agreement, and the Exchange intends to join this agreement prior to the commencement of operations for IEX Options. Under this Agreement, the examining SROs will examine firms that are common members of the Exchange and the particular examining SRO for compliance with certain provisions of the Exchange Act, certain of the rules and regulations adopted thereunder, certain examining SRO rules, and certain proposed IEX Options rules. In addition, the proposed IEX Options rules contemplate participation in this Agreement by requiring that any Options Member also be a member of at least one of the examining SROs. The Exchange and FINRA are also party to a bilateral Rule 17d–2 agreement that requires minor modifications due to the proposed launch of IEX Options. The Exchange intends to modify and seek Commission approval of the modified bilateral Rule 17d–2 agreement prior to commencing of operations for IEX Options. Additionally, all of the options exchanges and FINRA have entered into the Options-Related Market Surveillance Agreement, a Rule 17d–2 agreement, and the Exchange intends to join this agreement prior to the commencement of operations for IEX Options.

For those regulatory responsibilities that fall outside the scope of any Rule 17d–2 agreements, the Exchange will retain full regulatory responsibility under the Exchange Act. However, the Exchange has entered into an RSA with FINRA, as discussed above, pursuant to which FINRA personnel operate as agents for the Exchange in performing certain of these functions. The Exchange and FINRA will continue to operate under the RSA that is currently in place but with modifications as necessary to accommodate the expanded scope of the relationship. The necessary modifications will be implemented prior to the commencement of operations of IEX Options. As is the case with the Exchange's equities market, the Exchange will oversee FINRA and continue to bear ultimate regulatory responsibility with respect to regulatory functions not subject to allocation to FINRA or another SRO pursuant to a Rule 17d–2 Agreement for the IEX Options Exchange.

Consistent with the Exchange's existing regulatory structure, the Exchange's Chief Regulatory Officer, reporting to the Regulatory Oversight Committee of the Exchange's board of directors, shall have general supervision of the regulatory operations of IEX Options, including responsibility for overseeing the surveillance, examination, and enforcement functions and for administering all regulatory services agreements applicable to IEX Options. Similarly, the Exchange's existing Regulatory Oversight Committee will be responsible for overseeing the adequacy and effectiveness of Exchange's regulatory and self-regulatory organization responsibilities, including those applicable to IEX Options.

As it does with equities, the Exchange will monitor trading on IEX Options, both through internal reports and FINRA surveillances for the purpose of maintaining a fair and orderly market. As it does with its equities trading, the Exchange will monitor IEX Options to identify unusual trading patterns and determine whether particular trading activity requires further regulatory investigation by FINRA.

Finally, the Exchange will oversee the process for determining and

[177] The Exchange also proposes to adopt provisions comparable to CBOE Rule 8.30 Interpretation .03(c)(4) in proposed Rule 19.160(f)(2)(D) (regarding control for purposes aggregating positions held by different accounts for purposes of applying the position limit rules) and CBOE Rule 8.30 Interpretation .09 in Supplementary Material .03 to proposed Rule 19.160 (regarding aggregation of positions in options contacts on the same underlying security for purposes of position limit rules).

[178] 15 U.S.C. 78k–1.

[179] 15 U.S.C. 78f.

[180] 15 U.S.C. 78q(d).

[181] 17 CFR 240.17d–1.

[182] If IEX were to be designated as the DEA for any of its members, FINRA would perform the DEA functions on behalf of IEX pursuant to the RSA.

[183] 17 CFR 240.17d–2.

implementing trade halts, identifying and responding to unusual market conditions, and administering the Exchange's process for identifying and remediating ''obvious errors'' by and among its Options Members.[184] The proposed rules in Chapter 21 (Regulation of Trading on IEX Options) regarding halts,[185] unusual market conditions, extraordinary market volatility, obvious errors, audit trail, and rules regarding prohibited and permissible transfers of options positions off the Exchange are substantively identical to the approved rules of MEMX Options.[186]

Minor Rule Violation Plan

The Exchange's disciplinary rules, including Exchange Rules applicable to ''minor rule violations,'' are set forth in Chapter 9 of the Exchange's current Rules. Such disciplinary rules will apply to Options Members and their associated persons.

The Commission approved the Exchange's Minor Rule Violation Plan (''MRVP'') in 2016.[187] The Exchange's MRVP specifies the uncontested minor rule violations that are included in the MRVP and have sanctions not exceeding $2,500. Any violations that are resolved under the MRVP would not be subject to the provisions of Rule 19d–1(c)(1) under the Act [188] requiring that an SRO promptly file notice with the Commission of any final disciplinary action taken with respect to any person or organization.[189] The Exchange's MRVP includes the policies and procedures included in Exchange Rule 9.216(b) and the violations included in Rule 9.218.

Under Rule 9.216(b), the Exchange may impose a fine (not to exceed $2,500) and/or a censure on any Member or associated person with respect to any rule listed in IEX Rule 9.218. If the FINRA Department of Enforcement or the Department of Market Regulation, on behalf of the Exchange, has reason to believe a violation has occurred and if the Member or associated person does not dispute the violation, the Department of Enforcement or the Department of Market Regulation may prepare and request that the Member or associated person execute a minor rule violation plan letter accepting a finding of violation, consenting to the imposition of sanctions, and agreeing to waive the Member's or associated person's right to a hearing before a Hearing Panel or, if applicable, an Extended Hearing Panel, and any right of appeal to the IEX Appeals Committee, the Board, the Commission, and the courts, or to otherwise challenge the validity of the letter, if the letter is accepted. The letter must describe the act or practice engaged in or omitted, the rule, regulation, or statutory provision violated, and the sanction or sanctions to be imposed. Unless the letter states otherwise, the effective date of any sanction imposed will be a date to be determined by IEX Regulation staff. In the event the letter is not accepted by the Member or associated person, or is rejected by the Office of Disciplinary Affairs, the matter can proceed in accordance with the Exchange's disciplinary rules, which include hearing rights for formal disciplinary proceedings.

The Exchange proposes to amend its MRVP and Exchange Rule 9.218 to add certain rules relating to Options as set forth in proposed Rule 26.120 (Penalty for Minor Rule Violations) to the list of rules eligible for Minor Rule Violation Plan treatment.[190] The rules included in proposed Rule 26.120, as appropriate for disposition under the Exchange's MRVP, are: (a) position limit and exercise limit violations; (b) violations regarding the failure to accurately report position and account information; (c) Market Maker quoting obligations; (d) violations regarding expiring exercise declarations; (e) violations relating to the failure to respond to the Exchange's requests for the submission of trade data; and (f) violations relating to noncompliance with the Consolidated Audit Trail Compliance Rule requirements. The rule violations included in proposed Rule 26.120 are the same as the rule violations included in the MRVPs of other options exchanges.[191]

Upon implementation of this proposal, the Exchange will include violations of the enumerated options trading rules, if any, in an applicable Exchange's quarterly report of any actions taken on minor rule violations under the MRVP.[192] A quarterly report would include: the Exchange's internal file number for the case, the name of the individual and/or organization, the nature of the violation, the specific rule provision violated, the sanction imposed, the number of times the rule violation has occurred, and the date of disposition. The Exchange's MRVP, as proposed to be amended herein, is consistent with Sections 6(b)(1), 6(b)(5) and 6(b)(6) of the Act, which require, in part, that an exchange have the capacity to enforce compliance with, and provide appropriate discipline for, violations of the rules of the Commission and of the exchange, 6(b)(6) provides that members and persons and associated members shall be appropriately disciplined for violation of the provisions of the rules of the exchange, by expulsion, suspension, limitation of activities, functions and operations, fine, censure, being suspended or barred from being associated with a member, or any other fitting sanction.[193] Rule violations listed in proposed Rule 26.120 are minor in nature and will be more appropriately disciplined through the Exchange's MRVP and therefore proposes to add them to the list of rules eligible for minor rule fine disposition.

