

*Required fields are shown with yellow backgrounds and asterisks.*

Filing by Investors' Exchange LLC  
 Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

<b>Initial *</b>	<b>Amendment *</b>	<b>Withdrawal</b>	<b>Section 19(b)(2) *</b>	<b>Section 19(b)(3)(A) *</b>	<b>Section 19(b)(3)(B) *</b>
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
			<b>Rule</b>		
<b>Pilot</b>	<b>Extension of Time Period for Commission Action *</b>	<b>Date Expires *</b>	<input type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)	
<input type="checkbox"/>	<input type="checkbox"/>	<input type="text"/>	<input type="checkbox"/> 19b-4(f)(2)	<input type="checkbox"/> 19b-4(f)(5)	
			<input type="checkbox"/> 19b-4(f)(3)	<input checked="" type="checkbox"/> 19b-4(f)(6)	

<b>Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010</b>	<b>Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934</b>
<b>Section 806(e)(1) *</b>	<b>Section 806(e)(2) *</b>
<input type="checkbox"/>	<input type="checkbox"/>
	<b>Section 3C(b)(2) *</b>
	<input type="checkbox"/>

<b>Exhibit 2 Sent As Paper Document</b>	<b>Exhibit 3 Sent As Paper Document</b>
<input type="checkbox"/>	<input type="checkbox"/>

**Description**

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

Proposed rule change to modify the default handling of market orders entered with a time-in-force of DAY.

**Contact Information**

Provide the name, telephone number, and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the action.

First Name \*  Last Name \*

Title \*

E-mail \*

Telephone \*  Fax

**Signature**

Pursuant to the requirements of the Securities Exchange Act of 1934,

has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

(Title \*)

Date

By

(Name \*)

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

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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

**Form 19b-4 Information \***

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The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.

**Exhibit 1 - Notice of Proposed Rule Change \***

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The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

**Exhibit 1A- Notice of Proposed Rule Change, Security-Based Swap Submission, or Advance Notice by Clearing Agencies \***

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The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change, security-based swap submission, or advance notice being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

**Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications**

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Exhibit Sent As Paper Document

Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.

**Exhibit 3 - Form, Report, or Questionnaire**

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Exhibit Sent As Paper Document

Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.

**Exhibit 4 - Marked Copies**

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The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.

**Exhibit 5 - Proposed Rule Text**

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The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.

**Partial Amendment**

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If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

1. Text of Proposed Rule Change

(a) Pursuant to the provisions of Section 19(b)(1) under the Securities Exchange Act of 1934 (“Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> Investors Exchange LLC (“IEX” or “Exchange”) is filing with the Securities and Exchange Commission (“Commission”) a proposed rule change to modify the default handling of market orders<sup>3</sup> entered with a time-in-force of DAY.<sup>4</sup> The Exchange has designated this rule change as “non-controversial” under Section 19(b)(3)(A) of the Act<sup>5</sup> and provided the Commission with the notice required by Rule 19b-4(f)(6) thereunder.<sup>6</sup>

A notice of the proposed rule change for publication in the Federal Register is attached hereto as Exhibit 1. The text of the proposed rule change is attached as Exhibit 5.

(b) The Exchange does not believe that the proposed rule change will have any direct effect, or any significant indirect effect, on any other Exchange rule in effect at the time of this filing.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

Senior management has approved the proposed rule change pursuant to authority delegated to it by the Board of the Exchange. No further action is required under the Exchange’s governing documents. Therefore, the Exchange’s internal procedures with

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

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

<sup>3</sup> See Rule 11.190(a)(2).

<sup>4</sup> See Rule 11.190(c)(3).

<sup>5</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>6</sup> 17 CFR 240.19b-4.

respect to the proposed rule change are complete.

The persons on the Exchange staff prepared to respond to questions and comments on the proposed rule change are:

Claudia Crowley  
Chief Regulatory Officer  
Investors Exchange LLC  
646-343-2041

Andres J. Trujillo  
Regulation Counsel  
Investors Exchange LLC  
646-343-2034

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

a. Purpose

The purpose of this proposed rule change is to modify the default handling of market orders entered with a time-in-force of DAY (hereinafter referred to as "market DAY orders").

Pursuant to Rule 11.190(a)(2), the Exchange offers Users a market order, which is an order type that allows Users to buy or sell a stated amount of a security that is to be executed at or better than the NBBO at the time the order reaches the Exchange.<sup>7</sup> Specifically, pursuant to Rule 11.190(a)(2), market orders do not trade through Protected Quotations,<sup>8</sup> consistent with Rule 611(a)(1) of Regulation NMS.<sup>9</sup> Moreover, any portion of a market order that is designated as an IEX Only order<sup>10</sup> will be canceled if, upon

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<sup>7</sup> A market order is always non displayed, may be a MQTY (as defined in Rule 11.190(b)(11)), may be routable or IEX Only, may not be designated as an ISO (as defined in Rule 11.190(b)(12)), and may not be submitted with a limit price. See Rules 11.190(a)(2)(B)-(D), and (F)-(G).