In addition, because Rule 9.216(b) offers procedural rights to a person sanctioned for a violation listed in proposed Rule 26.120, the Exchange will provide a fair procedure for the disciplining of members and associated persons, consistent with Section 6(b)(7) of the Act.[194]

This proposal to include the rules listed in proposed Rule 26.120 in the Exchange's MRVP is consistent with the

[184] IEX notes that, like MEMX Rule 20.6, proposed Rule 21.150 authorizes the proposed Error Panel to review decisions made under this rule, which includes decisions to classify a transaction as a Catastrophic Error.

[185] Proposed Rule 21.120(b) states that during a trading halt, the Exchange shall process new and existing orders and quotes in a series in accordance with proposed Rule 22.160(g). Proposed Rule 22.160(g), which is substantively identical to NYSE Arca Options Rule 6.64P–O(g), states that during a trading halt, the Exchange will cancel all resting Market Maker quotes.

[186] *See* MEMX Rules, Chapter 20.

[187] *See* Securities Exchange Act Release No. 78474 (August 3, 2016), 81 FR 52717 (August 9, 2016) (Order Declaring Effective a Minor Rule Violation Plan) (File No. 4–701).

[188] 17 CFR 240.19d–1(c)(1).

[189] The Commission adopted amendments to paragraph (c) of Rule 19d–1 to allow SROs to submit for Commission approval plans for the abbreviated reporting of minor disciplinary infractions. *See* Release No. 34–21013 (June 1, 1984), 49 FR 23828 (June 8, 1984). Any disciplinary action taken by an SRO against any person for violation of a rule of the SRO which has been designated as a minor rule violation pursuant to such a plan filed with and declared effective by the Commission will not be considered ''final'' for purposes of Section 19(d)(1) of the Act if the sanction imposed consists of a fine not exceeding $2,500 and the sanctioned person has not sought an adjudication, including a hearing, or otherwise exhausted his administrative remedies.

[190] In its proposal to adopt the MRVP, the Exchange requested that, going forward, to the extent that there are any changes to the rules applicable to the Exchange's MRVP, the Exchange requests that the Commission deem such changes to be modifications to the Exchange's MRVP.

[191] *See, e.g.,* MEMX Rules, Chapter 25.

[192] To date, the Exchange has not taken any minor rule violation actions.

[193] 15 U.S.C. 78f(b)(1), 78f(b)(5) and 78f(b)(6).

[194] 15 U.S.C. 78f(b)(7). Rule 9.216(b) does not preclude an Options Member or person associated with an Options Member from contesting an alleged violation and receiving a hearing on the matter with the same procedural rights through a litigated disciplinary proceeding.

public interest, the protection of investors, or otherwise in furtherance of the purposes of the Act, as required by Rule 19d–1(c)(2) under the Act,[195] because it should strengthen the Exchange's ability to carry out its oversight and enforcement responsibilities as an SRO in cases where full disciplinary proceedings are unsuitable in view of the minor nature of the particular violation. In requesting the proposed change to the MRVP, the Exchange in no way minimizes the importance of compliance with Exchange Rules and all other rules subject to the imposition of fines under the MRVP. Minor rule fines provide a meaningful sanction for minor or technical violations of rules when the conduct at issue does not warrant stronger, immediately reportable disciplinary sanctions. The inclusion of a rule in the Exchange's MRVP does not minimize the importance of compliance with the rule, nor does it preclude the Exchange from choosing to pursue violations of eligible rules through the Exchange's disciplinary rules if the nature of the violation or prior disciplinary history warrants more significant sanctions. However, the MRVP provides a reasonable means of addressing rule violations that do not rise to the level of requiring formal disciplinary proceedings, while providing greater flexibility in handling certain violations.[196] The Exchange will continue to conduct surveillance with due diligence and make a determination based on its findings, on a case-by-case basis, whether a fine of more or less than the recommended amount is appropriate for a violation under the MRVP or whether a violation requires a formal disciplinary action.

Section 36 Exemption Request

The Exchange proposes to incorporate by reference as IEX Options rules certain rules of the Cboe Exchange, Inc. (''CBOE''), the New York Stock Exchange (''NYSE''), and FINRA. Specifically, proposed Rule 27.250 proposes to incorporate by reference the applicable rules of FINRA with respect to Communications with Public Customers, and proposed Rule 29.120 proposes to incorporate by reference initial and maintenance margin requirements of either CBOE or NYSE. Thus, for certain IEX Options rules, Exchange members will comply with a IEX Options rule by complying with the CBOE, NYSE, or FINRA rule referenced. Using its authority under Section 36 of the Act, the Commission has previously exempted certain SROs from the requirement to file proposed rule changes under Section 19(b) of the Act when incorporating another SRO's rules by reference.[197] Each such exempt SRO has agreed to be governed by the incorporated rules, as amended from time to time, but, has not been required to file a separate proposed rule change with the Commission each time the SRO whose rules are incorporated by reference seeks to modify its rules. In addition, each SRO incorporated by reference only regulatory rules (*e.g.,* margin, suitability, arbitration), not trading rules, and incorporated by reference whole categories of rules (*i.e.,* did not ''cherry-pick'' certain individual rules within a category). Last, each exempt SRO had reasonable procedures in place to provide written notice to its members each time a change is proposed to the incorporated rules of another SRO in order to provide its members with notice of a proposed rule change that affects their interests, so that they would have an opportunity to comment on it.

In connection with this proposal, the Exchange respectfully requests, pursuant to Rule 240.0–12 under the Act,[198] an exemption under Section 36 of the Act from the rule filing requirements of Section 19(b) of the Exchange Act for changes to those IEX Options rules that are effected solely by virtue of a change to a cross-referenced CBOE, NYSE, or FINRA rule. The Exchange proposes to incorporate by reference categories of rules (rather than individual rules within a category) that are not trading rules. The Exchange also agrees to provide written notice to Options Members prior to the launch of IEX Options of the specific CBOE, NYSE, and FINRA rules that it will incorporate by reference. In addition, the Exchange will notify Options Members whenever CBOE, NYSE, or FINRA proposes a change to a cross-referenced CBOE, NYSE, or FINRA rule.[199] For the foregoing reasons, the Exchange believes that its request for exemptive relief is consistent with prior requests for, and provision of, similar exemptive relief.

Amendments to Existing Exchange Rules

In addition to the rules of IEX Options proposed above, the Exchange proposes to amend certain of its existing Exchange Rules that currently apply to the Exchange's equities market in order to reflect the Exchange's proposed operation of IEX Options.

First, the Exchange proposes to amend Rule 2.160(i), which generally requires each Member to register at least two Principals with the Exchange subject to certain exceptions described therein, to provide that such paragraph (i) shall not apply to a Member that solely conducts business on the Exchange as an Options Member, however, Options Members must comply with the registration requirements set forth in proposed Rule 18.110. The Exchange notes that proposed Rule 18.110(h), which provides that every Options Member shall have at least one Options Principal and sets forth the Exchange's Options Principal registration requirements, is identical to MEMX Rule 17.2(g). In connection with this proposed change, the Exchange also proposes to amend Rule 2.160(n) to include Options Principal as a registration category and to set forth the Exchange's qualification requirements for an Options Principal, which are the same as those for an Options Principal on MEMX Options. Additionally, the Exchange proposes to amend Rule 2.160(p)(a)(4) to set forth the appropriate regulatory element continuing education module for reregistration as an Options Principal.

The Exchange also proposes to make three modifications to Rule 2.220 (IEX Services LLC as Outbound Router). First, IEX proposes to remove the word ''directly'' from the first sentence of subparagraph (a), because IEX Services will continue to route orders to away markets, but as described above, with respect to options routing, it will not route those order ''directly'' to the away markets. Second, consistent with the first change, IEX proposes to insert a new second sentence in subparagraph (a) that reads: ''When routing options orders, as set forth in proposed Rule 22.180, IEX Services will transmit such orders to one or more routing brokers that are not affiliated with the Exchange; the routing brokers will in turn route the applicable options orders to other

[195] 17 CFR 240.19d–1(c)(2).

[196] *See supra* note 188 and accompanying text.

[197] *See, e.g.,* Securities Exchange Act Release No. 49260 (February 17, 2004), 69 FR 8500 (February 24, 2004). *See also* Securities Exchange Act Release Nos. 57478 (March 12, 2008), 73 FR 14521, 14539–40 (March 18, 2008) (order approving SR–NASDAQ–2007–004 and SR–NASDAQ–2007–080) and 53128 (January 13, 2006), 71 FR 3550, 3565–66 (January 23, 2006) (File No. 10–131) (approving The NASDAQ Stock Market LLC's exchange application).

[198] 17 CFR 240.0–12.

[199] The Exchange will provide such notice through a posting on the same website location where the Exchange will post its own rule filings pursuant to Rule 19b–4(f)(l) under the Exchange Act (or other appropriate rule filing type), within the time frame required by that rule. The website posting will include a link to the location on the CBOE, NYSE, or FINRA websites where the proposed rule change is posted.

securities exchanges that trade options.'' IEX proposes to make this change to reflect the different nature of how IEX Services will handle routing options orders from equities orders. And third, IEX proposes to modify subparagraph (a)(8) of this rule, which states that IEX Services shall maintain an error account for the purpose of addressing positions that are the result of an execution or executions that are not clearly erroneous under Rule 11.270 and result from a technical or systems issue at IEX Services, the Exchange, a routing destination, or a non-affiliate third-party routing broker that affects one or more orders (''Error Positions''). The proposed change to Rule 2.220(a)(8) would add a reference to the comparable provision to that which governs review and resolution of clearly erroneous equities transactions (*i.e.,* Rule 11.270) but for options transactions, namely proposed Rule 21.150, which governs review and resolution of options transactions that may qualify as obvious errors.

The Exchange also proposes to adopt Rule 21.220 (Limitation of Liability), which is almost identical to the Rule 11.260, the Limitation of Liability rule in IEX's equities trading rules. The only difference is to reflect that proposed Rule 21.220 applies to IEX Options and options trading.

Lastly, the Exchange proposes to amend Rule 9.218 (Violations Appropriate for Disposition Under Plan Pursuant to Exchange Act Rule 19d–1(c)(2)), which contains the list of Exchange Rule violations and recommended fine schedule, to include a new paragraph (k) referencing proposed Rule 26.120 for the recommended fines for minor rule violations of the Exchange Rules appliable to IEX Options, which the Exchange notes are the same as those of MEMX Options.

2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Act [200] in general, and furthers the objectives of Section 6(b)(5) of the Act [201] in particular, in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, 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; and is not designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

As described above, the Exchange proposes to operate its options market much as it operates its equities market today and in a manner similar to that of other options exchanges, while leveraging IEX's experience and expertise in understanding the needs of market makers to offer them additional tools designed to better manage risk and drive performance. As discussed in the Purpose section, IEX believes that the proposed enhanced liquidity protection mechanisms will result in market makers providing more competitive quotes which will benefit all market participants and thereby support the protection of investors and the public interest. Also as discussed in the Purpose section, most of the proposed IEX Options rules are based on the rules of other options exchanges, primarily MEMX, CBOE, MIAX, NYSE Amex, and NYSE Arca. Therefore, the Exchange does not believe these aspects of the proposed rule change that are substantively identical to other exchanges' rules raise any new or novel issues that have not been previously considered by the Commission. Moreover, the Exchange believes that the proposed functionality is consistent with Section 6(b)(5) of the Act because the System is designed to be efficient and its operation transparent, thereby facilitating transactions in securities, removing impediments to and perfecting the mechanisms of a free and open national market system. As described above, the Exchange's proposed rules, including the proposed Order Types and Handling Instructions, opening procedures, routing services, and order matching process are designed to provide a simplified suite of conventional features and to comply with all applicable regulatory requirements, including the obligations of the Options Order Protection and Locked/Crossed Market Plan.[202]

As discussed in the Purpose section, IEX's proposal includes a de minimis latency mechanism (or speedbump) on incoming order and quote messages designed to enable IEX to obtain the most accurate view of the market prior to processing orders and quotes, and a robust suite of risk protections, including the ORP, which is designed to protect market makers from excessive risk due to execution of quotes at stale prices. IEX believes that the proposed latency mechanism will protect investors and the public interest in several respects. First, by enabling IEX to obtain the most accurate view of market data prior to executing an order or quote, it thereby would support IEX's ability to accurately account for contemporaneous market data. IEX notes that this aspect of its functionality is designed to facilitate market participants executing at current (*i.e.,* not ''stale'') prices. Second, by enabling the System to perform the Indicator calculation with current market data, it supports operation of the ORP (as discussed herein), which is designed to provide Market Makers with an optional tool to avoid excessive risk that can arise from execution of a quote at a stale price. As discussed in detail above, IEX believes that this protection will encourage market makers to post aggressively priced and/or deeper quotes on the Exchange which will benefit all market participants. Thus, from a functional perspective, IEX believes that the operation of the latency mechanism is consistent with the Act. Further, and as explained below, the proposed latency mechanism of 350 microseconds is well within the geographic delays that exist among and between the data centers that IEX Options Members and other options exchanges use [203] and is consistent with the naturally occurring time indeterminism that exists in order processing.[204]

IEX also believes that the latency mechanism is consistent with the Commission Interpretation Regarding Automated Quotations Under Regulation NMS (''de minimis delay

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

[201] 15 U.S.C. 78f(b)(5).