<sup>8</sup> See Rule 1.160(bb)

<sup>9</sup> See 17 CFR 242.611(a)(1).

<sup>10</sup> See Rule 11.190(b)(6).

receipt by the System,<sup>11</sup> it cannot be executed by the Exchange in accordance with the Exchange's order execution rules.<sup>12</sup> Any portion of a market order that is not designated as an IEX Only order (i.e., routable orders as described in IEX Rule 11.230(b)) that cannot be executed in full in accordance with the Exchange's order execution rules when reaching the Exchange will be eligible for routing away pursuant to IEX Rule 11.230(a)(2). A routable market order will trade at increasingly aggressive prices, fully satisfying all Protected Quotations, until the order is fully filled, reaches the LULD Price Band,<sup>13</sup> or reaches the Router Constraint.<sup>14</sup>

Pursuant to Rule 11.190(a)(2)(A), market orders must have a time-in-force of IOC, FOK, or, DAY, depending on the User election.<sup>15</sup> Pursuant to Rule 11.190(a)(2)(E)(iii), market DAY orders, by default, are rejected, unless the User specifically elects to configure one or more of its connectivity ports to accept market DAY orders.<sup>16</sup> Market orders with a time-in-force of IOC and FOK are accepted and eligible to trade during the Regular Market Session only.<sup>17</sup> Market DAY orders are eligible to trade or route during the Regular Market Session and treated by the System as having a time-in-force of IOC. Furthermore, market DAY orders submitted before the

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<sup>11</sup> See Rule 1.160(nn).

<sup>12</sup> See Rules 11.230 and 11.230(a).

<sup>13</sup> See Rule 11.280(e)(5)(A).

<sup>14</sup> See Rule 11.190(f)(2).

<sup>15</sup> Market orders with a time-in-force of GTT, GTX, and SYS, are rejected. See Rules 11.190(a)(2)(E)(iv)-(vi).

<sup>16</sup> A User can elect for the Exchange to accept market orders with a time-in-force of DAY on the Equities Port Request Form on pages 8-9 of its initial [IEX Connectivity Agreement and Forms](#). A User may also change an existing connectivity port to accept market orders with a time-in-force of DAY by submitting an updated Equities Port Request Form to [marketops@iextrading.com](mailto:marketops@iextrading.com).

<sup>17</sup> See Rule 1.160(gg).

open of the Regular Market Session are queued by the System until the Opening Auction (or Halt Auction, as applicable)<sup>18</sup> for IEX-listed securities, or until the Opening Process for non-IEX listed securities pursuant to IEX Rule 11.231, except market DAY orders that are designated to route pursuant to Rule 11.230(c).

Furthermore, pursuant to Rule 11.190(f)(1), market orders, including market DAY orders entered during continuous trading are subject to the IEX Order Collar, which prevents any incoming order or order resting on the Order Book, including those marked ISO, from executing at a price outside the Order Collar price range (i.e. prevents buy orders from trading at prices above the collar and prevents sell orders from trading at prices below the collar). The order collar price range is calculated using the numerical guidelines for clearly erroneous executions.

The default treatment for market DAY orders was implemented based on informal discussions with various market participants who indicated that such orders are not typically utilized by market participants during continuous trading because of their aggressive trading characteristics. As a result, the Exchange determined that the default treatment for market DAY orders was appropriate.

On August 4, 2017, the Commission approved a proposed rule change filed by the Exchange to adopt rules governing auctions for IEX-listed securities, including Opening and Closing Auction processes that establish IEX Official Opening and Closing Prices for each trading day, as well as IPO, Halt, and Volatility Auction processes utilized to conduct initial public offerings, and resume trading after a regulatory trading halt or

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<sup>18</sup> See Rule 11.350(c).

pause in an IEX-listed security (collectively, “IEX Auctions”).<sup>19</sup>

During the iterative process of designing IEX Auctions, informal discussions with various market participants indicated that notwithstanding the atypical use-case for the entry of market DAY orders during continuous trading, such orders are in fact ordinarily utilized by investors to interact with the auction processes of certain primary listing markets, because market DAY orders retain their aggressive pricing characteristics, which increases the likelihood of execution and adds depth of liquidity in the auction, while remaining constrained to the auction match price, therefore passively benefiting from the price discovery process.<sup>20</sup> Accordingly, as proposed, the Exchange will instead allow all connectivity port sessions across all Members to accept market DAY orders by default.