[202] *See supra* note 85.

[203] *See https://www.ice.com/publicdocs/ICE_Global_Network_Factsheet.pdf* for a description of latencies between various data centers.

[204] Accounting for the latency mechanism or speedbump is no different than accounting for other geographical distances between exchanges. *See* Securities Exchange Act Release No. 78101 (June 17, 2016), 81 FR 41142, 41161 (June 23, 2016) (''2016 SEC Approval Order'') (approving IEX's 350 microsecond speed bump in the registration of the IEX Exchange as ''well within the range of geographic and technological latencies that market participants experience today'' such that ''latency to and from IEX will be comparable to—and even less than—delays attributable to other markets that currently are included in the NBBO,'' and finding the delay to be de minimis, *i.e.,* so short as to not frustrate the purposes of the Exchange Act by impairing fair and efficient access to IEX's quotation); *see also* 2020 SEC Approval Order, supra note 27, at 54441 (determining that IEX's de minimis speed bump when routing displayed equity orders is ''just like accounting for any other technological or geographic latency'' and doing so is consistent with applicable rules and regulations); *see also Citadel,* 45 F.4th at 37 *supra* note 27 (ruling in favor of the SEC's approval of IEX's displayed equity order that traverses a speedbump and holding that IEX's displayed equity order's delay are ''similar to the delay that traders' communications already experience when traveling between various other exchanges across the country.'').

interpretation'').[205] Although options markets do not have the same automated quotation requirements as in equities, even if they were to apply, the Commission's reasoning in the de minimis delay interpretation in the context of NMS automated quotations is instructive, as the latency mechanism IEX is proposing for the options exchange is a de minimis delay that does not impair fair and efficient access to an exchange's quotation. Specifically, the Commission stated in issuing its interpretation that intentional delays that are well within the geographic and technological latencies experienced by market participants when routing orders are de minimis to the extent they would not impair a market participant's ability to access a displayed quotation consistent with the goals of NMS Rule 611.[206] The Commission also noted that an intentional delay of any duration must be fully disclosed and codified in a written rule of the exchange, which, as described below, the latency mechanism will be fully disclosed and codified in IEX's written rules.[207]

IEX believes that its proposed latency mechanism of 350 microseconds is fully consistent with the reasoning in the Commission's de minimis delay interpretation.[208] First, the delay is less than the existing geographic latencies experienced by market participants when routing orders. For example, latency between and among the data centers located in New Jersey range up to several hundred microseconds, with additional latency introduced by technology processing on both sides of an order or quote route between these data centers.[209] Accordingly, the proposed latency mechanism is consistent with this aspect of the Commission's de minimis interpretation.

The proposed latency mechanism also meets the additional prongs of the de minimis interpretation, that it be fully disclosed and codified in a written rule of the exchange that has become effective pursuant to Section 19 of the Act; and that the exchange articulates how the purpose, operation, and application of the delay is consistent with the Act and the rules and regulations thereunder applicable to the exchange. The latency mechanism's operation, as proposed, would be disclosed and codified in detail in IEX Rules 22.100(n) and 22.170(g). Those provisions specify that the latency mechanism shall mean a delay of 350 microseconds that is added to each incoming order and quote message from a User prior to processing by the System, and that will not apply to other communications between the Exchange and Users, Away Markets, data feeds, order processing and order execution on the IEX Options Book, and outbound communications to the Exchange's proprietary data feeds and OPRA. As discussed above, the purpose of the latency mechanism is to provide adequate time for the IEX System to obtain the most accurate view of market data to enable it to accurately price orders as well as to perform the Indicator calculation with current market data.

Consequently, based on the foregoing, the Exchange believes that the latency mechanism is both de minimis and otherwise consistent with the Act.

The Exchange believes that the proposed ORP is consistent with Section 6(b) of the Act[210] in general, including furthering the objectives of Section 6(b)(5) of the Act,[211] as the proposed optional risk protection mechanism would remove impediments to and perfect the mechanism of a free and open market and a national market system and promote just and equitable principles of trade by providing an optional quote parameter, available to all IEX Options Market Makers, that is designed to assess the materiality of an adverse price change in a particular options series so that the System can effectuate the advance trading instructions provided by the Market Maker to cancel or reprice its quote to the price level of the quote instability determination, as selected by the Market Maker. The ORP is an optional, narrowly tailored approach designed to provide protection from excessive risk of execution of quotes at stale prices and thereby enable market makers to make tighter and larger quotes (*i.e.,* quotes at narrower spreads with greater size) thus enhancing the quality of the IEX Options market, to the benefit of all market participants. The Exchange believes it is appropriate to provide market makers with the choice to utilize this reasonable quote protection, particularly given the continuous quoting obligations specific to market makers and their importance in providing liquidity in the listed options market. The Exchange further believes this risk functionality will encourage market makers to provide additional depth and liquidity to the Exchange's markets, thereby removing impediments to and perfecting the mechanisms of a free and open market and a national market system and, in general, protecting investors and the public interest.

The Exchange believes that the ORP supports the protection of investors and public interest goals of the Act. As described in the Purpose section, based on the structural differences between equities and listed options markets, the options exchanges often do not have the same natural liquidity of buyers and sellers for each tradeable instrument (*i.e.,* options series) as is generally the case in equities. As a result, market makers with affirmative obligations play a central role in providing liquidity to options exchanges through continuous two-sided quotes in large numbers of listed options series, thereby enabling investors to transact in listed options in accordance with their investment objectives. Because options market makers are required to maintain hundreds (and sometimes thousands) of quotes on options overlying underlying securities at any one time, a sudden market move in the underlying security can leave them vulnerable to being executed on quotes at stale prices and dislocated from the price of the underlying security.[212] Liquidity takers engaged in latency arbitrage can target these quotes at stale prices, with limited risk should they fail, before the market maker has time to move its quotes to reflect the price change in the

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[205] *See* Commission Interpretation Regarding Automated Quotations Under Regulation NMS, Exchange Act Release No. 34–78102, 81 FR 40,785, 40,792 (June 23, 2016).

[206] *Id.*

[207] *Id.*

[208] IEX notes that the D.C. Circuit Court also agreed with the Commission's interpretation. The Court ruled entirely in favor of the SEC's approval of IEX's system that includes applying a speedbump and quote indicator to displayed equity orders. *See Citadel Securities,* 45 F.4th at 36, *supra* note 27 (concluding the SEC's approval of a 350 microseconds intentional access delay for displayed orders to be ''de minimis—*i.e.,* a delay so short as to not frustrate the purposes of Rule 611 by impairing fair and efficient access to an exchange's quotations''); *see also id.* (''The SEC's conclusion that mere de minimis delays do not cause an order to violate Regulation NMS's immediacy requirement was therefore reasonable.'').

[209] *See https://www.ice.com/publicdocs/ICE_Global_Network_Factsheet.pdf.*

[210] 15 U.S.C. 78f(b).

[211] 15 U.S.C. 78f(b)(5).