Accordingly, the Exchange designed the IEX Auction processes to account for market DAY orders by queueing such orders on the Auction Book<sup>21</sup> for participation in an upcoming auction when the order type is not eligible for trading in the current market session (*i.e.*, during the Pre-Market Session for the Opening Auction), or when there is no active continuous trading (*i.e.*, during the Order Acceptance Period<sup>22</sup> before an IPO, Halt, or Volatility Auction), and then immediately canceling any unfilled portion immediately after the auction. This design allows Users to leverage the benefits of interacting with the IEX Auction processes using market DAY orders while mitigating the potentially

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<sup>19</sup> See Securities Exchange Act Release No. 81316 (August 4, 2017), 82 FR 37474 (August 10, 2017)(SR-IEX-2017-10). See also Rules 11.350(a)(12) and (10), respectively.

<sup>20</sup> See *e.g.*, Cboe BZX Exchange, Inc. (“Bats”) Rules 11.9(a)(2) and 11.23(a)(8).

<sup>21</sup> See Rule 11.350(a)(1).

<sup>22</sup> See Rules 11.1350(a)(29)(A)-(C).

harmful impact of such orders that could manifest during continuous trading.

Specifically, pursuant to Rule 11.350(a)(1):

- The Opening and IPO Auction Books include market orders with a time-in-force of DAY entered during the Order Acceptance Period, and in the case of the Opening Auction, before the Opening Auction Lock-In Time;<sup>23</sup>
- The Halt Auction Book includes market orders with a time-in-force of DAY received during the Order Acceptance Period within the Regular Market Session, or queued prior to the Regular Market Session for securities that have not traded during the Regular Market Session on that trading day (i.e., market orders with a time-in-force of DAY entered during the Pre-Market Session for the Opening Auction that are participating in a Halt Auction pursuant to Rule 11.350(c)(2)(D) or (E)(ii)); and
- The Volatility Auction Book includes market orders with a time-in-force of DAY received during the Order Acceptance Period within the Regular Market Session.

However, if a User does not have their connectivity ports properly configured to allow market DAY orders, such auction interest would be rejected by default. While, as noted above, a User can elect for the Exchange to accept market DAY orders by submitting an Equities Port Request Form, the process of making system changes to modify, test, and deploy the configuration adds additional complexity for Members and the Exchange. Therefore, to simplify User interaction with the System and allow Users to efficiently leverage the benefits of interacting with the IEX Auction processes using market DAY orders, the Exchange is proposing to eliminate the default rejection of market DAY orders and the corresponding User elected connectivity port settings for the acceptance of market DAY orders. As proposed, the Exchange will instead allow all connectivity port sessions across all Members to accept market DAY orders by default.

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<sup>23</sup> See Rule 11.350(a)(22).



The proposed changes do not amend the behavior of market DAY orders, as described above. Moreover, notwithstanding the potentially aggressive trading characteristics of market orders generally, the Exchange believes that there are sufficient limitations on execution of market orders, as described above, to mitigate against such concerns.

As announced in IEX Trading Alerts #2017-015 and #2017-046, the Exchange intends to become a primary listing exchange and support its first IEX-listed security in 2018.<sup>24</sup> In addition, as part of the listings initiative, the Exchange is providing a series of industry wide weekend tests for the Exchange and its Members to exercise the various technology changes required to support IEX Auctions and listings functionality.<sup>25</sup>

Accordingly, the Exchange is proposing to amend the default acceptance of market DAY orders in advance of the industry wide testing period in order to allow Members and other market participants time to develop, test, and deploy any necessary changes to support the handling of market DAY orders for participation in IEX Auctions.

b. Statutory Basis

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<sup>24</sup> See [IEX Trading Alert #2017-015](#) (Listings Specifications, Testing Opportunities, and Timelines), May 31, 2017. See also [IEX Trading Alert #2017-046](#) (IEX Listings Timeline Update), originally published on Monday, October 30, 2017, and re-published on Tuesday, October 31, 2017.

<sup>25</sup> See, e.g., [IEX Trading Alert #2017-028](#) (First Listings Functionality Industry Test on Saturday, August 26), August 17, 2017; [IEX Trading Alert #2017-037](#) (Second Listings Functionality Industry Test on Saturday, September 9), September 7, 2017; [IEX Trading Alert #2017-039](#) (Third Listings Functionality Industry Test on Saturday, September 23), September 18, 2017; [IEX Trading Alert #2017-040](#) (Rescheduled 4<sup>th</sup> Listing Functionality Industry Test), September 29, 2017; [IEX Trading Alert #2017-046](#) (IEX Listings Timeline Update), originally published on Monday, October 30, 2017, and re-published on Tuesday, October 31, 2017; and [IEX Trading Alert #2017-047](#) (Fourth Listings Functionality Industry Test on Saturday, November 4), October 31, 2017.

IEX believes that the proposed rule change is consistent with the provisions of Section 6(b)<sup>26</sup> of the Act in general, and furthers the objectives of Section 6(b)(5) of the Act<sup>27</sup> in particular, in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest.