[212] *See, e.g., Dead Man's Switch, supra* note 154 (discussing the need for quote protection for market makers to allow for a deep and liquid listed options market and explaining that ''race conditions'' negatively impact pricing efficiency, ''as market makers have been shown to quote wider spreads or step back instead of continually updating with price moves for fear of being ''picked off.''); *see also Market Lens, supra* note 21 (explaining the need for risk management in electronic trading given that ''traders who place limit orders—the foundation of public price discovery—are exposed to the risk that their quotations will be executed at an inopportune time, leading to potential losses'' and that the ''greater the risk of an inopportune execution, the more compensation is required, which leads to wider bid-ask spreads. Conversely, anything the trader can do to lower the risk of an inopportune execution will lower the compensation required, which leads to narrower bid-ask spreads.'').

underlying security exposing them to potentially major losses. Even high-speed market makers, due to the large number of quotes they are required to maintain, are susceptible to the risk of being unable to adjust their quotes fast enough to protect against strategies that can choose to send ''aggressive'' orders in specific options when they detect changing market conditions.[213]

The ORP is designed to supplement the standard proposed risk checks to provide augmented protection to address the inherent risks faced by market makers. The Exchange notes that, as proposed, ORP would be an incremental step in providing further risk protections to market makers consistent with exchanges' long-standing practice of offering targeted risk protections to market makers in recognition of their obligations and the unique risks they face. IEX believes that the operation of the ORP is similar to price reasonability and activity-based risk checks offered by other options exchanges (and proposed by IEX herein), in terms of its impact on a resting quote.[214] Each of these risk controls provide that the exchange will cancel an order or quote pursuant to the member's instructions when the control is triggered based on a determination that the price of the market maker's quote is ''unreasonable'' because it is no longer reflective of the price of the underlying security and therefore likely stale (price reasonability check) or that the execution activity of a market maker's quotes exceeds the market maker's risk tolerance (activity-based controls). Additionally, the trading collar and limit order protection rules of other options exchanges and those similarly proposed by IEX provide for orders to be repriced.

Similarly, the ORP will enable IEX to cancel or reprice a Market Maker's quote based on a trigger in the discrete moments when the mathematical relationship between the options quote and the underlying security's price become substantially disconnected, as per the Indicator formula. However, IEX notes that the proposed ORP would be more transparent than the activity-based controls in determining when a market maker quote is potentially subject to cancelation (or adjustment) because it is based on a transparent formula specified in IEX's rules. Participants will know that any change in an options quote based on the ORP will only occur in the circumstances that are defined and in a predictable way based on the transparent formula. In contrast, those triggers for an activity-based control are nonpublic and set by each exchange member. Importantly, the ORP would not impact the effectiveness of these other risk tools. However, if Market Makers can better control the risks from latency arbitrage strategies through the narrowly tailored ORP, they may need to rely less on these other less transparent tools.

As discussed above, because of the lack of natural sources of liquidity across the multitude of listed options series, market makers are subject to affirmative obligations to maintain continuous two-sided quotes on hundreds or thousands of individual options series. While IEX proposes to offer bulk quoting and purge port functionality to market makers (in the same manner as other options exchanges), in a fast-moving market, the prices of their quotes can nonetheless become stale almost instantaneously. In those times, a sophisticated liquidity taker can target one or more market maker quotes at stale prices before the market maker can update its quotes, thereby exposing the market maker to potentially major losses. The ORP is designed to assist market makers with an option to manage this risk, similar to the other risk controls. While some overlap is expected, IEX believes that the Indicator would potentially identify additional instances of quotes at stale prices beyond those identified by the other price reasonability checks.

Further, IEX notes that the operation of the Indicator is similar to the manner in which IEX's equities market (the ''Equities System'') utilizes a ''crumbling quote indicator'' to encourage the provision of displayed liquidity by providing reasonably tailored protections against adverse executions.[215] As with the crumbling quote indicator, the Indicator will be a transparent formula based on a pre-determined objective set of circumstances that will be specified in IEX's rules to identify when the Protected Bid and/or Protected Offer in a particular options series is likely to move to a less aggressive price.

Moreover, the Options System will use the ORP in a manner similar to the way in which the Equities System applies the crumbling quote indicator to resting displayed liquidity, which reprices the applicable order or quote. The functional differences between the crumbling quote indicator and the Indicator reflect that options pricing is derivative.[216] Thus, the Indicator will trigger when it identifies that a Protected Bid or Protected Offer is likely to move to a less aggressive price, based on a price change in the underlying security, thereby exposing the market maker to excessive risk, but, unlike the crumbling quote indicator, would reprice the quote to the price level of the quote instability determination or cancel the impacted quote and not remain ''on'' for a period of time after triggering. IEX believes that this approach is appropriate in view of the derivative pricing of options and that it will contribute to more displayed liquidity through improved execution quality, enhance the public price discovery process, and promote just and equitable principles of trade.[217]

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[213] *See id.*

[214] *See, e.g., Market-Maker Protections,* Market Structure, Optiver, July 17, 2023 (''Market Maker Protections''), available at *https://optiver.com/insights/market-maker-protections/* (explaining that exchanges implement robust market-maker protections to ''assist market makers in coping with the risks of posting continuous, two-sided quotes in thousands of financial instruments'' and to provide the ability to automatically pull or amend their quotes so that ''all quotes falling within the scope of protection still resting on the book are prohibited from further execution'').

[215] In 2016, IEX received SEC approval of the IEX's exchange system that provides a similar quote indicator for equities. *See* 2016 SEC Approval Order (approving IEX's exchange system in its registration as a national securities exchange, which included the approval of IEX's crumbling quote indicator that assesses quote instability by utilizing a real-time, based on pre-determined, objective set of conditions that protects orders from unfavorable executions when the market is moving against them), *supra* note 195. In 2020, IEX received SEC approval to apply the quote indicator to displayed orders in equities. *See* 2020 SEC Approval Order, *supra* note 18 (receiving unanimous support and concluding that the Exchange's displayed order proposal that included a similar quote indicator is consistent with the requirements of the Exchange Act and the rules and regulations thereunder applicable to a national securities exchange and that is designed to improve market quality, enhance price discovery, and promote just and equitable principles of trade).

[216] Because of this difference, the Indicator is designed to identify when the Protected Bid and/or Protected Offer in an option series is dislocated from the price of the underlying based on a price change in the underlying and therefore likely to be in transition to a less aggressive price, while the crumbling quote indicator utilizes changes in the protected quote in the security itself to make such a prediction.

[217] *See, e.g.,* 2020 SEC Approval Order, *supra* note 18, at 54443 (concluding that IEX's exchange functionality protects against adverse selection and incentivizes more displayed liquidity through improved execution quality for liquidity providers, which contributes ''to fair and orderly markets'' and supports ''the public price discovery process''); at 54443 (finding that the Exchange's speedbump and crumbling quote indicator promotes the interest of long term investors and inures to the ''benefit of displayed markets, leading to increased displayed liquidity from which all market participants ultimately will benefit''); at 54451 (concluding that the Exchange's order protection functionality ''is designed to encourage market participants to post more priced limit orders, including displayed orders, on IEX, and thereby promotes just and equitable principles of trade, removes impediments to and perfects the mechanism of a free and open market and a national market, and, in general, protects investors and the public interest.'').