The proposed rule change is consistent with the protection of investors and the public interest, because it does not alter the substantive behavior of market DAY orders, but instead simplifies the process of entering market DAY orders for all Members. Specifically, the proposed changes are designed to simplify User interaction with the System and allow Users to efficiently leverage the benefits of interacting with the IEX Auction processes by eliminating the default rejection of market DAY orders and the corresponding User elected connectivity port settings for the acceptance of market DAY orders. The Exchange further believes that since the proposed changes do not amend the behavior of market DAY orders, the proposed rule changes are consistent with the protection of investors and the public interest because the limitations on execution of market orders, as discussed in the purpose section, would continue to mitigate against potential adverse market impact from such orders during continuous trading.

Additionally, IEX notes that no other exchange utilizes default rejection of orders comparable to market DAY order types.<sup>28</sup>

Moreover, the Exchange believes that the proposed rule changes are consistent

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<sup>26</sup> 15 U.S.C. 78f.

<sup>27</sup> 15 U.S.C. 78f(b)(5).

<sup>28</sup> See, e.g., Bats Rule 11.9(a)(2).

with the protection of investors and the public interest because the Exchange is proposing to amend the default behavior of market DAY orders during the industry wide testing period for Members and other market participants to test with IEX as a primary listing exchange, and in advance of the first listing transferring to IEX, which will allow Members and other market participants time to develop, test, and deploy any necessary changes to support the handling of market DAY orders for participation in IEX Auctions.<sup>29</sup>

Furthermore, as discussed in the purpose section, the process of making system changes to modify, test, and deploy the port setting configurations on a Member-by-Member basis adds additional technical complexities for Members and the Exchange. Thus, the Exchange believes the proposed rule changes are consistent with the protection of investors and the public interest in that the Exchange is proposing to simplify the process of entering market DAY orders, thereby reducing overall technical complexities within the System that raise risks to Exchange operations, Members, and their investor clients.

Lastly, the Exchange believes that the proposed rule change would not result in unfair discrimination, since the proposed changes amend the default behavior of market DAY orders across all connectivity ports. Thus, all Members will be eligible to enter market DAY orders on a fair and equal basis.

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

IEX 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.

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<sup>29</sup> See supra note 25.

The Exchange believes that the proposed changes do not impact inter-market competition since it is merely designed to simplify the entry of market DAY orders for all Members, without substantively changing the approved rules governing the behavior of such orders. Moreover, as noted above, no competing exchanges impose a similar requirement.

In addition, the Exchange does not believe that the proposed changes will have any impact on intra-market competition, because as discussed in purpose section, the proposed changes amend the default behavior of market DAY orders across all connectivity ports. Thus, all Members will be eligible to enter market DAY orders on a fair and equal basis.

5. 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.

6. Extension of Time Period for Commission Action

Not applicable.

7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2)

The Exchange has designated this rule filing as non-controversial under Section 19(b)(3)(A) of the Act<sup>30</sup> and paragraph (f)(6) of Rule 19b-4 thereunder.<sup>31</sup> The Exchange asserts that the proposed rule change: (1) will not significantly affect the protection of investors or the public interest, (2) will not impose any significant burden on competition, (3) and will not become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate. In addition, the Exchange provided the

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<sup>30</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>31</sup> 17 CFR 240.19b-4.

Commission with written notice of its intent to file the proposed rule change, along with a brief description and text of the proposed rule change, at least five business days prior to the date of filing.<sup>32</sup>

The Exchange believes that the proposed rule change meets the criteria of subparagraph (f)(6) of Rule 19b-4<sup>33</sup> because it would not significantly affect the protection of investors or the public interest. The proposed rule changes do not amend the behavior of market DAY orders. Instead, the proposed rule changes are designed to simplify the entry of market DAY orders and allow Users to efficiently leverage the benefits of interacting with the IEX Auction processes using such orders. Furthermore, since the proposed changes do not amend the substantive behavior of market DAY orders, the various defensive mechanisms discussed in the purpose section continue to mitigate against potential market impact from such orders during continuous trading. Furthermore, as described in the purpose section, the Exchange believes the proposed rule clarification is consistent with the protection of investors and the public interest, because by simplifying the process of entering market DAY orders, the Exchange is reducing overall technical complexities within the System that raise risks to Exchange operations, Members, and their investor clients.

Moreover, the proposed clarifications are consistent with the protection of investors and the public interest because the Exchange is proposing to amend the default behavior of market DAY orders during the industry wide testing period and in advance of the first listing transferring to IEX in order to allow Members and other market

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<sup>32</sup> 17 CFR 240.19b-4(f)(6)(iii).

<sup>33</sup> 17 CFR 240.19b-4(f)(6).

participants time to develop, test, and deploy any necessary changes to support the handling of market DAY orders for participation in IEX Auctions.<sup>34</sup> In addition, the Exchange believes the proposed changes will not impose any burden on competition, because the proposed changes amend the default behavior of market DAY orders across all connectivity ports. Thus, all Members will be eligible to enter market DAY orders on a fair and equal basis.