Further, the ORP would be available, as a quote parameter, only to market makers and on an optional basis, because the Exchange believes that it is most appropriate as a tool to address market maker risk. IEX believes that this approach is appropriate because market makers are subject to affirmative obligations to provide continuous two-sided quotes and cannot back away or unduly widen their quotes during periods of price volatility, as can other liquidity providers.[218] By offering market makers this narrowly-tailored, optional tool, IEX believes it will attract additional displayed liquidity that will be available to all market participants.

IEX also believes that use of the Indicator in determining when to trigger the ORP is consistent with the protection of investors and the public interest because the Indicator is based on the well-recognized Black-Scholes options pricing model, which IEX believes is an appropriate methodology to identify when a Market Maker's quote in an option is dislocated from the price of the underlying security based on the mathematical relationship between the price of the underlying security and the overlying options. Thus, when the ORP is triggered, and IEX changes or cancels a Market Maker quote, such action would be in the expected time frame and direction based on a change that has already occurred in the price of the underlying security. ORP action would not be arbitrary or unexpected but would simply enable the Market Maker's quote to reflect the most accurate prices available in the market, which is what they endeavor to do themselves. The ORP action therefore will likely be more predictable than other risk-based tools, like ''purge ports'' that can result in wholesale canceling of quotes for reasons specific to the market maker. Further, the ORP action should not ''surprise'' market participants and if a potential contra-party is unable to trade with the quote, they should not have expected a guaranteed execution in a narrow time frame when other factors, including risk mitigation functionality alternatives, are available on other options exchanges.

Moreover, IEX believes that the latency mechanism[219] (as discussed above) will serve to enhance the accuracy of the Indicator by providing adequate time for the IEX System to update its Indicator calculation with current market data and to enable IEX to obtain the most accurate view of the market prior to processing orders and quotes. In this regard, as discussed earlier, IEX notes that the proposed latency of 350 microseconds is well within the geographic delays that exist among and between the data centers that IEX Options Members, and other options exchanges, use and is consistent with the naturally occurring time indeterminism that exists in order processing.

Further, IEX believes that limiting the availability of the ORP to resting market maker quotes is consistent with the Act for several reasons. As discussed in depth above, market makers are integral to providing liquidity on options exchanges, and at the same time subject to a potentially excessive level of risk from execution of one or more quotes at stale prices. Additionally, market makers' obligations apply across all series in their appointed class. Other liquidity providers are free to concentrate their efforts in a select number of series. Thus, market makers have greater exposure to latency arbitrage, take on greater risk, and incur more related capital charges than other liquidity providers. IEX determined to apply the functionality to resting quotes only as this approach will best achieve the purpose of protecting market markets from the excessive risk of executions at stale prices without disrupting market makers' ability to update their quotations.

IEX further believes that it is consistent with the fair access and nondiscriminatory standards of Section 6(b)(5) of the Exchange Act to offer the ORP for IEX Market Makers' quotes. As discussed above, only market makers are subject to affirmative quoting obligations which create unique risks of adverse selection. Market makers play a central role in the options markets and account for over 99% of all open orders and quotes.[220] Market makers, as opposed to proprietary traders as well as retail and institutional customers, are subject to disproportionate risk as a consequence of maintaining quotes in a large number of options. In contrast, IEX understands that retail customers' market risk is generally a function of individual trading strategies, without any broader market wide implications on liquidity in the market. Indeed, the Commission has recognized in a number of contexts that it is appropriate and consistent with the Act for exchanges to enhance market quality by providing functionality specific to market makers to help protect them from these risks in a manner that is balanced against the obligations to which market makers commit themselves.[221]

IEX further notes that market makers typically manage their financial exposure risks resulting from their continuous quoting obligations in very short-term time frames, often measured in micro-seconds. As such, consistent with the long-standing precedent of exchanges offering specific tools and benefits to market makers in recognition of their quoting obligations and concomitant significant risk exposure, the ORP is designed to mitigate these risks that are relevant in such high-speed environments. IEX also believes that because the ORP is designed specifically to mitigate systemic adverse selection risks faced by market makers that are subject to continuous quoting obligations in hundreds (and sometimes thousands) of options, the manner in which it would operate by repricing or canceling quotes would not generally be beneficial for customers who do not enter orders in the same scale.

The ORP has been designed as a risk tool for options market makers based on the unique risks they face in today's options market structure. Their decisions on whether and when to use the ORP may vary by class and will be affected by price of the option, the volatility of the option and underlying, the NBBO spread, and many other factors. Consequently, as is the case with other risk tools provided by exchanges, retail investors would not be positioned to determine whether or when to use the ORP or to monitor the impact of that decision on their executions. IEX believes that retail investors will benefit, however, from the availability of any additional liquidity and competition that results from the use of the ORP by market makers.

The Exchange also believes that applying the Indicator on a class-by-class basis would remove impediments to, and perfect the mechanism of, a free and open market and a national market system and promote just and equitable principles of trade. As discussed in the

[218] *See, e.g., Protecting Liquidity, supra* note 155 (explaining that without robust liquidity protection mechanisms for market makers to protect against the risks of displaying quotes at stale or outdated prices, ''market makers may be forced to widen their spreads, show less liquidity or simply exit the market'' and overall ''market quality can deteriorate'' with the result of investors suffering).

[219] *See* proposed Rule 22.170(g).

[220] *See Dead Man's Switch, supra* note 163.

[221] *See* discussion *supra* on prevalence of purge ports and activity-based risk controls for market makers. *See also* ''Commission Guidance and Amendment to the Rules Relating to Organization and Program Management Concerning Proposed Rule Changes Filed by Self-Regulatory Organizations,'' Securities Exchange Act Release No. 34–58092 (July 3, 2008), 73 FR 40144, at 40148 (July 11, 2008) noting that ''[m]arket makers can play an important role in providing liquidity to the market, and an exchange can appropriately reward them for that as well as the services they provide to the exchange's market, so long as the rewards are not disproportionate to the services provided.''

Purpose section, applying the Indicator on a class-by-class basis would enable the Exchange to appropriately utilize the ORP for classes with a high potential for adverse selection, while excluding classes presenting lower risk of adverse selection (such as classes with relatively lower volumes). This flexibility will therefore allow the Exchange to focus its technology resources in an impactful manner to ensure the ORP is available for those classes where its use will achieve its intended purpose, while excluding its use where it would likely provide minimal incremental value (for example, for classes with nonstandard characteristics).

Moreover, IEX notes that the Commission has previously recognized the utility of IEX providing protection to liquidity providers through order types that leverage its crumbling quote indicator to appropriately protect market participants from the risks of transacting when the market is in transition and thereby incentivize the entry of liquidity providing orders. The Exchange believes that the proposed ORP is consistent with this history and is in furtherance of driving tighter and deeper displayed markets to the benefit of investors, as well as reducing barriers to entry for market maker participation and thereby support competition and reduce market maker concentration risk as discussed in the Purpose section.[222]

IEX also believes that the proposal is consistent with the firm quote obligations of a broker-dealer pursuant to Rule 602 of Regulation NMS.[223] Specifically, any marketable interest that is executable against a market maker's quote that has been received by the System prior to the time that a quote instability determination is received by System will be automatically executed, subject to processing of any prior messages, at the price and up to the size of the market maker's quote. When enabled by a Market Maker, the ORP will operate automatically when triggered, based on the publicly disclosed formula without input from the market maker.