Accordingly, for the reasons discussed above, the Exchange believes that the proposed rule change is noncontroversial and satisfies the requirements of Rule 19b-4(f)(6).<sup>35</sup>

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

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

Not applicable.

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

Not applicable.

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

Not applicable.

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<sup>34</sup> See *supra* note 25.

<sup>35</sup> 17 CFR 240.19b-4(f)(6).

11. Exhibits

Exhibit 1 – Form of Notice of the Proposed Rule Change for Publication in the Federal Register.

Exhibit 5 – Text of Proposed Rule Change.

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34 -     ); File No. SR-IEX-2018-01)

Self-Regulatory Organizations: Investors Exchange LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Modify the Default Handling of Market Orders Entered with a Time-in-Force of DAY.

Pursuant to Section 19(b)(1)<sup>1</sup> of the Securities Exchange Act of 1934 (the “Act”)<sup>2</sup> and Rule 19b-4 thereunder,<sup>3</sup> notice is hereby given that, on (date), the Investors Exchange LLC (“IEX” or the “Exchange”) filed with the Securities and Exchange Commission (the “Commission”) the proposed rule change as described in Items I, II and III below, which Items have been prepared by the self-regulatory organization. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

Pursuant to the provisions of Section 19(b)(1) under the Securities Exchange Act of 1934 (“Act”),<sup>4</sup> and Rule 19b-4 thereunder,<sup>5</sup> Investors Exchange LLC (“IEX” or “Exchange”) is filing with the Securities and Exchange Commission (“Commission”) a proposed rule change to modify the default handling of market orders<sup>6</sup> entered with a time-in-force of DAY.<sup>7</sup> The Exchange has designated this rule change as “non-

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

<sup>2</sup> 15 U.S.C. 78a.

<sup>3</sup> 17 CFR 240.19b-4.

<sup>4</sup> 15 U.S.C. 78s(b)(1).

<sup>5</sup> 17 CFR 240.19b-4.

<sup>6</sup> See Rule 11.190(a)(2).

<sup>7</sup> See Rule 11.190(c)(3).



controversial” under Section 19(b)(3)(A) of the Act<sup>8</sup> and provided the Commission with the notice required by Rule 19b-4(f)(6) thereunder.<sup>9</sup>

A notice of the proposed rule change for publication in the Federal Register is attached hereto as Exhibit 1. The text of the proposed rule change is attached as Exhibit 5.

The text of the proposed rule change is available at the Exchange’s website at [www.iextrading.com](http://www.iextrading.com), at the principal office of the Exchange, and at the Commission’s Public Reference Room.

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

#### 1. Purpose

The purpose of this proposed rule change is to modify the default handling of market orders entered with a time-in-force of DAY (hereinafter referred to as “market DAY orders”).

Pursuant to Rule 11.190(a)(2), the Exchange offers Users a market order, which is

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<sup>8</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>9</sup> 17 CFR 240.19b-4.

an order type that allows Users to buy or sell a stated amount of a security that is to be executed at or better than the NBBO at the time the order reaches the Exchange.<sup>10</sup> Specifically, pursuant to Rule 11.190(a)(2), market orders do not trade through Protected Quotations,<sup>11</sup> consistent with Rule 611(a)(1) of Regulation NMS.<sup>12</sup> Moreover, any portion of a market order that is designated as an IEX Only order<sup>13</sup> will be canceled if, upon receipt by the System,<sup>14</sup> it cannot be executed by the Exchange in accordance with the Exchange's order execution rules.<sup>15</sup> Any portion of a market order that is not designated as an IEX Only order (i.e., routable orders as described in IEX Rule 11.230(b)) that cannot be executed in full in accordance with the Exchange's order execution rules when reaching the Exchange will be eligible for routing away pursuant to IEX Rule 11.230(a)(2). A routable market order will trade at increasingly aggressive prices, fully satisfying all Protected Quotations, until the order is fully filled, reaches the LULD Price Band,<sup>16</sup> or reaches the Router Constraint.<sup>17</sup>

Pursuant to Rule 11.190(a)(2)(A), market orders must have a time-in-force of IOC, FOK, or, DAY, depending on the User election.<sup>18</sup> Pursuant to Rule 11.190(a)(2)(E)(iii), market DAY orders, by default, are rejected, unless the User

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<sup>10</sup> A market order is always non displayed, may be a MQTY (as defined in Rule 11.190(b)(11)), may be routable or IEX Only, may not be designated as an ISO (as defined in Rule 11.190(b)(12)), and may not be submitted with a limit price. See Rules 11.190(a)(2)(B)-(D), and (F)-(G).

<sup>11</sup> See Rule 1.160(bb)

<sup>12</sup> See 17 CFR 242.611(a)(1).

<sup>13</sup> See Rule 11.190(b)(6).

<sup>14</sup> See Rule 1.160(nn).

<sup>15</sup> See Rules 11.230 and 11.230(a).

<sup>16</sup> See Rule 11.280(e)(5)(A).

<sup>17</sup> See Rule 11.190(f)(2).

<sup>18</sup> Market orders with a time-in-force of GTT, GTX, and SYS, are rejected. See Rules 11.190(a)(2)(E)(iv)-(vi).

specifically elects to configure one or more of its connectivity ports to accept market DAY orders.<sup>19</sup> Market orders with a time-in-force of IOC and FOK are accepted and eligible to trade during the Regular Market Session only.<sup>20</sup> Market DAY orders are eligible to trade or route during the Regular Market Session and treated by the System as having a time-in-force of IOC. Furthermore, market DAY orders submitted before the open of the Regular Market Session are queued by the System until the Opening Auction (or Halt Auction, as applicable)<sup>21</sup> for IEX-listed securities, or until the Opening Process for non-IEX listed securities pursuant to IEX Rule 11.231, except market DAY orders that are designated to route pursuant to Rule 11.230(c).

Furthermore, pursuant to Rule 11.190(f)(1), market orders, including market DAY orders entered during continuous trading are subject to the IEX Order Collar, which prevents any incoming order or order resting on the Order Book, including those marked ISO, from executing at a price outside the Order Collar price range (i.e. prevents buy orders from trading at prices above the collar and prevents sell orders from trading at prices below the collar). The order collar price range is calculated using the numerical guidelines for clearly erroneous executions.

The default treatment for market DAY orders was implemented based on informal discussions with various market participants who indicated that such orders are not typically utilized by market participants during continuous trading because of their

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<sup>19</sup> A User can elect for the Exchange to accept market orders with a time-in-force of DAY on the Equities Port Request Form on pages 8-9 of its initial [IEX Connectivity Agreement and Forms](#). A User may also change an existing connectivity port to accept market orders with a time-in-force of DAY by submitting an updated Equities Port Request Form to [marketops@iextrading.com](mailto:marketops@iextrading.com).

<sup>20</sup> See Rule 1.160(gg).

<sup>21</sup> See Rule 11.350(c).

aggressive trading characteristics. As a result, the Exchange determined that the default treatment for market DAY orders was appropriate.

On August 4, 2017, the Commission approved a proposed rule change filed by the Exchange to adopt rules governing auctions for IEX-listed securities, including Opening and Closing Auction processes that establish IEX Official Opening and Closing Prices for each trading day, as well as IPO, Halt, and Volatility Auction processes utilized to conduct initial public offerings, and resume trading after a regulatory trading halt or pause in an IEX-listed security (collectively, “IEX Auctions”).<sup>22</sup>

During the iterative process of designing IEX Auctions, informal discussions with various market participants indicated that notwithstanding the atypical use-case for the entry of market DAY orders during continuous trading, such orders are in fact ordinarily utilized by investors to interact with the auction processes of certain primary listing markets, because market DAY orders retain their aggressive pricing characteristics, which increases the likelihood of execution and adds depth of liquidity in the auction, while remaining constrained to the auction match price, therefore passively benefiting from the price discovery process.<sup>23</sup> Accordingly, as proposed, the Exchange will instead allow all connectivity port sessions across all Members to accept market DAY orders by default.

Accordingly, the Exchange designed the IEX Auction processes to account for market DAY orders by queueing such orders on the Auction Book<sup>24</sup> for participation in

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<sup>22</sup> See Securities Exchange Act Release No. 81316 (August 4, 2017), 82 FR 37474 (August 10, 2017)(SR-IEX-2017-10). See also Rules 11.350(a)(12) and (10), respectively.

<sup>23</sup> See e.g., Cboe BZX Exchange, Inc. (“Bats”) Rules 11.9(a)(2) and 11.23(a)(8).

<sup>24</sup> See Rule 11.350(a)(1).

an upcoming auction when the order type is not eligible for trading in the current market session (i.e., during the Pre-Market Session for the Opening Auction), or when there is no active continuous trading (i.e., during the Order Acceptance Period<sup>25</sup> before an IPO, Halt, or Volatility Auction), and then immediately canceling any unfilled portion immediately after the auction. This design allows Users to leverage the benefits of interacting with the IEX Auction processes using market DAY orders while mitigating the potentially harmful impact of such orders that could manifest during continuous trading.