IEX believes that the proposed ORP is consistent with the protection of investors and the public interest, fair and orderly markets, promotion of competition and innovation, and with the Exchange Act, including furthering the objectives of Section 6(b)(5) of the Act,[224] because it is a narrowly-tailored approach designed to appropriately balance the risks faced by market makers with the legitimate objectives of liquidity takers by providing additional optional risk protection to market makers and thereby encourage aggressive quoting, reduce barriers to entry for market maker participation, support competition, and reduce market maker concentration risk.

IEX conducted data analysis on the expected frequency with which it estimates that the ORP would impact a quote on IEX. The Exchange replayed OPRA data through its system for all series of over a thousand options classes of varying levels of volume and activity for various dates in February 2025 to estimate how often the ORP would impact a quote on IEX. Among the dates reviewed in February were: the day with the highest volume, the day with the lowest volume, the day with the highest CBOE Volatility Index® [225] (''VIX'') level, the two days with the largest interday change in VIX, and Fridays with monthly and non-monthly settlements.

The analysis set the ORP parameters to their most aggressive to maximize potential impact. Specifically, the Exchange set the Quote Instability Threshold to 0, the Delta Bound Band to its full range of 0–1, and assumed ORP was enabled across all options classes. Further, the analysis assumed that: (1) IEX's displayed quote in the options classes assessed was at the NBBO 100% of the time, (2) IEX's displayed quote in such options classes was composed exclusively of Market Maker quotes, and (3) all of those Market Maker quotes were enabled to be subject to ORP.[226] Based on the results of this analysis, the Exchange expects that the ORP would have a *de minimis* impact, but an impact that is narrowly tailored to provide protection from latency arbitrage strategies.

Across all classes reviewed, the Exchange estimates that the ORP would impact IEX Market Maker quotes on average per series significantly less than 0.001% of the trading day during regular trading hours (*i.e.,* between 9:30 a.m. to 4:00 p.m.). For options classes in the Penny Interval Program,[227] the analysis shows that the ORP would impact an IEX Market Maker's quote on average for less than 0.01% of the trading day per series. ORP impact for options classes not in the Penny Interval Program averaged 0.0005% per option. Applying the analysis to the most active options class, the SPDR® S&P 500® ETF Trust (''SPY''),[228] ORP would impact an IEX Market Maker's quote for less than 0.2% of the trading day. Thus, the ORP is designed to be nearly imperceptible to all market participants who are not specifically seeking to engage in latency arbitrage to execute against a market maker's quote at a stale price, based on its speed-based advantage that enables the most technologically low-latency view of market prices. IEX believes that this analysis supports that the ORP is a narrowly tailored approach designed to provide appropriate protection to market makers.

The Exchange further believes that offering more risk management protections to Market Makers would mitigate their exposure to excessive risk. As discussed in detail above, Market Makers are required to continuously provide two-sided quotes in substantial numbers of listed options series that can create large, unintended positions exposing market makers to excessive risk. Market Maker quotes are critical to provide liquidity to the market and contribute to price discovery for investors. Without robust liquidity protection, market makers may be forced to widen their spreads, show less liquidity or simply exit the market, which can result in deterioration of market quality and adversely impact investors' and other liquidity takers' ability to transact in the options markets.[229] In sum, liquidity protection for options market makers is vital for achieving a healthy balance between liquidity providers and liquidity takers in the options market that will promote more displayed liquidity from which all market participants ultimately will benefit.

The Exchange believes that the manner in which it will determine certain of the values related to the Indicator formula (*i.e.,* Delta Bound Bands, the Quote Instability Threshold, and the frequency of calculation of implied volatility) provides an appropriate degree of transparency coupled with the ability to modify those values to respond to rapidly changing market conditions or system issues in a manner designed to enable the Exchange to optimize effectiveness of the ORP. All applicable values and potential ranges will be transparently

[222] *See supra* notes 212 and 214 and accompanying text.

[223] *See* proposed Rule 23.140(d).

[224] 15 U.S.C. 78f(b)(5).

[225] The VIX is a benchmark index designed to measure the market's expectation of future volatility.

[226] This assumption overstates the estimated ORP impact because IEX does not believe that any options exchange has quotes at the NBBO 100% of the trading day in all underlying classes, nor are such quotes that are in effect comprised exclusively of market maker quotes. Additionally, IEX does not believe that all IEX Market Makers would necessarily enable ORP on all of their quotes.

[227] Excluding SPY, whose impact is described separately.

[228] SPY was also the class with the greatest observed ORP impact.

[229] *See supra* note 215.

specified in IEX rules with any modifications within such ranges effectuated through a rule filing pursuant to Rule 19b–4(f)(1) under the Exchange Act (or other appropriate rule filing type), thereby removing impediments to and perfecting the mechanisms of a free and open market and a national market system and, in general, protecting investors and the public interest.

The Exchange believes that the proposed rules of IEX Options, as well as the proposed method of monitoring for compliance with and enforcing such rules is also consistent with the Act, particularly Sections 6(b)(1), 6(b)(5) and 6(b)(6) of the Act, which require, in part, that an exchange have the capacity to enforce compliance with, and provide appropriate discipline for, violations of the rules of the Commission and of the exchange. The Exchange has proposed to adopt rules necessary to regulate Options Members that are nearly identical to the approved rules of other options exchanges, as described above. The Exchange proposes to regulate activity on IEX Options in the same way it regulates activity on its equities market (and comparable to other options exchanges), through various Exchange specific functions, an RSA with FINRA, as well as participation in industry plans, including plans pursuant to Rule 17d–2 under the Exchange Act.

In conclusion, for the reasons discussed above, IEX believes that the proposed rule change is consistent with the investor protection and public interest purposes of Section 6 of the Act. Additionally, IEX believes that establishing a new options market that participates in all the current (and any future) national market system plans governing options trading is consistent with Section 11A of the Act relating to the establishment of the national market system for securities.[230] As proposed, IEX Options will offer a simple alternative to existing options exchanges that is designed to support competitive quoting to the benefit of all market participants.

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

The Exchange does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. To the contrary, the proposed rule change is designed to enhance competition by providing for an additional exchange market for the trading of listed options.

IEX believes that this proposal will enhance competition by allowing the Exchange to leverage its existing robust technology platform to provide a resilient, deterministic, and transparent execution platform for options. The proposed rule change will insert an additional competitive dynamic to the options landscape by allowing the Exchange to compete with existing options exchanges and will promote further initiative and innovation among market centers and market participants.

Further, the Exchange does not believe that the latency mechanism or optional Market Maker quote parameter aspect of the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. To the contrary, these features are designed to enhance IEX Options' competitiveness by incentivizing the entry of increased Market Maker liquidity. Also, because the proposed ORP would provide Market Makers with an additional risk management mechanism, it would potentially increase competition among market makers by encouraging more market makers to provide liquidity in the market, as discussed above.