Specifically, pursuant to Rule 11.350(a)(1):

- The Opening and IPO Auction Books include market orders with a time-in-force of DAY entered during the Order Acceptance Period, and in the case of the Opening Auction, before the Opening Auction Lock-In Time;<sup>26</sup>
- The Halt Auction Book includes market orders with a time-in-force of DAY received during the Order Acceptance Period within the Regular Market Session, or queued prior to the Regular Market Session for securities that have not traded during the Regular Market Session on that trading day (i.e., market orders with a time-in-force of DAY entered during the Pre-Market Session for the Opening Auction that are participating in a Halt Auction pursuant to Rule 11.350(c)(2)(D) or (E)(ii)); and
- The Volatility Auction Book includes market orders with a time-in-force of DAY received during the Order Acceptance Period within the Regular Market Session.

However, if a User does not have their connectivity ports properly configured to allow market DAY orders, such auction interest would be rejected by default. While, as noted above, a User can elect for the Exchange to accept market DAY orders by submitting an Equities Port Request Form, the process of making system changes to modify, test, and deploy the configuration adds additional complexity for Members and

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<sup>25</sup> See Rules 11.1350(a)(29)(A)-(C).

<sup>26</sup> See Rule 11.350(a)(22).

the Exchange. Therefore, to simplify User interaction with the System and allow Users to efficiently leverage the benefits of interacting with the IEX Auction processes using market DAY orders, the Exchange is proposing to eliminate the default rejection of market DAY orders and the corresponding User elected connectivity port settings for the acceptance of market DAY orders. As proposed, the Exchange will instead allow all connectivity port sessions across all Members to accept market DAY orders by default.

The proposed changes do not amend the behavior of market DAY orders, as described above. Moreover, notwithstanding the potentially aggressive trading characteristics of market orders generally, the Exchange believes that there are sufficient limitations on execution of market orders, as described above, to mitigate against such concerns.

As announced in IEX Trading Alerts #2017-015 and #2017-046, the Exchange intends to become a primary listing exchange and support its first IEX-listed security in 2018.<sup>27</sup> In addition, as part of the listings initiative, the Exchange is providing a series of industry wide weekend tests for the Exchange and its Members to exercise the various technology changes required to support IEX Auctions and listings functionality.<sup>28</sup>

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<sup>27</sup> See [IEX Trading Alert #2017-015](#) (Listings Specifications, Testing Opportunities, and Timelines), May 31, 2017. See also [IEX Trading Alert #2017-046](#) (IEX Listings Timeline Update), originally published on Monday, October 30, 2017, and re-published on Tuesday, October 31, 2017.

<sup>28</sup> See, e.g., [IEX Trading Alert #2017-028](#) (First Listings Functionality Industry Test on Saturday, August 26), August 17, 2017; [IEX Trading Alert #2017-037](#) (Second Listings Functionality Industry Test on Saturday, September 9), September 7, 2017; [IEX Trading Alert #2017-039](#) (Third Listings Functionality Industry Test on Saturday, September 23), September 18, 2017; [IEX Trading Alert #2017-040](#) (Rescheduled 4<sup>th</sup> Listing Functionality Industry Test), September 29, 2017; [IEX Trading Alert #2017-046](#) (IEX Listings Timeline Update), originally published on Monday, October 30, 2017, and re-published on Tuesday, October 31, 2017; and [IEX Trading Alert #2017-](#)

Accordingly, the Exchange is proposing to amend the default acceptance of market DAY orders in advance of the industry wide testing period in order to allow Members and other market participants time to develop, test, and deploy any necessary changes to support the handling of market DAY orders for participation in IEX Auctions.

## 2. Statutory Basis

IEX believes that the proposed rule change is consistent with the provisions of Section 6(b)<sup>29</sup> of the Act in general, and furthers the objectives of Section 6(b)(5) of the Act<sup>30</sup> in particular, in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest.

The proposed rule change is consistent with the protection of investors and the public interest, because it does not alter the substantive behavior of market DAY orders, but instead simplifies the process of entering market DAY orders for all Members. Specifically, the proposed changes are designed to simplify User interaction with the System and allow Users to efficiently leverage the benefits of interacting with the IEX Auction processes by eliminating the default rejection of market DAY orders and the corresponding User elected connectivity port settings for the acceptance of market DAY orders. The Exchange further believes that since the proposed changes do not amend the behavior of market DAY orders, the proposed rule changes are consistent with the protection of investors and the public interest because the limitations on execution of

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[047](#) (Fourth Listings Functionality Industry Test on Saturday, November 4), October 31, 2017.

<sup>29</sup> 15 U.S.C. 78f.

<sup>30</sup> 15 U.S.C. 78f(b)(5).

market orders, as discussed in the purpose section, would continue to mitigate against potential adverse market impact from such orders during continuous trading.

Additionally, IEX notes that no other exchange utilizes default rejection of orders comparable to market DAY order types.<sup>31</sup>

Moreover, the Exchange believes that the proposed rule changes are consistent with the protection of investors and the public interest because the Exchange is proposing to amend the default behavior of market DAY orders during the industry wide testing period for Members and other market participants to test with IEX as a primary listing exchange, and in advance of the first listing transferring to IEX, which will allow Members and other market participants time to develop, test, and deploy any necessary changes to support the handling of market DAY orders for participation in IEX Auctions.<sup>32</sup>

Furthermore, as discussed in the purpose section, the process of making system changes to modify, test, and deploy the port setting configurations on a Member-by-Member basis adds additional technical complexities for Members and the Exchange. Thus, the Exchange believes the proposed rule changes are consistent with the protection of investors and the public interest in that the Exchange is proposing to simplify the process of entering market DAY orders, thereby reducing overall technical complexities within the System that raise risks to Exchange operations, Members, and their investor clients.

Lastly, the Exchange believes that the proposed rule change would not result in unfair discrimination, since the proposed changes amend the default behavior of market

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<sup>31</sup> See, e.g., Bats Rule 11.9(a)(2).

<sup>32</sup> See supra note 28.



DAY orders across all connectivity ports. Thus, all Members will be eligible to enter market DAY orders on a fair and equal basis.

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

IEX 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. The Exchange believes that the proposed changes do not impact inter-market competition since it is merely designed to simplify the entry of market DAY orders for all Members, without substantively changing the approved rules governing the behavior of such orders. Moreover, as noted above, no competing exchanges impose a similar requirement.

In addition, the Exchange does not believe that the proposed changes will have any impact on intra-market competition, because as discussed in purpose section, the proposed changes amend the default behavior of market DAY orders across all connectivity ports. Thus, all Members will be eligible to enter market DAY orders on a fair and equal basis.

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

The Exchange has designated this rule filing as non-controversial under Section 19(b)(3)(A)<sup>33</sup> of the Act and Rule 19b-4(f)(6)<sup>34</sup> thereunder. Because the proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days

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<sup>33</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>34</sup> 17 CFR 240.19b-4(f)(6).

from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A) of the Act and Rule 19b-4(f)(6) thereunder.

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings under Section 19(b)(2)(B)<sup>35</sup> of the Act to determine whether the proposed rule change should be approved or disapproved.

#### IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

##### Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an email to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-IEX-2018-01 on the subject line.

##### Paper Comments:

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

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<sup>35</sup> 15 U.S.C. 78s(b)(2)(B).

All submissions should refer to File Number SR-IEX-2018-01. This file number should be included in the subject line if email is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Section, 100 F Street, NE, Washington, DC 20549-1090. Copies of the filing will also be available for inspection and copying at the IEX's principal office and on its Internet website at [www.iextrading.com](http://www.iextrading.com). All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-IEX-2018-01 and should be submitted on or before [insert date 21 days from publication in the Federal Register]. For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>36</sup>

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<sup>36</sup> 17 CFR 200.30-3(a)(12).

Exhibit 5 – Text of Proposed Rule Change

Proposed new language is underlined; proposed deletions are in brackets.

CHAPTER 11. TRADING RULES

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Rule 11.190. Orders and Modifiers

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(a) General Order Types

(1) No change.

(2) Market Order. An order to buy or sell a stated amount of a security that is to be executed at or better than the NBBO at the time the order reaches the Exchange. Market orders shall not trade through Protected Quotations. Any portion of a market order that is designated as “IEX Only” will be canceled if, upon receipt by the System, it cannot be executed by the Exchange in accordance with Rules 11.230 and 11.230(a). Any portion of a market order that is not designated as “IEX Only,” i.e. routable orders as described in IEX Rule 11.230(b), and that cannot be executed in full in accordance with Rule 11.230(a)(1) and 11.230(a) on the Exchange when reaching the Exchange will be eligible for routing away pursuant to IEX Rule 11.230(a)(2). A routable market order will trade at increasingly aggressive prices, fully satisfying all Protected Quotations, until the order is fully filled, reaches the LULD Price Band, or reaches the Router Constraint, as defined in IEX Rule 11.190(f)(2). A market order:

(A) Must have a TIF of IOC, FOK, or[, depending on the User election, may have a TIF of] DAY.

(B) - (D) No change.

(E) May only trade during the Regular Market Session. Market orders submitted in the Pre-Market Session may queue for the Opening Process as defined below. Market orders submitted in the Post-Market Session will be rejected by the System.

(i) - (ii) No change.

(iii) [Market orders marked DAY, by default, are rejected. When elected by the User, Market orders marked DAY submitted by that User are accepted.] Market orders marked DAY submitted before the open of

the Regular Market Session are queued by the System until the Opening Auction (or Halt Auction, as applicable) for IEX-listed securities pursuant to IEX Rule 11.350, or until the Opening Process for non-IEX listed securities pursuant to IEX Rule 11.231, except market orders marked DAY that are designated to route pursuant to Rule 11.230(c). Market orders marked DAY are eligible to trade or route during the Regular Market Session and treated by the System as having a TIF of IOC.

(iv) - (vi) No change.

(F) – (G) No change.

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