The Exchange does not believe that the proposed rule change will impose any burden on intra-market competition because it will apply to all Options Members in the same manner and any Options Member can perform any specified function subject to meeting applicable requirements.

The Exchange also does not believe that the proposed latency mechanism will impose any burden on intra-market competition that is not necessary or appropriate because it will apply in the same manner to all incoming orders and quotes.

The Exchange also does not believe that the proposed ORP will impose any burden on intra-market competition that is not necessary or appropriate because it will be available in the same manner to all Market Makers and any Options Member could become a Market Maker, subject to meeting applicable requirements. The ORP is designed to mitigate Market Makers' exposure to excessive risk and thereby enable them to provide more competitive quotes to the benefit of all market participants. The Exchange also believes that limiting the ORP functionality to Market Makers will not impose any burden on intra-market competition that is not necessary and appropriate because Market Makers are subject to robust affirmative quoting obligations and thus can uniquely benefit from the protections to be provided by the ORP. The Exchange thus believes it is reasonable to provide Market Makers with an additional tool to manage their risk parameters, particularly given their unique and critical role in the listed options market and the obligations that Market Makers must satisfy. As discussed in the Purpose and Statutory Basis sections, the proposed ORP will protect resting market-maker quotes (which are subject to quoting obligations) from executions at potentially stale prices, which the Exchange believes will reduce their risk and encourage Market Makers to provide more competitive markets on the Exchange, thereby benefitting all market participants through additional execution opportunities at prices that reflect the then-current market conditions. The Exchange expects the proposed rule change to increase liquidity and enhance competition in the market because Market Makers may be able to quote more aggressively with added productions from exposure to execution risk, thereby 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 also does not believe that the proposal will impose any burden on inter-market competition that is not necessary or appropriate. Competing exchanges are free to adopt similar functionality, subject to the Commission rule filing process.

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

Written comments were neither solicited nor received.

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

Within 45 days of the date of publication of the original notice in the **Federal Register** or within such longer period up to 90 days (i) as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

(A) by order approve or disapprove the proposed rule change, or

(B) institute proceedings to determine whether the proposed rule change should be disapproved.[231]

[230] 15 U.S.C. 78k–1.

[231] *See* supra note 7 (citing to the Commission's order instituting proceedings to determine whether to disapprove the proposed rule change). July 20, 2025 is the date by which the Commission shall issue an order approving, disapproving, or

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning Amendment No. 3, including whether the proposed rule change as modified by Amendment No. 3 is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic Comments

- Use the Commission's internet comment form (*https://www.sec.gov/rules/sro.shtml*); or
- Send an email to *rule-comments@sec.gov.* Please include file number SR–IEX–2025–02 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–IEX–2025–02. This file number should be included on the subject line if email is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's internet website (*https://www.sec.gov/rules/sro.shtml*). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street NE, Washington, DC 20549, on official business days between the hours of 10 a.m. and 3 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. Do not include personal identifiable information in submissions; you should submit only information that you wish to make available publicly. We may redact in part or withhold entirely from publication submitted material that is obscene or subject to copyright protection. All submissions should refer to file number SR–IEX–2025–02 and should be submitted on or before July 9, 2025.

extending the period for not more than 60 days. *See* 15 U.S.C. 78s(b)(2)(B)(ii).

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[232]

Sherry R. Haywood,

Assistant Secretary.

[FR Doc. 2025–11525 Filed 6–23–25; 8:45 am]

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[232] 17 CFR 200.30–3(a)(12).

SECURITIES AND EXCHANGE COMMISSION

[OMB Control No. 3235–0391]

Submission for OMB Review; Comment Request; Extension: Form T–6

Upon Written Request, Copies Available From: Securities and Exchange Commission, Office of FOIA Services, 100 F Street NE, Washington, DC 20549–2736

Notice is hereby given that, pursuant to the Paperwork Reduction Act of 1995 (44 U.S.C. 3501 *et seq.*), the Securities and Exchange Commission (''Commission'') has submitted to the Office of Management and Budget this request for extension of the previously approved collection of information discussed below.

Form T–6 (17 CFR 269.9) is an application for eligibility for a corporation or other person organized under the laws of a foreign government to act as trustee under an indenture qualified under the Trust Indenture Act of 1939 (15 U.S.C. 77aaa *et seq.*). Form T–6 provides the basis for determining whether a corporation or other person organized under the laws of a foreign government is eligible to serve as a trustee for a qualified indenture. The information required by Form T–6 is mandatory. This information is publicly available on EDGAR. We estimate that Form T–6 takes approximately 17 hours per response and that there is an average of one response annually. We estimate that 25% of the 17 burden hours per response is prepared by the filer for an internal burden of 4 hours ((0.25 × 17) hours per response × 1 response).

An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless it displays a currently valid OMB control number.

Written comments are invited on: (a) whether this proposed collection of information is necessary for the proper performance of the functions of the SEC, including whether the information will have practical utility; (b) the accuracy of the SEC's estimate of the burden imposed by the proposed collection of information, including the validity of the methodology and the assumptions used; (c) ways to enhance the quality, utility, and clarity of the information to be collected; and (d) ways to minimize the burden of the collection of information on respondents, including through the use of automated, electronic collection techniques or other forms of information technology.

The public may view and comment on this information collection request at: *https://www.reginfo.gov/public/do/PRAViewICR?ref_nbr=202502-3235-011* or email comment to *MBX.OMB.OIRA.SEC_desk_officer@omb.eop.gov* within 30 days of the day after publication of this notice, by July 25, 2025.

Dated: June 18, 2025.

Sherry R. Haywood,

Assistant Secretary.

[FR Doc. 2025–11516 Filed 6–23–25; 8:45 am]

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–103289; File No. SR–LCH SA–2025–005]

Self-Regulatory Organizations; LCH SA; Order Approving Proposed Rule Change Relating To Revisions to Its Rule Book and FCM/BD Regulations Related To Clearing Member Testing Requirements

June 18, 2025.

I. Introduction

On April 17, 2025, Banque Centrale de Compensation, which conducts business under the name LCH SA (''LCH SA''), filed with the Securities and Exchange Commission (''Commission''), pursuant to Section 19(b) of the Securities Exchange Act of 1934 (''Exchange Act'')[1] and Rule 19b–4[2] thereunder, a proposed rule change to amend its CDS Clearing Rule Book (''Rule Book'') and Futures Commission Merchants and Broker-Dealer (''FCM/BD'') CDS Clearing Regulations (''FCM/BD Regulations'') (the ''Proposed Rule Change''). The Proposed Rule Change was published for comment in the **Federal Register** on May 5, 2025.[3] The Commission did not receive comments regarding the Proposed Rule Change. For the reasons discussed below, the

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

[2] 17 CFR 240.19b–4.

[3] Self-Regulatory Organizations; LCH SA; Notice of Filing of Proposed Rule Change Relating to Revisions to Its Rule Book and FCM/BD Regulations Related To Clearing Member Testing Requirements, Exchange Act Release No. 102955 (Apr. 29, 2025), 90 FR 19020 (May 5, 2025) (''Notice'').